

IESBA

International  
Ethics Standards  
Board for Accountants®

# Bridging the Expectations Gap

Good Governance Academy 9<sup>th</sup> Colloquium

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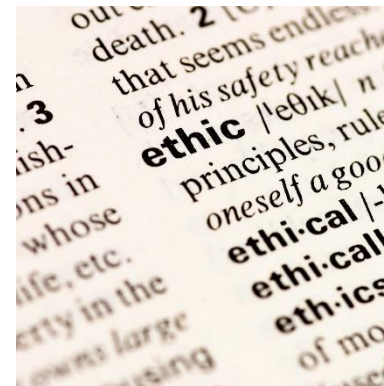
# Why Does Stakeholder Expectations Gap Exist?

- Major corporate scandals, frauds and collapses over last two decades
  - Dramatic impacts on investors, creditors, workers and other stakeholders
  - Spillover effects onto broader economic and social ecosystems
- Role and performance of professional accountants (PAs), especially auditors, questioned
  - Perceptions of poorly prepared and audited corporate information
  - Stakeholder concerns re conflicts of interest and lack of independence and professional skepticism
- Resulting gap with stakeholder expectations and trust gap



# The Changing Dimension of the Expectations Gap

- Rapidly shifting societal expectations towards fighting fraud and greater focus on sustainability goals
  - Increasing scrutiny and increasing reputational risks for companies involved in fraud cases or pursuing business practices no longer seen as acceptable, even if legal
  - Notion of companies pursuing “profitable solutions for the people and the planet” framed by UN SDGs
- Questions about role of PAs as “enablers” of unethical conduct, including in tax planning
- Leading to further gap with stakeholder expectations
- Gap feeds pervasive erosion of public trust and confidence in accountancy profession



# Role of Ethics in Business and Corporate Reporting

- Many root causes of business scandals, frauds and corporate collapses
  - Inadequate control systems, aggressive business practices, management greed, short-termism, self-interests, etc
- Ethics and corporate culture failures are at the core of the reasons
- Hence, imperative to advance urgent process of change
  - Businesses must transform their cultures to be more ethical, values-based, and sustainability-focused
- To bridge expectations gap and restore trust, ethics and corporate culture must be high on agenda



# Ethics Underpins Bridge to Expectations Gap

- Stakeholders expect trusted, high-quality, and reliable information for decision-making
- PAs' *ethical* approach to preparation and assurance of corporate information is key to meeting those expectations
- Organizations and firms must ensure that preparation and assurance of corporate reporting are performed according to the strongest ethical principles
- Expectations also for PAs to provide ethical tax advice that facilitates efficient and effective operation of tax systems and safeguards the public interest
- Ethics, however, is an individual choice, even though there are some indisputable ethical principles
- Natural subjectivity of ethical values requires guideposts of robust ethics standards



# Professional Accountants and Corporate Culture

- Individual PAs' behavior also strongly influenced by corporate culture
  - Tone at the top, approach to business, internal pressures
- Equally, PAs are important transformation agents of corporate culture
  - Responding to increasing stakeholder expectations for sustainable business strategies and practices
  - Using ethics as a safeguard to avoid reputational issues
- Ethics standards contribute decisively to bridging the expectations gap
  - Through focusing on conduct, behavior, and culture of PAs and their employing organizations



# The IESBA Code

- The Code provides a robust, comprehensive and dynamic set of ethics standards to help bridge the gap
  - Aims at a consistent alignment of values and expectations and approaches to performance of PAs' activities and services
  - Importantly, sets clear expectation that PAs must act in the public interest
- Fundamental principles provide coherent basis for PAs' conduct and behavior
  - Integrity | Objectivity | Professional Competence and Due Care | Confidentiality | Professional Behavior
  - They speak to the role and mindset of PAs
  - They also guide PAs' judgments and decisions, especially in "gray areas", recognizing that not everything that is legal is necessarily ethical



# The IESBA Code

- The Code also contains provisions to help PAs bridge the expectations gap in specific situations
  - In guiding ethical conduct when facing, e.g.:
    - Pressure | Inducements | NOCLAR
  - In establishing clear guardrails for auditor independence, e.g.:
    - Long Association | Fees | Business Relationships | Non-assurance services
- The Code also helps bridge the expectations gap re PAs' ethical responsibilities, in broader contexts or on broader topics, e.g.
  - Technology developments
  - Tax Planning (provisions being finalized by IESBA this year)





# Towards the Future of Corporate Reporting: Ethics Standards for Sustainability Information

- Increasing need from investors and other stakeholders for sustainability information to support their decisions and fight fraud and economic crime
- IOSCO call for IESBA and IAASB to develop profession-agnostic standards for sustainability assurance
  - Concerns about greenwashing and “alphabet soup” of standards
- Stakeholder expectations for consistent framework of standards to deliver transparent, relevant and trustworthy sustainability information
- IESBA responding to those expectations by developing profession-agnostic ethics and independence standards for sustainability assurance
  - ED by Q4 2023; final standards by Q4 2024



# Towards the Future of Corporate Reporting: Ethics Standards for Sustainability Information

- IESBA also prioritizing development of ethics standards for sustainability reporting (*first line of defense*)
- Currently no call from the international regulatory community for IESBA to develop profession-agnostic ethics standards for sustainability reporting
- Strategic question for IESBA:
  - Should IESBA, at this stage, actively address need to develop ethics standards for sustainability reporting in ways that make them potentially accessible and applicable also to non-PAs in the same business context as PAs (e.g.: CFOs who are not PAs)?
- A structural and decisive development in this respect depends on an integrated approach and action of standard setters, regulators and corporate governance community



# Conclusion

- Ethics (or the lack of it) is most critical cause of expectations misalignment and most effective instrument to bridge it
- Developments around transition to a sustainable global model may potentially deepen expectations gap or mitigate it, depending on how sustainability information is addressed
  - **Education** will be key to create *ethical muscle* of all those working on sustainability information, and calibrate stakeholders' expectations on it
  - **Global ethics standards** will be the bedrock of trustworthy information, helping to close the gap
  - **Corporate governance** community to embed ethics on CG frameworks and consider making ethics standards or rules applicable to all TCWG (and not only to PAs)
  - **Regulators** have a role to play setting consistent, harmonized and enforceable rules





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