



Think Ahead

A person wearing a traditional conical hat and a light-colored shirt is seen from behind, walking through a lush green tea plantation. A large woven basket is hanging from their shoulder. In the background, there are rolling hills and mountains under a cloudy sky.

ETHICAL DILEMMAS IN AN ERA OF SUSTAINABILITY REPORTING

About ACCA

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Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over **247,000** members and **526,000** future members in **181** countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all.

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What does this guide address?

The swift progress currently being made implementing sustainability reporting across the world brings with it associated risks for matters of ethics and independence to which all those involved – accountants and non-accountants, need to be alert. Poor-quality reporting, including ‘greenwashing’, a lack of trust in published information and consequent faulty decision making could be the result.

Relevant factors include:

- the topics comprising sustainability are broad, interrelated and complex, from climate, biodiversity, geopolitical events, and human rights, to employee wellbeing
- the keen interest in sustainability among many stakeholders, all with different needs and differing levels of understanding of corporate reporting, for example, of its purpose and the guidance underpinning its preparation, and
- sustainability reporting is being implemented while the underpinning guidance on what and how to report is new to many and subject to considerable development, and this necessitates a short lead time for preparation before its use.

There are mitigations for the resulting risks, and in this guide we provide simulations for accountants and non-accountants to alert and equip them to manage the types of ethical dilemmas arising in sustainability reporting. We also provide a non-exhaustive checklist of probing questions, which we encourage you to review, to reflect on how sustainability-related dilemmas may evolve.

Additionally, this guide informs on:

1. why ethics and independence are important in an era of sustainability reporting
2. the requirements of International Ethics Standards Board for Accountants (IESBA) ethical code, including reviews to maintain their currency, and the Code’s extension for applicability to the many non-accountants involved in sustainability reporting, and
3. the value proposition associated with compliance.

About the researchers



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Education enabling the conversion of technical knowledge into action is vital, and Sharon regularly incorporates this into her own work and that of her team. Her passion for education was gained preparing students for the technical and professional demands of accountancy qualifications, which she did before joining ACCA in 2008. Since then, her roles have also included shaping the ACCA Qualification and its digital transformation.



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Darren has presented at many accountancy and finance education conferences and has been awarded the prize for 'Best Innovation in Teaching' at the BAFA Accounting Education conference for his work in using 'Accounting Bissim' to enhance graduate outcomes.

Foreword



Mike Suffield
Director – Policy and Insights,
ACCA

Ethics underpin everything that professional accountants do. In work related to sustainability reporting and assurance, whether performed by accountants or non-accountants, being alert to risks and behaving ethically will be fundamental to establishing trust in the information published.

Being a force for public good and creating opportunity are central to ACCA and the profession's purpose. Alongside transitioning our own business model to be more sustainable, we support others to do the same. Our work centres on influencing policy, raising awareness and providing educational material to support our members, whatever their role in relation to sustainability.

ACCA welcomes the work by international and regional standard setters to develop, and by jurisdictional regulators to endorse, a harmonised set of sustainability reporting and assurance requirements. In our own research and policy work, we aim to support accountants, and potentially non-accountants, to comply with the requirements of the principles set out by the International Ethics Standards Board for Accountants (IESBA) in its International Code of Ethics for Professional Accountants (IESBA 2023), and hence build trust in the information that they produce or assure.

Notwithstanding such guidance, integrated financial and sustainability reporting is not without its challenges. The sustainability reporting requirements are relatively new for many and still subject to considerable development. There are challenges in:

- developing rapidly the necessary systems and processes for verified reporting
- working with a vast variety of data, much of it subject to considerable estimation and uncertainty
- the risk of partial or misleading reporting ('greenwashing'), in part due to increasing interest from a diverse range of stakeholders, with differing needs, knowledge, capabilities and expectations from corporate reporting, and
- sourcing reporting and assurance talent, which is currently still developing the capacity and capability necessary to undertake the work.

These challenges may in turn result in ethical dilemmas for professionals. Several examples of these are presented in Chapter 6 of this guide, for individuals and teams to actively engage with. They have been drawn from real-life situations but should be treated as simulations. Supporting this material are a checklist and guidance to encourage the necessary professional scepticism, vigilance and continual improvement (see Chapter 5).

We also summarise IESBA's current work on ensuring continued currency of its Code, extending the latter's accessibility to non-accountants (see Chapter 4). Our overall aim in publishing this report is to complement IESBA's work and help ensure that those operating in sustainability reporting, accountants and non-accountants alike, are equipped to fulfil their responsibilities in an ethical manner.

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Executive summary

We have a collective obligation to future generations to operate individually and as organisations in a sustainable manner. For professional accountants, this is an opportunity to provide strong leadership and insight, in turn helping to drive ethical and sustainability-focused decision making.

(i) The accountancy profession's code is one among several and tensions may result

There are multiple sources of relevant guidance available to assist and promote ethical behaviour. This comes in the form of the principles of sustainable development; business codes relevant to those charged with governance; and of course the IESBA International Code of Ethics for Professional Accountants ('the IESBA Code'), which sets out independence standards for accountancy professionals.

Such codes are helpful, because together they encourage an approach that serves the public interest. Nonetheless, interpretations of what is deemed 'right and correct' may well differ between stakeholders or decision-makers applying different codes, and so tensions may exist.

Take, for instance, principles of sustainability development that have led to the introduction by many jurisdictions of 'green and just' transition strategies. A decision by an energy producer to move away from fossil fuel energy towards greener forms, such as windfarms, will be deemed positive by the energy producer's management and possibly by policymakers in meeting carbon emissions targets over time, and create jobs in new industries. While many in the community will appreciate the positive synergistic benefits of improved air quality, aerial animal and insect populations may be damaged, and people vested in fossil fuel energy production may find themselves structurally unemployed, leading to other socio-economic issues for the community (see [\(ii\)](#) and [Chapter 2, section 2.2.1](#)).

Sustainability matters are of interest to a wide-ranging audience, creating many greenwashing opportunities – unethical ways, whether intentional or not, of using the content to influence stakeholder behaviour. In the above example, management, applying a business code, may see nothing wrong with statements such as '*our green transition improves air quality*' and '*communities benefit from a net increase in jobs*'. As indicated, however, community stakeholders may have a mixed view.

(ii) A checklist to make the IESBA ethical code an everyday part of sustainability reporting

This creates a considerable grey area for accountants, especially those in preparer and assurance roles: it is their work that informs decision making by stakeholders. These accountants are required to comply with the IESBA Code and will need to consider questions such as these.

- How do I best ensure reporting is true and fair?
- How do I balance my duty of care between different stakeholders?
- When and where does my duty of care cease?
- How do I defensibly demonstrate my duty of care?

The systems and processes for collecting and analysing sustainability-related data are likely to be complex. Further, the data itself will probably be subject to high degrees of estimation uncertainty and necessitate access to specialist knowledge, linking back to the example in (i), of **greenhouse gas (GHG) emissions measurement, wildlife and its biodiversity, and socio-economics**. While professional accountants are familiar with working with other experts, the introduction of sustainability reporting and the vast array of sustainability-related topics place accountants on a steep learning curve. The data collection process may also create business risks as it will be collected from many sources, where some providers may become nervous about releasing data that could subsequently have damaging implications for them. Here, the following questions will arise (see [Chapter 5](#)).

- What technical sustainability knowledge am I lacking?
- What should I do to ensure that I can critically appraise the information presented by those upon whom I rely?
- How can I ensure confidentiality is appropriately maintained?
- How do I best demonstrate professional behaviour to encourage others to respect my professional code principles?

Accountants with sustainability expertise will be in high demand, and may find themselves facing independence risks: for instance, when asked to self-review their own work.

The existence of the IESBA Code means that professional accountants who comply with its requirements will be best placed both to manage such risks and to access the vast opportunities for the profession in sustainability reporting and assurance.

To help all involved in sustainability reporting and assurance, [Chapter 6](#) contains five simulations of real-world sustainability-reporting scenarios where ethical dilemmas are presented by:

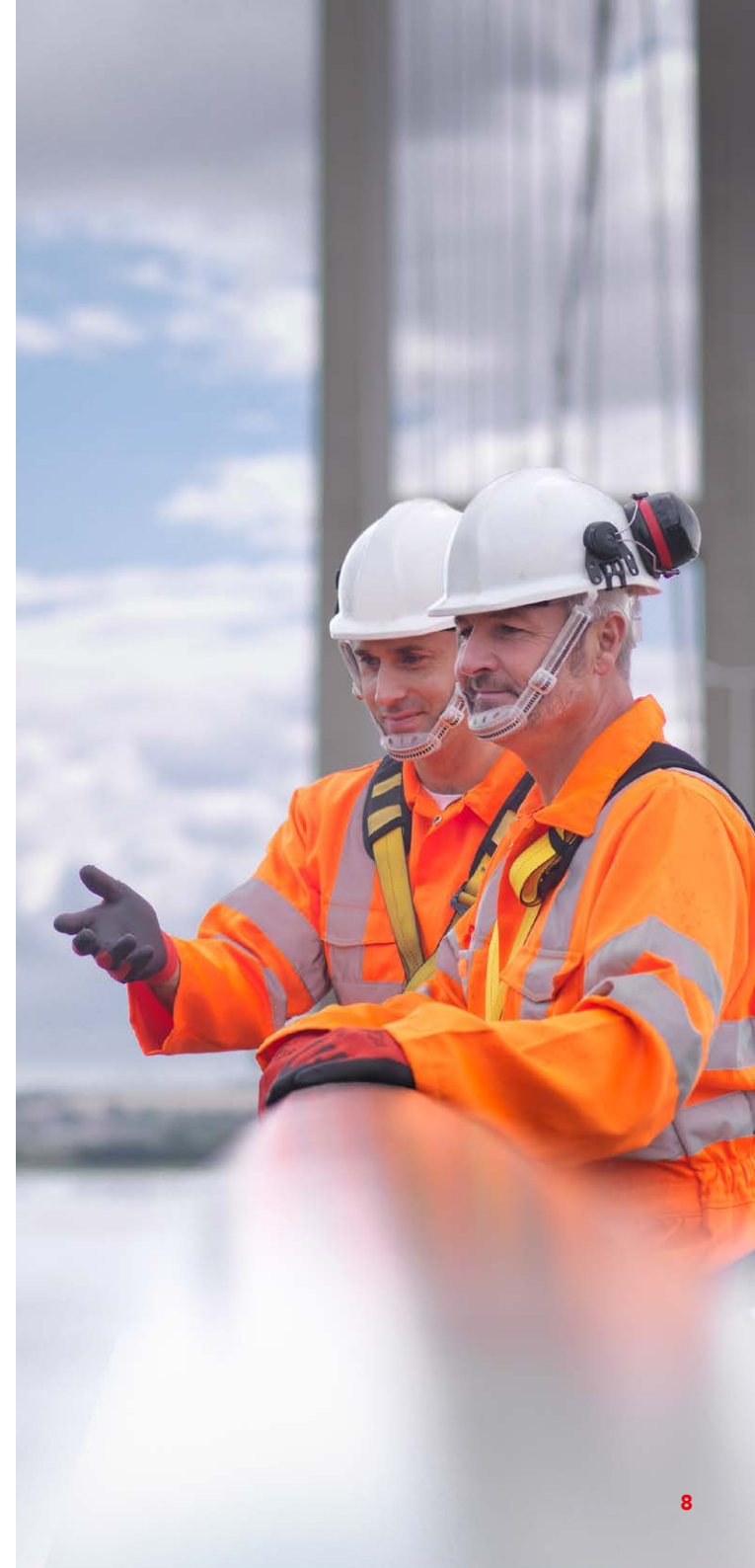
- weaknesses in processes and systems
- risks of greenwashing
- insufficient competence and due care, or
- challenges of independence.

Individuals and teams should engage with these simulations, and we provide a checklist of questions to drive better application of the IESBA Code principles, including the all-important professional scepticism and curiosity. Further, where engagement accords with the guidance here on 'how to approach the scenarios', it could contribute towards CPD requirements for professional accountants.

(iii) The role of the accountancy profession's code and the value proposition of compliance

The sustainability agenda challenges the IESBA Code (IESBA 2023a), and its basis in principles rather than rules helps maintain its continued currency. Nevertheless, as the business landscape evolves it is important that the Code is kept under review. IESBA's reviews of the Code and of its independence standards are essential, and the scope of the sustainability review is summarised in this guide ([Chapter 4, section 4.1](#)).

The growing regulatory requirement for sustainability reporting, together with the significant contribution made by non-accountants to reporting and assurance, is driving IESBA to consider the development of ethical guidance for them. This will benefit all involved by building trust in sustainability-related reporting, and lead to better-informed decision-making overall.



1. The perspective of experts informing ethics sustainability reporting

The creation of this guide was only possible through insights from accountancy, business and finance professionals with expertise in sustainability reporting and assurance. These experts contributed to ACCA's work in preparing for sustainability reporting and shared their insights on the associated ethical challenges. Many of these experts also contributed to IESBA's work in reviewing its code of ethics and conduct.

We acknowledge and thank all these experts for giving their time and superb insights (see [Acknowledgements](#)).



2. What do we mean by ethics and its importance in an era of sustainability reporting?

2.1 'Ethics' means different things to different professions

The organisational approach to developing, implementing and reporting on sustainability strategies will introduce professional accountants to many other expert professions, such as human rights law, environmental and social science, and engineering.

Ethics, the habits of thought and behaviour that empathetically take the interests of others into account to achieve a greater good, may well result in different courses of action when applied to sustainability by each profession. In some instances, courses of action may differ even between individuals within the same profession, and this is more likely when that profession does not have an ethical code supported by a commonly accepted 'modus operandi'. This is one of many reasons why professional accountants have a code of ethics and conduct, and generally accepted accounting practices (GAAP) for financial reporting. The hope is that GAAP will extend to sustainability reporting as it matures and is consistently adopted by different jurisdictions.

2.2 The tensions between ethics in sustainable development and business

Professional accountants in reporting roles should be mindful of the different ethical principles being applied by others, as this may have implications for reporting and assurance.

Tensions may exist, for instance, between the decisions resulting from application of the principles of sustainable development, ethical business codes and the accountancy profession's code – the IESBA Code. 'Not exactly' may well be the response to the formulaic question when applied to sustainability-related reporting:

**'Do the outcomes from the principles of sustainable development + ethics in business
=
the outcomes from the Professional accountant's ethics code?'**

2.2.1 Principles of sustainable development

Sustainable development, unlike ethics, is a relatively new concept, with the watershed moment for its definition and recognition being in 1987 at the World Conference on Environment and Development (World Commission on Environment and Development 1987). Ethics in sustainable development is defined as the conscientious reflection upon and reasoned justification about what we should do in order to live well with others. It includes the quality of our interactions as well as our reflection upon those behaviours, extending human thought and behaviour to nature, nonhuman animals, plants, ecosystems, air and water quality, etc. (Van Horn n.d.) The types of ethical questions for consideration in sustainable development include the following.

- How should we behave in relation to other individuals, creatures, the land, our places?
- How do we best care for others in our decision-making, including the soils, waters and creatures from whom we derive our benefits – whether physical and economic sustenance, psychological wellbeing, and spiritual fulfilment, etc?
- What are our obligations to future generations?
- What is our vision for the 'goodness' of the whole, ie essentially, all the stakeholders represented in the above questions?

2.2.2 Ethical business codes

A review of several ethical business codes found they broadly align, albeit with subtle differences, and indicate the following generally accepted components (see Box 2.1).

BOX 2.1: An ethical business code

care and respect fairness
technology ethics
integrity
loyalty
accountability
respect for the law
honesty leadership
brand image
environmental concern
transparency
healthy competition

Sources: [Twin 2023](#); [IBE 2023](#); [StudySmarter n.d.](#); [WallStreetMojo 2023](#)

Taken together, the ethical business codes and the principles of Sustainable Development are likely to require decisions of balancing differing and sometimes conflicting priorities, for example between obligations to future generations, healthy competition and respect for the rule of law (see section 2.2.4, Box 2.3).

2.2.3 The professional accountant's ethical code as applied to sustainability matters and their reporting

Professional accountants have their own, IESBA, code of ethics and conduct, and this will be relevant throughout their involvement with sustainability, across strategy development and business transformation through to reporting and assurance.

The professional accountant's ethical code (IESBA 2023a) centres on five principles, together with standards for independence (see Box 2.2).

Unsurprisingly, there is much overlap between the business code (IBE 2023) and the IESBA Code, especially for accountability, integrity, care and respect, transparency and respect for the law (see Box 2.1). Nonetheless, some differences in decision-making and action may arise, say, when:

- principles of the business code relating to loyalty and the accountant's due care and objectivity are relevant to navigate a given situation, or
- the accountant's IESBA code is applied to ensure truth and fairness in corporate reporting, in simple terms to reflect the reality of transactions (see section 2.2.4, Box 2.3).

Therefore, welcomed is the [review IESBA](#) are undertaking to ensure the continued currency of the Code for sustainability reporting and assurance. In turn this review should also ensure the continued [value proposition associated with compliance to it](#) (see [Chapter 3](#)).

ETHICS IN SUSTAINABLE DEVELOPMENT IS DEFINED AS THE CONSCIENTIOUS REFLECTION UPON AND REASONED JUSTIFICATION ABOUT WHAT WE SHOULD DO IN ORDER TO LIVE WELL WITH OTHERS. IT INCLUDES THE QUALITY OF OUR INTERACTIONS AS WELL AS OUR REFLECTION UPON THOSE BEHAVIOURS, EXTENDING HUMAN THOUGHT AND BEHAVIOUR TO NATURE, NONHUMAN ANIMALS, PLANTS, ECOSYSTEMS, AIR AND WATER QUALITY, ETC.

BOX 2.2: The professional accountant's ethical code and independence



Integrity

Be straightforward and honest in all professional and business relationships.



Objectivity

Do not compromise professional or business judgements because of bias, conflict of interest or undue influence of others.



Professional competence and due care

- attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives a competent professional service based on current technical and professional standards and relevant legislation, and
- act diligently and in accordance with applicable technical and professional standards.



Confidentiality

Respect the confidentiality of information acquired as a result of professional and business relationships.



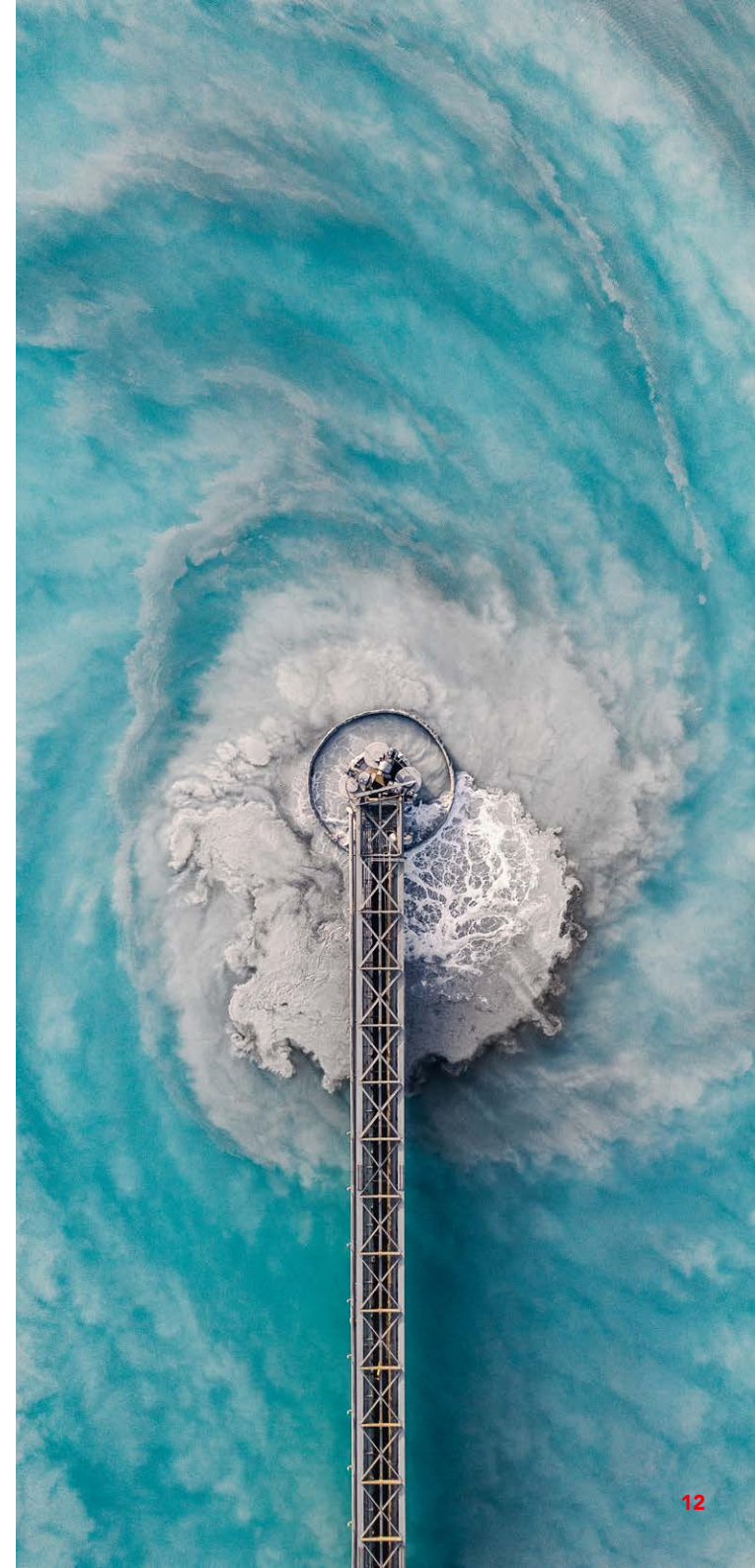
Professional behaviour

Comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.



Independence – comprises:

- independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism
- independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit team member's, integrity, objectivity or professional scepticism has been compromised.



2.2.4 A case study to illustrate the tensions between the codes

The following case study illustrates how the differing codes may result in tensions in decision-making which can then flow through to reporting (see [Box 2.3](#)).

BOX 2.3: CASE STUDY – The different codes lead to different outcomes

An organisation has a 'just transition'¹ strategy and the nature of its industry necessitates carbon offsetting because the organisation is not able to reduce its own carbon output. This works as described below.

- The strategy means the organisation has a quality-selection criteria: only carbon credit projects deemed directly relevant to the industry sector and organisation's business model are selected.
- The organisation is holding purchased but unused carbon credits, because it has managed to reduce its own carbon output.
- The organisation can sell these unused credits within secondary markets, for example, in a market managed by intermediaries, or selling directly to others within the value chain ('insetting').
- If a sale is pursued then a financial profit will result for the organisation.

An ethical consideration might relate to the 'justice' of the resale of the unused carbon credits.

Applying an ethical business code

Applying an ethical business code may drive the decision to pursue the option of selling the credits because the organisation has:

- reduced its own carbon emissions while also supporting others to claim an offset for their emissions, therefore complying with code principles of accountability and care, and
- made a profit, which demonstrates healthy competition.

Further, business leaders may consider this success to be worth communicating to external stakeholders.

Applying the principles of sustainable development

Alternatively, the selling option might be deemed questionable when applying the principles of sustainable development.

- Sale on the secondary market has certain consequences.
 - It results in financial profit only for the organisation and market intermediaries; the initial carbon credit purchase provided the offset benefit, hence no further carbon emission reduction results.
 - Partly owing to a current lacking in regulation, markets may function inefficiently if carbon credit prices do not genuinely reflect the quality of the project. If these prices are overly inflated, they may filter into primary carbon credit markets, in turn reducing the opportunity for voluntary carbon reduction by many other organisations.
 - It may not enable the selling organisation to verify whether its quality criteria (alignment between the carbon credit project and the purchaser's business) were met, which may also be the case for insetting (Deloitte n.d.).
- The benefit for future generations would be limited if the resulting profit is not used for environmental or social outcomes.

Even if the sale is pursued, reporting of the outcomes is likely to be less positive when applying the principles of sustainable development.

Recommendation: Business leaders must consider a combination of codes to make quality business decisions for sustainable development. ►

¹ 'Just transition' is defined as a process that seeks to ensure that no one is disadvantaged as we move to a net-zero economy, while the benefits are distributed in a way that is fair and inclusive. This requires management of financial, political and social risks, while balancing complex trade-offs between social, economic and environmental issues, and carbon-reduction goals.

BOX 2.3: CASE STUDY – The different codes lead to different outcomes (cont.)**Applying the IESBA Code**

Accountants may have different considerations about whether to sell the unused carbon credits and use of resulting profits. How and why?

Accountants' purpose, code and modus operandi oblige them to think and act in the public interest. In some respects this aligns with the principles of sustainable development. Such thinking encourages considering value chain and multi-stakeholder perspectives, which are required in sustainability-related reporting.

Now, concentrating only on the reporting associated with the resale of the carbon credit, some questions professional accountants may need to ask to fulfil their obligations relate to the following issues.

1. The quality-selection criteria (aligning carbon credit projects to the organisation's business model). The International Sustainability Standards Board (ISSB) sustainability-related disclosure standard, IFRS S2 (IFRS 2023), requires disclosure on the intended use of carbon credits in achieving emissions targets. How might the principles of integrity, competence and due care apply to the total purchase of the carbon credit and the subsequent resale, where the alignment might be unknown or difficult to verify?
2. The organisation's 'just transition' strategy and profits resulting from the sale of the carbon credit. How do the principles of due care and integrity apply in the reporting on the allocation of the profit?

3. Specific accounting standards for the purchase and sale of carbon credits do not currently exist, which raises questions on how best to apply the 'next best' accounting standards (IAS38 for use, IAS2 and IFRS15 for sale (see KPMG 2023)) and its connectivity to the ISSB requirements outlined in point 1 above to meet the integrity, competence and due care principles?

Especially in relation to points 1 and 2 above, additional concerns may also relate to the:

- relative immaturity of sustainability reporting requirements and associated implementation guidance
- significant inconsistencies in identifying core stakeholders in reporting (financial versus double materiality),² hence deciding to whom and how due care might be respectively awarded and discharged
- the pace of sustainability-related business innovation relative to control mechanisms, including regulation; for example, relating to the pricing of carbon credits and markets for their resale.

Recommendation: Accountants should:

- be aware of how the different codes may interact and especially how the IESBA Code relates to them
- make use of the IESBA Code principles to aid the framing of questions to clarify the issues within scenarios and the prospect of associated ethical dilemmas.

² Financial materiality – information is material if omitting, misstating or obscuring it could reasonably be expected to influence investors' decisions. Double materiality – matters that have either financial or material impact, or both. Materiality impacts may be actual or potential, positive or negative, on people or the environment, over the short, medium or long term.



3. Reasons for complying with the IESBA Code: the value proposition

In a nutshell, the key reason for compliance is the accountant's purpose – serving the public interest, enabled by the IESBA Code and *modus operandi*. While compliance is a requirement of continued membership, encouraging each individual professional to appreciate that their actions might have implications for the profession as a whole, there are many other good reasons to comply.

The principles should prompt the professional to ask, 'is this the right thing to do?', supporting a range of positive, value-enhancing outcomes.

- **It leads to quality reporting and assurance**, especially important when:
 - specific technical guidance does not exist, is immature, or is subject to considerable variation in interpretation or
 - guidance on how the professional should act is inconsistent across different jurisdictions.
- **It results in better governance**, as a broader perspective is encouraged.
- **Trust in and respect for the profession** is enhanced, as there is a set of principles for appraising the actions of professionals, and therefore regulating and supervising them.
- **Professionals are likely to place importance on continually developing** because the professional scepticism and curiosity encouraged by the principles should drive reflection on one's own thinking and approach, rather than just the outcome. This enables the development of the broader set of integrative-thinking capabilities, together with their enablers, that are outlined in ACCA's work on [integrative thinking](#) (Machado et al. 2023).

Sustainability reporting and its assurance is likely to extend beyond that currently done by the largest global and national companies, where sustainability reporting is mainstream (96% of the largest global (G250) and 79% of the largest national (N100) companies³) (KPMG 2022). This presents vast opportunity for those with the prerequisite technical skills, both professional accountants and non-accountants, to contribute (ACCA 2021; 2022).

Additionally, the many jurisdictions mandating reporting and its assurance are likely to impose quality requirements akin to those related to financial reports, including compliance with ethical and conduct codes, on those providing these services. Professional accountants are more likely than non-accountants to be familiar with what compliance involves. This may give professional accountants an advantage in this expanding area of opportunity.

3. The G250 companies are the 250 largest companies globally, measured by revenue as recorded in the 2021 Fortune 500 listing. There are 4,900 N100 companies, ie the 100 companies with the highest revenue in each of 49 nations.

4. The IESBA Code undergoes constant review for currency and relevance

In a world of constant change, whether related to the use of technology or to social and environmental matters, every ethical code should be regularly reviewed for currency and relevance.

Evidenced in the case study in Chapter 2 (section 2.2.4, [Box 2.3](#)), professional accountants are likely to face ethical and independence challenges, so the review of the IESBA Code for sustainability reporting and assurance is welcome. Just as the review of the Code for technological developments introduced revisions to both the Code and independence standards, revisions are expected for sustainability (see Box 4.1). Many of these changes will be relevant to sustainability reporting and assurance, not least because technology and data will play a major role.

BOX 4.1: Code revisions for technology

Following a review, key changes to the IESBA Code and related standard updates focused on technological developments, resulting in:

- strengthening of the Code to guide the mindset and behaviour of professional accountants when they use technology
- enhanced guidance, fit for the digital age, on the fundamental principles of:
 - confidentiality, including an explicit prompt for professional accountants to secure confidential information in the course of the entire data governance cycle (ie from data generation or collection through to its use, transfer, storage, dissemination and lawful destruction)
 - professional competence and due care, such as being skilled in information and communications technologies
 - complexity, recognising that technology introduces a heightened inherent risk, in part owing to its 'black box' nature (there are concerns related to unpredictable and irrelevant outcomes due to the reliability of the multiple data inputs and algorithms of artificial intelligence (AI) machine learning)
- strengthening and clarification of the International Independence Standards (IIS) by addressing the circumstances in which firms and their network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.

Source: IESBA 2023b

4.1 The scope of the IESBA Code review

Since the IESBA Code is based on principles rather than rules, it is likely to remain relevant over time, and a review for sustainability or indeed future concerns is unlikely to affect this. For example, the combination of integrity, competence and due care requirements are likely to encourage professionals to consider the interconnectedness of sustainability and financial matters.

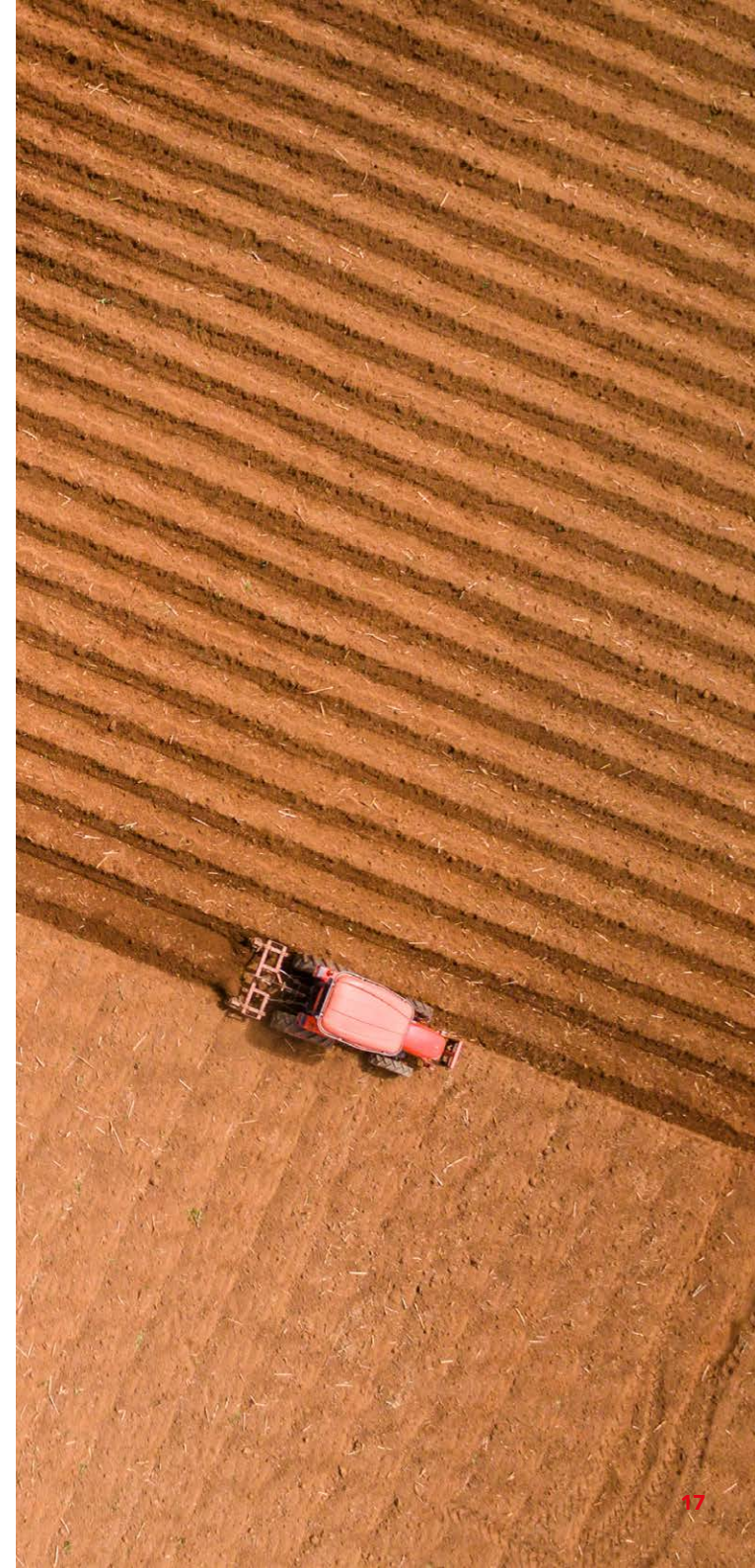
Even so, a significant change relates to the potential development of profession-agnostic guidance for sustainability reporting and assurance, which extends to ethics (IAASB n.d.). Specifically with regard to assurance, in 2021, 64% of sustainability reports were subject to some form of assurance, up from 51% in 2019, with approximately 60% of this assurance conducted by professional accountants (IFAC et al. 2023). With a significant element of assurance engagements being carried out by non-accountants, there is a compelling proposition for non-accountants to use the Code too, especially if compliance with quality standards, including the Code, is mandated around the globe.

IESBA's and ACCA's engagement with organisations, professional accountants and non-accountants alike, preparing, verifying and assuring sustainability information, has enabled us to identify a range of scenarios presenting potential ethical dilemmas. This has helped IESBA in considering how these relate to the current Code principles and independence requirements and where these may need refining. Some themes specific to sustainability reporting and assurance have been identified.

- There is enhanced risk that sustainability information in the sustainability report may be misused in social and news media, and even on product labelling. In part, this arises from:
 - the breadth of what might be considered a sustainability matter and scope for selectivity in what is reported
 - the use of sustainability-report content by non-experts who lack the specialist knowledge to understand it
 - the increasing, and increasingly interested, audience.
- The relative newness of sustainability reporting and assurance, including the use of different sustainability standards and frameworks, makes it more complex than financial reporting.
- There is wide availability of sustainability-related data that requires a high level of judgement for analysis and reporting.
- There is increased risk of self-review threat, given the small talent pool, because those preparing reporting may well also be involved in its validation.

The simulation scenarios within this guide have been developed in part from the results of IESBA's outreach, together with that of the ACCA research team in our work exploring broader questions about the preparedness of the profession for sustainability reporting.

SPECIFICALLY WITH REGARD TO ASSURANCE, IN 2021, 64% OF SUSTAINABILITY REPORTS WERE SUBJECT TO SOME FORM OF ASSURANCE, UP FROM 51% IN 2019, WITH APPROXIMATELY 60% OF THIS ASSURANCE CONDUCTED BY PROFESSIONAL ACCOUNTANTS.



5. A checklist to help identify ethical threats and associated dilemmas

There are some relatively standard questions all should consider to increase alertness to possible ethical threats in a sustainability-related dilemma. While they have been mapped against the principles, it is not necessary to take such a categorised approach (see [Box 5.1](#)).

BOX 5.1: GUIDANCE – The checklist of questions to help identify ethical threats

The following is a non-exhaustive list to help all involved in sustainability reporting be vigilant to ethical threats.

Governance setting

- ✓ How does my organisation's tone from the top align with the environmental and social risks (and opportunities) of importance to the organisation/industry/community of operation?
- ✓ How does my organisation consider and reflect non-human concerns, eg wildlife and biodiversity?
- ✓ How should my organisation's code of ethics, applicable to all employees, reflect sustainability threats and their mitigation?

Integrity

- ✓ How do I ensure that the data being presented is true and fair, and relevant to the task?
- ✓ How should I prioritise the issues? And what might this mean when different stakeholders are considered?
- ✓ Would my actions be seen as compromising my own values or those of the profession? In other words, how would others react if they knew?
- ✓ What positive or negative changes have happened, are happening or likely to happen?

Objectivity

- ✓ Would I suggest this as a course of action if someone else were standing in my shoes?
- ✓ Are there risks of self-review, self-interest, over/under familiarity and/or intimidation?
- ✓ Are there risks of biased promotion of specific sustainability practice?
- ✓ What should I do to ensure I can critically appraise the information being presented by others?

Competence and due care

- ✓ What are the different material topics and themes present in the scenario? These may include biodiversity, water, human rights, education – consider the list of matters covered by the various sustainability standards and frameworks.
- ✓ What is the reporting and assurance standard guidance in the context of my working situation? Does it cover data collection, metrics, etc?
- ✓ What connectivity is required between finance and sustainability issues?
- ✓ What are the key triggers, eg geopolitics, technology developments, that may significantly threaten a detrimental outcome?
- ✓ What technical sustainability knowledge am I lacking?
- ✓ How do I balance my duty of care between different stakeholders?
- ✓ When and where does my duty of care cease?
- ✓ If my duty of care were questioned, could I articulate how I demonstrated it?

Confidentiality

- ✓ What is my responsibility to external stakeholders? And is this compromised by remaining quiet or being overly transparent?

Professional behaviour

- ✓ What diversity and inclusion issues are present?
- ✓ How do I best demonstrate professional behaviour to encourage others, who have no such code, to respect and comply with the IESBA Code principles?



6. How would I respond to a sustainability-related reporting dilemma?



We have developed five fictitious ethical dilemmas for active engagement. They draw from IESBA's outreach, and that of ACCA when researching how organisations have prepared and are preparing for sustainability reporting. Here, we provide the scenarios to be worked through as simulations of real-world situations.⁴ We set the scene for the scenarios, as well as providing guidance on how best to engage with them.

6.1 Scene setting for the scenarios

The purpose of these scenarios is to indicate the types of dilemmas that accountants and non-accountants may face. While the scenarios are not intended to be exhaustive, they have been written to address a breadth of issues and considerations.

As with most dilemmas, there will be no perfectly correct answer: indeed the scenarios may lead to many different ethically acceptable decisions. Therefore, we encourage repeated consideration of the scenarios by individuals or, better still, approaching them as teamwork – there will be a range of responses, which should be explored.

Actively engaging with the scenario may lead you to refine the checklist of questions in Chapter 5, [Box 5.1](#), in turn encouraging greater vigilance to future dilemmas.

Further, documenting the approach to decision-making, updating the checklist and noting how any learning might be used in future work means that time spent could be considered verifiable CPD.

⁴ The ethical issues contained within the simulations are based on real-world insights. However, any names, characters, businesses, places, events or incidents are wholly fictitious. Any resemblance to actual persons, living or dead, or actual scenarios is purely coincidental.

6.2 Guidance on how to approach the scenario dilemmas

The following suggestions show how to get best value from the scenarios.

(i) Apply curiosity and professional scepticism to identify possible dilemmas

Consider the questions related to the five principles and apply them to the dilemma (see Chapter 5, [Box 5.1](#)); a few of these are considered here in the context of the example in Box 6.1.

BOX 6.1: Curiosity and professional scepticism will raise red flags

Asking 'why' questions assists the identification of other people's unethical actions. For example, by using such an approach, one expert was able to uncover attempts to circumvent reporting requirements.

'The local regulatory requirement to provide sustainability reporting information by individual companies over a certain size led to several restructuring themselves into smaller entities, in turn escaping reporting needs.'

'The companies that did report often treated the compliance as a tick-box exercise.'

In completing the reporting requirements and reviewing them, the same expert asked further questions.

- Does what is reported align with the business I see in front of me?
- What are the various statements being made?
- How do I check the validity of the various statements?

For professional accountants, especially those within audit and assurance, these questions should be familiar.

(ii) Invest time and zoom out to appreciate the big picture and assess how the different issues could connect and present a dilemma

The development approaches within ACCA's guide to integrative thinking (Machado et al. 2023), which centred on pausing and reflecting, will help build necessary integrative-thinking capabilities (see Box 6.2) associated with:

- comparing and contrasting the different stakeholders
- appreciating the possible impacts on different resources
- how differing timescales may result in different outcomes
- the key external triggers, including those within the regulatory landscape, that may affect outcomes.

BOX 6.2: Integrative-thinking capabilities

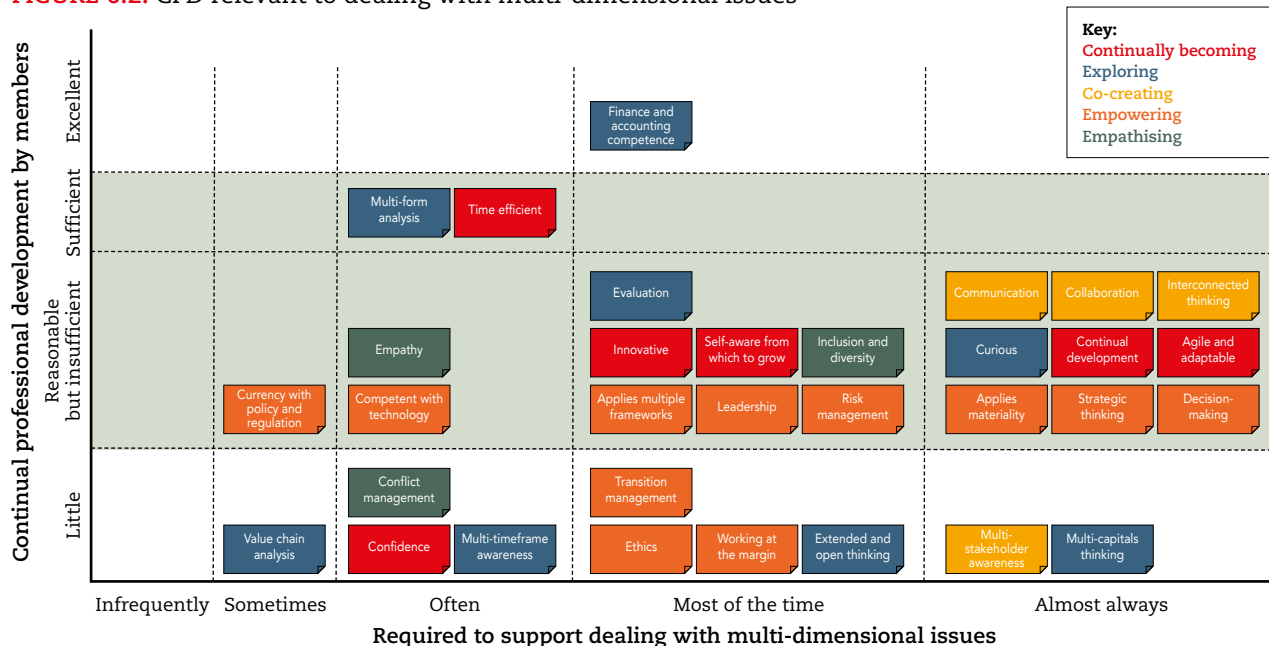
FIGURE 6.1: The five integrative-thinking capabilities



- **Continually becoming:** nurturing the five personal capabilities – openness, humility, curiosity, courage and creativity – that enable a chief financial officer (CFO) to grow and evolve continually through time.

- **Empathising:** solving problems through understanding others' viewpoints and seeing things from the perspectives of one's interlocutors – colleagues, business partners, clients or end-users.
- **Exploring:** searching out unfamiliar territory to learn about it, and inviting others to join in the exploration – asking questions, modelling plausible scenarios and testing assumptions.
- **Co-creating:** seizing the opportunities that arise from collaborating with others, including people outside one's own organisation.
- **Empowering:** enabling team members and, in some cases, external stakeholders to take actions and to influence outcomes.

Enabling these capabilities is the detailed set of skills, behaviours and mindsets summarised in Figure 6.1 and supported by a complete explanation within both the full and summary versions of Machado et al. 2023. ▶

BOX 6.2: Integrative-thinking capabilities (cont.)**FIGURE 6.2:** CPD relevant to dealing with multi-dimensional issues

Source: Machado et al. 2023

(iii) Develop potential mitigations for the dilemma, reflecting on some of the frameworks/guidance available

For example, apply:

- the five integrative-thinking capabilities required to solve complex multi-dimensional problems (see Box 6.3) because different dilemmas often have similar features, and hence draw on the five capabilities
- the IESBA Code's five principles and independence criteria, which have been summarised above (see Chapter 2, [Box 2.2](#))
- corporate governance frameworks, of which there are several but all largely centre on the principles summarised in the example of ethical business code above (see Chapter 2, [Box 2.1](#))
- pragmatism and practicality, which experts repeatedly cite, are based on:
 - applying prioritisation
 - recognising when precedents are being set and when past practice needs to be updated
 - working with and influencing organisational policies or ways of working, etc. to assess, agree and mitigate.

BOX 6.3: Complex multi-dimensional problems

Often, complex dimensional problems:

- are difficult to define
- involve complex systems
- are difficult to approach, and
- are such that it is difficult to know when you have fully solved them.

(iv) Decide which mitigations to progress

Tools such as enterprise risk management (ERM) frameworks may provide the basis of a systematic approach. The threats and their potential mitigations could be assessed against the five areas addressed by the ERM framework (see Box 6.4), by considering questions of:

- Does the governance and culture of the organisation enable the mitigation to be successful?
- Does the mitigation align with the organisation's sustainability-related reporting strategy and associated risk appetite?
- Can the mitigation be achieved in the required sustainability-related reporting timeframe?
- Can the mitigation be monitored and as required adapted to prevent recurrence?
- Can ways of working and policies be updated to reflect the mitigation?

(v) Document for future learning

Precedents will be set but may need to evolve with the ethical dilemmas. Therefore, update the checklist of questions to assist in identifying threats and record:

1. the threat features
2. mitigation options
3. the mitigation selected and the rationale for it
4. the performance, and
5. lessons learned.

(vi) Flex the process

The approach is not static so may need flexing and updating to reflect the ways ethical threats evolve.

Finally, as mentioned in [section 6.1](#), employing such an approach may count towards verifiable CPD.

BOX 6.4: COSO's enterprise risk management (ERM) framework

COSO's ERM framework supports evaluating potential mitigations and deciding which to implement by providing a structure of five key themes for framing alignment questions.

FIGURE 6.3: Enterprise risk management (a page from IRM n.d.)



- 1. Governance and Culture:** Governance sets the tone for the organisation and establishes oversight responsibilities for ERM. Culture relates to ethical values, desired behaviours and understanding of risk.
- 2. Strategy and Objective-Setting:** ERM, strategy and objective-setting work together in the strategic-planning process. Risk appetite should be aligned with strategy and business objectives to successfully implement strategy.
- 3. Performance:** Risks that can impact achievement of strategy and business objectives need to be identified and assessed and risks prioritised by severity in the context of risk appetite, so that risk responses can be selected.
- 4. Review and Revision:** By reviewing organisation performance, an organisation can consider how well the ERM components are functioning over time and following substantial change, and what revisions are necessary.
- 5. Information, Communication and Reporting:** ERM requires a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organisation.

Source: IRM n.d.

COSO has stated that organisations need to identify the best framework for optimizing strategy and performance in order to integrate ERM throughout the organisation to achieve benefits, including:

- identifying new opportunities;
- identify and manage risk organisation-wide to sustain and improve performance;
- increase positive outcomes and reduce negative surprises;
- reduce performance variability and minimise disruption;
- improve resource deployment and enhance resource allocation; and
- enhance enterprise resilience, not only to survive but also to evolve and thrive.

6.3 The simulation scenarios

There are five fictitious simulations for individuals and teams to engage with, using the guidance in section [6.1](#) and [6.2](#) as support.

6.3.1 SCENARIO 1: COMPANY STRUCTURE

Scenario

As a professional accountant working for a large multinational corporation, you have been assigned responsibility for preparing the company's first-ever sustainability report. To prepare for this role, you attended a couple of training seminars and completed the ACCA audio course, 'Ethics: explaining the IESBA Code' (ACCA n.d.). This has given you some insight into sustainability reporting and the IESBA Code of Ethics, and their application to a company with a number of subsidiaries. Your company claims to prioritise sustainability and environmental responsibility and has publicly committed to transparent reporting practices to showcase its efforts. In practice, it is clear, from what you have heard in various meetings, that some senior company executives prioritise financial performance over sustainability performance. In the course of your work on the sustainability report, you discover a significant ethical dilemma: the company's structure poses challenges to accurate sustainability reporting.

The company operates as a conglomerate of several subsidiaries in different industries, such as mining, food processing, clothing manufacture, and has a small regional airline company. Each subsidiary operates independently, with its own management structure, financial systems, and reporting practices. As you delve deeper into the sustainability reporting process, you realise that these individual subsidiaries have inconsistent and fragmented approaches to tracking and reporting sustainability-related data.

You discover that some subsidiaries have sophisticated systems in place to monitor and report their environmental impact accurately. They have invested in advanced technologies, conduct regular audits, and have a strong sustainability culture. These subsidiaries can provide comprehensive and reliable sustainability data for reporting purposes.

Other subsidiaries do not have as much emphasis on sustainability reporting. They lack proper systems to collect relevant data, dedicate limited resources to sustainability initiatives, and their management shows little interest in aligning with the parent company's sustainability goals. For example, at one of the subsidiaries, liquid waste is still disposed of into a local river, resulting in reports of lower fish populations. Their sustainability data is incomplete, unreliable, or non-existent.

You did once approach one of the relevant divisional heads to discuss some of the issues. He was very dismissive and shouted that his country did not require any changes, that you had no idea of the culture in his country, and you should go back home and stick to 'bean counting'. He added that if the parent company wanted his division to meet their financial targets, then they could not expect him to waste money on saving fish.

Dilemma

You have obligations to report the company's sustainability performance accurately, reflecting the true picture of its environmental impact. This would involve highlighting the inconsistencies and shortcomings of the subsidiaries with inadequate sustainability reporting, potentially leading to reputational damage for the parent company.

You also recognise that exposing the inconsistencies may create internal tensions and conflicts within the group of companies.

You must now decide what course of action to take in this dilemma, taking into account the training that you have undertaken on the IESBA Code of Ethics.

Threats

Self-interest threat: the impact on professional relationships of taking action could potentially jeopardise your employment or future career progression at the company. There is, therefore, a possibility that the divisional heads or senior executives may inappropriately influence your judgement in this matter.

Advocacy threat: your objectivity may be compromised by the prospect that your organisation could suffer reputational damage as a result of your actions.

Familiarity threat: depending on how long you have been employed at this organisation and how close your relationships are with your immediate colleagues, divisional heads and senior executives, your objectivity could be compromised by your loyalty and, therefore, desire to show the company as one that follows good practice in sustainability reporting.

Intimidation threat: there is some evidence that the divisional heads will view your actions as undermining their authority or discrediting their efforts, as they are not culturally ready to assimilate sustainability practices into their operations. As a result, they may attempt to intimidate you into covering up their practices. While it is not clear whether senior executives would exert any undue influence on you to cover up the situation, you do know that some of the senior executives prioritise finance over sustainability. So there is potential for your objectivity to be compromised by intimidation, perceived or real.

Mitigations

Integrity: you have a duty to be straightforward and honest in your relationships. This suggests that, at the very least, you have a duty to make the relevant subsidiaries aware of the issues and to inform the senior executives.

Objectivity: there are a number of threats to your objectivity as outlined above. You have a duty to resist the threat of influence and/or intimidation and act objectively when determining your course of action. This could be difficult, given the attitude of one of the affected divisional

heads. The directors may be tempted to seek outside help from an external sustainability reporting specialist or consultant who can approach the situation in an objective manner. However, this ignores the fact that there is a cultural issue in the company that needs to be resolved. This is something that you should discuss with the board.

Professional due competence and due care: you must ensure that before taking any action you are aware of all applicable technical and professional standards for sustainability reporting in this instance. For example, is it a legal requirement or a voluntary action? Additionally, you must ensure that you have the relevant knowledge and skills to understand and interpret the potential consequences of the situation. For example, if you work for a publicly listed company, is there the potential for an impact on share price? The answers to these questions will have an influence on the possible action that you take.

While you have had some training in this area, you must ensure that this is at the correct level of competence required for your role, eg are the principles of segmental reporting required? You may also want to suggest to the board that sufficient training is provided to other key members of the company so that they can influence the organisation's culture towards a more sustainable approach and understand relevant regulation, reporting, data needs, data sources and systems development requirements.

Confidentiality: in the first instance the knowledge of the situation that you have gained and, in particular, your responsibility for sustainability reporting should be kept confidential and communicated to the senior executives of the company. Should the senior executives take no appropriate action then your duty of confidentiality can be suspended by reporting to a 'prescribed person or body' as a 'whistle-blower'.

Professional behaviour: you must comply with relevant sustainability reporting laws and regulations, should they exist. If the company is publicly listed, relevant regulations may require you to disclose the information to the exchange concerned. Your actions must be in the public interest, even when whistle-blowing. ■





6.3.2 SCENARIO 2: GREENWASHING 1

Scenario

You are a qualified accountant working as the financial business partner (FBP) for a stock-market-listed company that manufactures wind turbines. Given the nature of your industry, the company naturally claims to be environmentally conscious and sustainable. The company's sustainability report states that the company abides by all relevant environmental legislation and complies with the latest sustainable business recommendations.

You have been conducting operational-process quality checks across the company's operations for the last two months and you have been surprised and shocked by some of the operational practices that you have witnessed. These have given you serious concerns about the company's actual commitment to sustainability, despite the image that it portrays to its stakeholders.

During your time in the Procurement department, you found an up-to-date list of vendors and seemingly good records of 'Scope 3' carbon emissions data, that is, emissions not from the company itself but those that arise in its value chain for which it is indirectly responsible, including those of suppliers. You recognised many of the company names on the vendor list and even remembered a couple that had recently appeared in the national news. Upon further inspection, you noticed that the total number of suppliers on the vendor list was greater than the total number of suppliers on the Scope 3 emissions list. Further checks showed that the suppliers missing from the Scope 3 list were, in fact, those that you had seen in the news.

You asked the procurement team about this situation. Their response was, 'We don't really know what Scope 3 is. We just do as we're told by the procurement director and put the numbers reported by the suppliers into the list'. They went on to point out that the whole reporting process required manual input of figures, even though the information

that they received from suppliers was in a digital format. Unfortunately, their computers were now eight years old and had not had any software updates for the last five years.

You found that the electrical engineering department was using very outdated machinery. During your time in the department, one machine broke down a number of times and while engineers fixed the problem you saw them retrieve significant amounts of plastic-lined copper wire that was collected up and taken away rather than thrown down the waste chute where it would normally go during the manufacturing process.

You discussed the situation with the internal audit team and a decision was made to report your findings to the audit committee. The internal audit team said that this needed to be done quickly as the company was expecting the external auditors to arrive within seven days to begin the annual external audit and, therefore, the situation was reported immediately.

A few months passed and nothing seemed to change operationally other than your promotion to senior finance business partner. The company's audited accounts and sustainability report were published to a fanfare of congratulations from shareholders, environmentalists and the community.

Dilemma

As a result of what you found out during the process checks, you now find yourself in an ethical dilemma. In this dilemma, you must decide whether to confront the directors about not reporting the real situation, or remain silent, therefore compromising the integrity of the sustainability report and perpetuating misleading information.

Threats

Self-interest threat: as either the audit committee, the directors, or both, must have withheld the information on real company practices, the impact of confronting either could potentially jeopardise your employment or, at least, possible future career development at the company. You have been promoted, possibly as a bribe to stay quiet about what you know to be wrong at the company. There is, therefore, a possibility that members of the audit committee, or the directors, may inappropriately influence your judgement.

Self-review threat: should you, or a member of the internal audit team, have to complete future process checks, there is the threat that previous findings of problems within the company, even if they still exist, will be ignored. This could be so as not to embarrass you or the team about the previous sustainability reports, or simply to maintain the status quo in light of the problems that an accurate sustainability report would cause for the company and other stakeholders.

Advocacy threat: your objectivity may be compromised by the prospect that your organisation could suffer considerable reputational damage because of your actions. This could impair its relationship with shareholders, the stock market and other stakeholders, and might, of course, affect the financial stability of the company.

Familiarity threat: depending on how long you have been employed at this organisation and how close your relationships are with your immediate colleagues, the internal audit team, the audit committee or the directors, your objectivity could be compromised by your loyalty. You may not want to get others into trouble and/or you may wish to show the company as an organisation that follows good practice in sustainability reporting.

Intimidation threat: there is no clear evidence that your promotion came with the proviso that you stay quiet about the problems at the company. Nonetheless, there is a distinct possibility that it could be perceived as a bribe.

The directors of the company could use this against you should the problems come to light in the future by turning the situation upside down and suggesting that you were the one covering things up. So your objectivity could be compromised by intimidation, perceived or real.

Mitigations

Integrity: this seems to be a case of greenwashing, which violates the principle of integrity and can mislead stakeholders, including investors, customers and the general public. Reporting inaccurate information goes against your professional integrity obligations as you have a duty to be straightforward and honest in your relationships. This suggests that, at the very least, you have a duty to make the relevant stakeholders aware of the issues.

Objectivity: there are a number of threats to your objectivity as outlined above. A conflict of interest has arisen because, by accepting a promotion (potentially a bribe to stay quiet about the real situation at the company), you have possibly become complicit in the misreporting of the sustainability performance of the company. You could stand to lose what is an important and respected financial position in the company and potentially be struck-off by your professional body.

You also have a duty to resist the threat of influence and/or intimidation and act objectively when determining the course of action that you will take. Your promotion could suggest that this duty has already been broken.

You should have recognised the self-interest threat posed in this situation before accepting promotion.

Professional due competence and due care: you must ensure that before taking any action you are aware of all applicable technical and professional standards for sustainability reporting in this instance, particularly as this is a listed company. Additionally, you must ensure that you have the relevant knowledge and skills to understand and interpret the potential consequences of the situation. Given the company's listing on the stock market, it is important,

should you choose to report the situation to stakeholders, that your knowledge and facts are correct so as not to cause serious market and financial implications arising from incorrect information.

You could also suggest to the directors that education on sustainability, and relevant reporting, is expanded to include the rest of the company's employees, including directors and members of the audit committee. This could influence the company's culture and make it easier for you to work with employees to improve processes and practices. For example, the procurement team have admitted that they do not '... really know what Scope 3 is'. Given their role in recording Scope 3 carbon emissions, such knowledge would seem to be a minimum requirement.

Confidentiality: in the first instance, the knowledge of the situation that you have gained as a result of your position of FBP should be kept confidential and communicated to the directors of the company via relevant channels. In fact, you did try to do this by reporting your findings to the internal audit team, who then passed it on to the audit committee. Should the audit committee and/or directors take no appropriate action then your duty of confidentiality can be suspended by reporting to a 'prescribed person or body' as a 'whistle-blower'.

Professional behaviour: you must comply with relevant sustainability reporting laws and regulations, should they exist. You should also behave in a manner that does not discredit the accountancy profession. As previously suggested (section 6.1, Professional behaviour), if the company is publicly listed, relevant regulations may require you to disclose the information to the exchange concerned. Your actions must be in the public interest, even when whistle-blowing. By reporting the issues to the audit committee, via the internal audit team, it could be argued that this requirement has been satisfied. Not reporting the situation, now you know that your report was not acted upon, could be interpreted as an act against relevant laws and regulations, and against the public interest, and one that brings the profession into disrepute. ■



6.3.3 SCENARIO 3: GREENWASHING 2

Scenario

You are a professional accountant with responsibility for preparing the sustainability report for your company in accordance with the IESBA International Code of Ethics. The company is a global contract-catering company that sources ingredients, and then makes food items and meals for sale in restaurants, cafeterias and take-away outlets at national and international sporting events, corporate premises, hospitals and government buildings. You started with the company as a 'graduate accounting trainee', working in the Finance department, 12 years ago. The company supported you through your professional accountancy qualification, paying course and exam fees, and allowing generous study leave. Since qualifying, you have been promoted three times.

All kitchen staff are permanently employed by the company but the waiting and serving staff comprise permanently employed managers and supervisors leading teams of casual labour employed on zero-hours contracts. While the kitchens, restaurants and food outlets are often on the clients' premises, the company is responsible for investment in, and setting up, these kitchens and also procures and pays for its own energy use, even though it often uses the clients' floorspace.

The company has recently been focusing heavily on promoting its commitment to sustainability and environmental consciousness through various marketing campaigns. The marketing department has been actively promoting the company as a good employer and as environmentally friendly, showcasing efforts to reduce carbon footprint and use eco-friendly ingredients and materials. Marketing materials and other marketing collateral highlight the company's investment and engagement in community and social projects, stating that all permanent employees are given one paid day a month to work on an authorised project. For example, the

corporate brochure has an article, including photographs, on a foreign subsidiary staff member working at a local 'green energy' project in the region.

As you delve deeper into the financial records and sustainability data needed to complete your report, you start to suspect that the marketing department is using selective data, embellishing achievements, and promoting initiatives that have minimal impact on the environment. For instance, staff seem to be overstating the amount of renewable energy used and understating the carbon emissions produced during the company's operations.

This leads you to undertake further investigations, during which you find that both lower-level kitchen staff and casual labour are often treated very badly, with very long working

hours, and bullying and verbal abuse from more senior team members being commonplace. You also discover that many food ingredients are purchased from international suppliers operating in countries where chemical fertilisers are heavily used. These fertilisers have recently been linked to the premature birth of thousands of babies due to contamination of the local water supply.

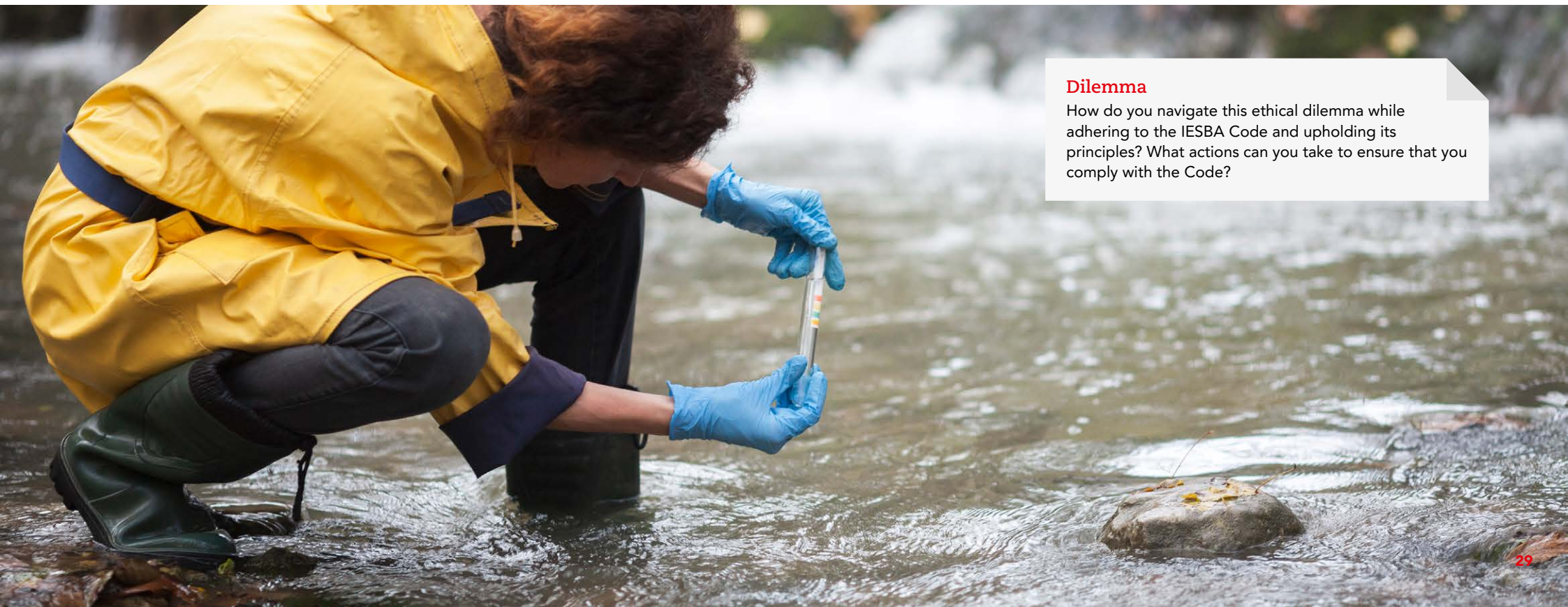
After interviewing a substantial number of employees, it becomes apparent that only around 30% of employees are able to spend one day a month working on a community or social project. Many employees claimed that they only use around four or five days a year as community days because of work demands and the refusal of management to authorise projects for them to work on.

It appears that the marketing department has manipulated information to portray the company as more sustainability and environmentally conscious than it genuinely is, in other words 'greenwashing'. It seems that its intention is to improve the company's public image and attract environmentally conscious employees, customers, investors, and other stakeholders.

The marketing materials, including their inconsistencies and inaccuracies in the sustainability data, must have been sanctioned at a high level in the company. You now have to write the sustainability report and present it to the board before its publication and release to the market.

Dilemma

How do you navigate this ethical dilemma while adhering to the IESBA Code and upholding its principles? What actions can you take to ensure that you comply with the Code?



Threats

Self-interest threat: Given that the marketing materials must have been sanctioned at a 'high level', the potential that reporting your findings could jeopardise your employment at the company or, at least, possible future career development, is very real. In addition, by highlighting the discrepancies through your sustainability report, relationships with fellow employees, particularly in the marketing team, could be permanently damaged. This may impair your ability to perform your job successfully. Therefore, there is clearly the possibility of inappropriate influence on your judgement in regard to the action you take.

Self-review threat: should you, or another member of the finance team, have to complete future sustainability reports then there is the threat of ignoring your previous findings of problems with the marketing information, even if they still exist, so as not to embarrass you or the team with regard to the previous sustainability reports.

Advocacy threat: the impact on the company's public image of a sustainability report that contradicts its marketing messages, and its effects on relationships with customers, investors, and other stakeholders, could adversely affect its competitive and financial position. The prospect that the company could receive considerable reputational damage, should you decide to publish an accurate sustainability report, could easily compromise your objectivity in the decision process.

Familiarity threat: you have worked at the company for 12 years. It has been generous in supporting you through qualification and you have progressed quickly in the finance team. This reciprocal loyalty may make you sympathetic to what the company has been doing with its marketing materials. As a result, your objectivity in producing the sustainability report and reporting of 'greenwashing' activities could be compromised.

Intimidation threat: there is no clear evidence that you have received undue influence or intimidation while preparing the sustainability report. Nonetheless, the high-

level sanctioning of the marketing materials means there is a lot at stake for the board of the company. The marketing team themselves may have been operating under threat when producing these materials. Therefore, the potential for intimidation is real. This could compromise your objectivity in composing and presenting the sustainability report.

Mitigations

Integrity: 'greenwashing' refers to the act of making false or deceptive claims about a company's sustainability practices, thereby improving its public image and brand reputation without making substantial efforts towards genuine sustainability. This definition itself contravenes the principle of integrity. You could report your findings of inconsistencies in the sustainability data to the marketing team. By doing so, you would be fulfilling your ethical duty to be honest and straightforward in your relationships.

Objectivity: your objectivity could be compromised by the threats of self-interest, familiarity or intimidation as outlined above. Potential damage to your relationships and promotion prospects, loyalty to the company and possible intimidation from other employees and directors could all persuade you to support the greenwashing by the company in your sustainability report. Contradicting this are the requirements of your professional ethics that require you to make decisions free from bias, conflicting interests and undue influence. This suggests that you should write an honest, accurate and truthful sustainability report for presentation to the board. It may be worth discussing the situation with your manager, to determine the approach to take in advising the board of the situation.

Professional due competence and due care: you have a professional duty to maintain appropriate knowledge at the relevant level. For professional accountants this is likely to include accounting, professional ethics and applicable sustainability knowledge. This knowledge should help you to navigate the situation to a conclusion. It may be assumed that as a qualified accountant you have been completing the required CPD and your ability to make

judgements about the marketing information and the real position suggests that you have adequate sustainability knowledge. But you are still left with an ethical dilemma. You could seek guidance from your professional body to understand the appropriate course of action in such a situation. Of course, this might lead to time delays, and you may still face the dilemma of whether or not to inform your manager or marketing department, despite the guidance.

It may also be the case that you should encourage the marketing team, and perhaps other company employees, to seek education and training on sustainable management and reporting.

Confidentiality: given the potentially serious consequences of the situation for the company's public image, employees, customers, investors and other stakeholders, you must respect the confidentiality requirement. You could discuss the situation confidentially with your manager and determine not only a plan of action but also who should be privy to this information in the immediate future. If the company is publicly listed then the relevant stock market rules on announcement of market-sensitive news must also be taken into account in determining your actions.

Professional behaviour: above all, you must comply with all relevant legislation, reporting requirements and, if listed, stock-market rules. Failure to do so would not be in the public interest, would be inconsistent with your professional body and IESBA ethical codes and could lead to personal and corporate prosecution. In deciding your course of action, this must be taken into account and you may need to seek legal advice and guidance from your professional accountancy body.

You must carefully weigh the potential consequences of each course of action and consider how your decisions might affect the company, its stakeholders, and your own professional reputation. This ethical dilemma puts you in a challenging position in which you must navigate complex moral and professional obligations. ■



6.3.4 SCENARIO 4: AUDIT FIRM PROVIDES ASSURANCE

Scenario

You are a professional accountant in practice, working as a manager in a firm of chartered certified accountants that provides a range of audit and assurance services to its clients.

Your firm has recently been appointed as the audit provider to a large, non-listed company in the leisure sector, operating a well-known chain of hotels in a number of countries. The new client is an important strategic win for your firm, as the hotel brand is a 'household name' and the company has ambitious plans for expansion into new countries. It is one of your firm's largest clients, measured by fee income.

You have been asked by one of the partners in the firm to evaluate whether, in addition to performing the audit, an assurance engagement on sustainability reporting that has been requested by the company should be accepted.

The company's management team has supported the reporting of non-financial information, including sustainability reporting, for many years. The company has an in-house corporate reporting team that is responsible for producing the company's own integrated report. In the discussion of the impact of the company's operations on natural capital, the integrated report includes some sustainability metrics, and it has won several 'best reporting' awards in the last few years.

To enhance the company's sustainability reporting, management has tasked the corporate reporting team with developing a 'Responsible Business Report', which is, in their view, an extended version of the integrated report. The 'Responsible Business Report' will include:

- narrative information on the company's approach to responsible business
- environment, social and governance (ESG)-related metrics, demonstrating the degree to which eight different frameworks are complied with, for example, covering:

- greenhouse gas emissions
- metered water consumption
- number of employees, by gender and race
- discussion of risk management and supply chain management
- future-oriented information, including projections and targets for financial and ESG-related metrics.

Given that the company's operations include hotels in destinations famous for their natural environments, including rainforests and tropical islands, the company's management team is particularly keen that the 'Responsible Business Report' includes content relevant to the Taskforce on Nature-Related Financial Disclosures (TNFD).

Despite its size, the company does not have an audit committee. Your firm has been asked by the company's CFO to provide assurance on specific content for the

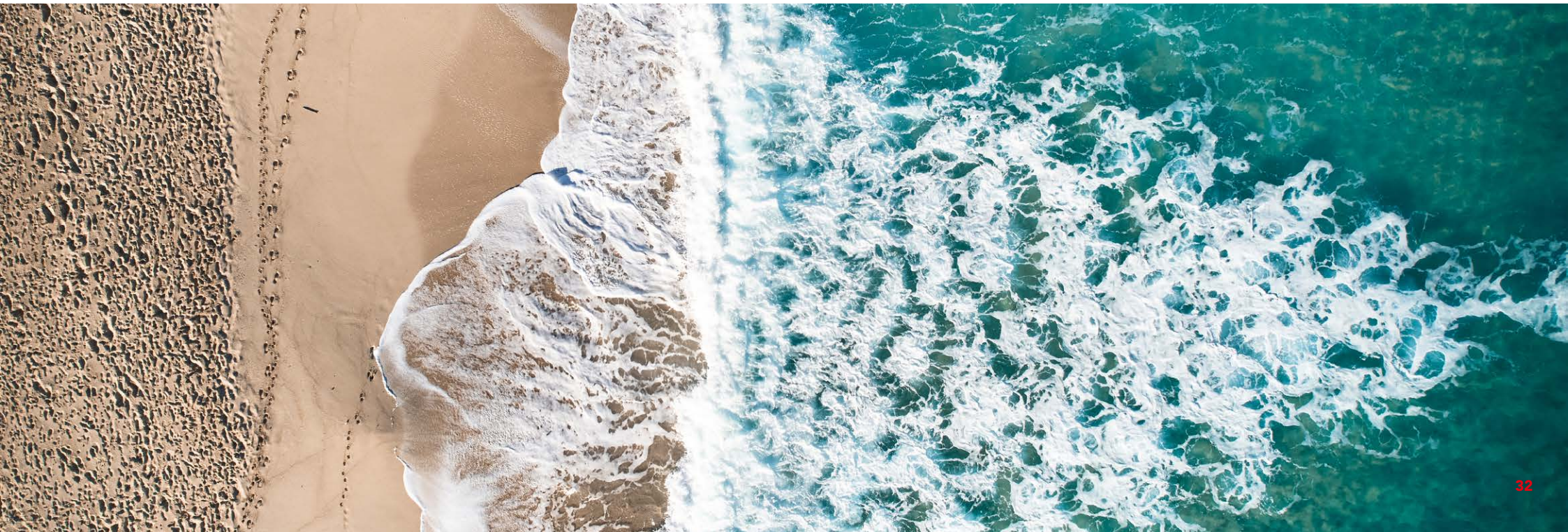
'Responsible Business Report'. If your firm accepts the engagement, it would be performed in accordance with relevant International Standards on Assurance Engagements (ISAE), including ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.

Assurance has not been provided on the company's previously published integrated reports because, according to the CFO, the management team wanted to 'tell the company's story in our own unique way, free from any limitations that may be imposed by the need for assurance'. Now, however, the management team recognises the benefits of having assurance provided on elements of the published report, hence the request for the audit firm to perform this engagement. There is no regulatory prohibition on the provision of this non-audit engagement, owing to the company's non-listed status.

The CFO suggests that the audit firm will be best positioned to perform this engagement given its staff's knowledge of the company's business operations and reporting systems.

Dilemma

This could be a good commercial opportunity for your firm to develop competencies in the growing specialism of providing sustainability assurance. In evaluating whether the assurance engagement should be accepted, however, you may be tempted to overlook ethical issues such as the firm's competence to provide this assurance, because performing the engagement will keep this new and important client happy. You need to evaluate the ethical threats in deciding whether or not to accept the assurance engagement.



Threats

Self-interest threat: in your evaluation, you should consider whether, because the company is a 'strategic win' for your firm, there is a risk of fee dependency, given that the assurance engagement would be a steady source of income in addition to the audit fee. There is a significant threat that you will agree to perform this work for purely commercial reasons, even though the following factors create a risk of not performing high-quality assurance work.

- Your firm may not have expertise / experience in providing assurance on sustainability matters even though it provides 'a range of services' – but has it ever provided this specific type of service to clients in the past? Does anyone in your firm have knowledge and experience of applying ISAE 3000 and ISAE 3410? Are your colleagues aware of the TNFD's recommendations (UNEP 2023) and how these may be applied in sustainability reporting?
- For sustainability assurance engagements it can be difficult to determine whether the necessary preconditions have been met: your firm has no previous relationship with the client, and management may be unclear on the elements of the report on which they want to obtain assurance, especially given their previous lack of interest in obtaining assurance at all.
- Linked to the previous point, you might consider that the company lacks an appropriate 'governance setting', given management's desire to 'tell their own story', which perhaps implies a disregard for proper application of reporting frameworks and principles and a lack of transparency in the sustainability reports published previously.
- Even if your firm does have the necessary expertise / experience, it can be difficult to provide assurance on some of the matters that could be included in the company's 'Responsible Business Review'. For example, future-oriented projections and targets can be challenging to evaluate and are speculative to an extent; there may be little evidence in support of the disclosures aside from written representations from management.
- The company needs to comply with eight different frameworks – does your firm have expertise in all these? In addition, the report will include some information about the TNFD recommendations, under which the company will be reporting new information that was not required under the previous Integrated Reporting <IR> Framework leading to a higher risk of inaccuracy in the reporting.
- The report will include some qualitative and subjective information, for example the risk-management disclosures, which increases the risk of bias in how management has discussed the issues. There will be a high degree of judgement involved, which makes some of the content difficult, perhaps impossible, to cover in an assurance engagement.
- The company has previously produced integrated reports and has won awards for these – so presumably the previous reporting is of high quality. Your firm may tend to over-rely on the expertise of the in-house corporate reporting team, who have years of relevant, award-winning experience. Your firm may be less challenging / sceptical than it should be, believing that there is a low inherent risk of error or misstatement in the information published.
- With the change from producing integrated reports to responsible business reports, the company may have changed its metrics, implemented new data collection systems and updated internal controls. So how information is being collected and reported will not be consistent with previous years, again increasing the potential difficulty of the engagement.

All these issues, and any challenges in complying with the requirements of ISAE 3000 and ISAE 3410, make this a high-risk engagement for your firm, and you should carefully consider whether the risk is worth the commercial benefits of providing this service.



Intimidation threat: our evaluation should address the issue that while there is nothing in the scenario to imply a specific intimidation threat, given the large size of the client and the strategic importance of the relationship to your firm, certainly an intimidation threat could arise. For example, the company could threaten to use an alternative provider should the conclusion of the assurance report be unfavourable. This is a particular issue given the lack of an audit committee, which would normally act as the 'critical and objective eye' in the relationship between your audit firm and the client.

Self-review threat: your evaluation should consider the risk that, when performing the assurance engagement, members of the assurance team over-rely on work performed during the audit and are less sceptical / critical in their work than they should be. For example, instead of testing systems and controls over financial and non-financial reporting themselves, they may simply use the work already performed by the audit team. Hence less robust evidence would be obtained to support the assurance conclusion.

Mitigations

Integrity: your firm must ensure that the client understands the nature of the assurance engagement, for example, that management acknowledges the level of assurance that will be provided (limited rather than a high level of assurance) and that the work will be performed in accordance with relevant regulations, ie ISAE 3000 and ISAE 3410. Your firm should also confirm the elements of the sustainability report on which assurance will be provided. In this way, the responsibilities of both parties, management of the company and the assurance provider, are clear and transparent.

Objectivity: To mitigate any risk of fee dependency, the audit firm must carefully monitor fee income from the client, to ensure that the total fee income generated from providing services to the client does not breach the limit under the IESBA Code. Normally this issue would be

communicated to, and discussed with, the company's audit committee, but in the absence of this, those charged with governance should be informed.

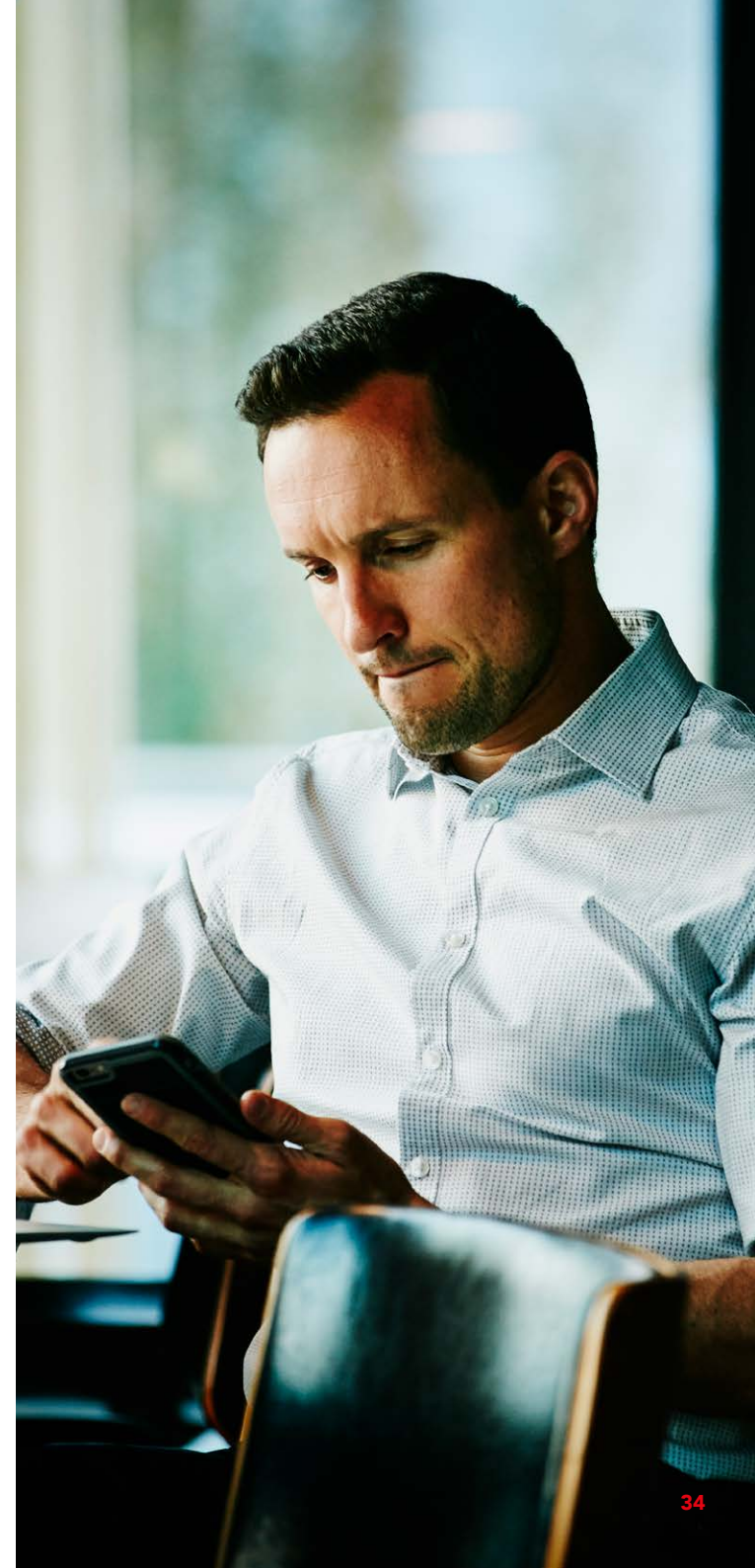
To mitigate the potential self-review threat, it is important that separate teams are used for the assurance engagement and for the audit, and that a senior partner reviews the work performed by both. During the audit, there is no reason why reliance cannot be placed on the work of the assurance team (and vice versa), assuming that both teams are applying appropriate levels of professional scepticism and that professional competence is exercised.

The audit firm will need to ensure that senior personnel are assigned to the engagement, capable of dealing objectively with the client's senior management team and able to resist any pressure to act in a certain way. This will help to resolve any potential intimidation threat from senior management at the company.

Professional competence and due care: your firm must thoroughly evaluate its ability to perform a quality assurance engagement before accepting the engagement. This means ensuring that there is sufficient expertise in the firm or buying it in, ie using an appropriate expert, or training staff. If this threat cannot be mitigated, the engagement should not be accepted.

A further consideration is that the company has ambitious expansion plans, so the level of resources needed to provide both the audit and the assurance engagement will increase over time, determining whether future engagements can be performed with due competence and care.

Professional behaviour: by ensuring that proper consideration is given to engagement acceptance issues and, crucially, that commercial considerations are not prioritised, you and your firm will be acting in accordance with the principles of professional and ethical behaviour. ■



6.3.5 SCENARIO 5: PROFESSIONAL SCEPTICISM AND OBJECTIVITY IN ASSURANCE

Scenario

You have just been appointed as an audit committee member of a large, listed insurance company. The company achieved its listed status two years ago and its management team openly focuses its attention on financial performance, with limited interest in ESG matters. Some board members have even said that they 'don't see the point' of an insurance company getting involved with environmental issues, believing the company's impact to be minimal. Even so, in the last year, and largely from shareholder pressure, the company has developed its sustainability reporting practice beyond the minimum disclosures that are required for regulatory compliance.

For governance, the board has established a Sustainable Business committee, comprising two non-executive directors and four executive directors, chaired by the chief operating officer. Executive remuneration is now aligned to climate-change objectives.

The company has engaged an external consultancy to produce the company's first 'Environment and Social Impact Report', which is scheduled to be published in two months' time. Your consultancy has extensive experience and advises many listed companies, including others in the financial services sector. The consultancy has made some changes to the ESG metrics that are already reported for statutory compliance and introduced a raft of new measures.

Some board members are a little anxious about outsourcing sustainability reporting and are keen to develop some in-house expertise. In the short term, it has been suggested that the company's external audit provider, which has a specialist sustainability department, could second three members of staff to work at the company for a six-month period, during which time they can help the company's small internal audit team to develop relevant skills. Once the secondment has finished, the company's CEO requests that the three staff members could work on the company's next external audit, as they will be very familiar with its operations, which would enhance the efficiency and quality of the audit.

It has also been suggested that the company could demonstrate its commitment to embedding responsible business in operations by setting up a 'Responsible Business Academy', which will provide ESG training for senior managers. The three seconded experts from the audit firm will provide this training.

Owing to the company's listed status, the audit provider cannot provide assurance on the sustainability report. The audit committee was tasked with setting up a tendering process, with the objective of selecting an independent assurance provider. There has been some pressure from the executive directors to find a cost-effective provider, given the CEO's view that 'no one will read this report anyway'. Following the tenders from several potential providers, the audit committee have a shortlist of two firms:

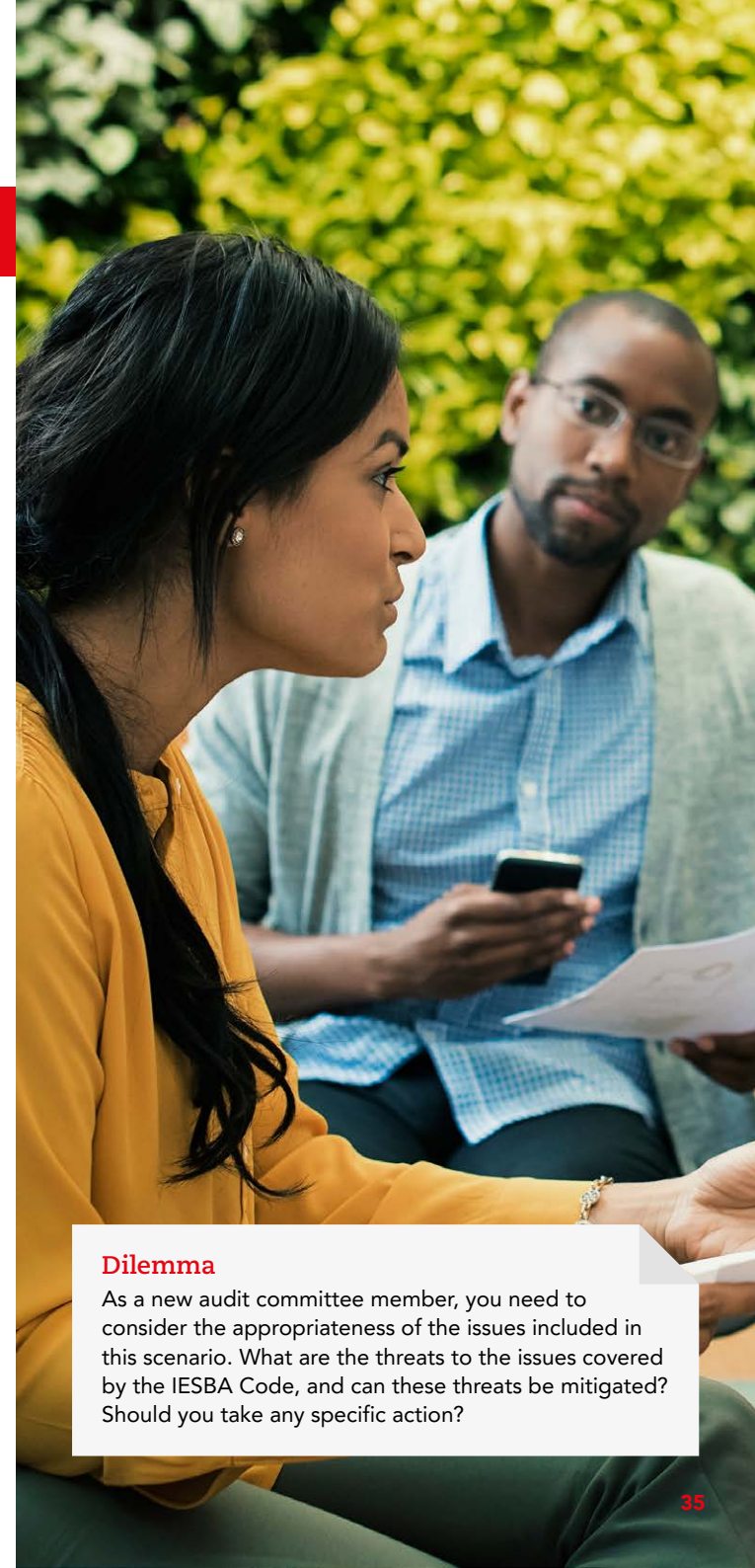
- a firm of chartered certified accountants with a small but experienced team of staff specialising in assurance engagements, including sustainability assurance
- a firm of non-accountants who are experts in environmental reporting, with a team who work on sustainability assurance engagements.

As a member of the audit committee, you need to consider which of these providers should be engaged by the company. In addition, you have just been given a draft of several sections of the 'Environment and Social Impact Report' prepared by the consultancy. You read the following extract from the company's CEO:

'We have prepared our first Environment and Social Impact Report, which demonstrates the company's whole-hearted commitment to reducing the impact of our activities on the planet. We have used the very best experts in the field to develop our ESG targets and we have educated all our staff on these important matters. We have engaged with our stakeholders and will continue to do so, as we expand the company in line with our financial, and non-financial objectives'.

Dilemma

As a new audit committee member, you need to consider the appropriateness of the issues included in this scenario. What are the threats to the issues covered by the IESBA Code, and can these threats be mitigated? Should you take any specific action?



Threats

Self-interest: Your recent appointment to the audit committee and your desire to make a good impression on your fellow board members might make you less likely to challenge inappropriate suggestions and behaviour. For example, the company appears to have a poor 'tone at the top' as regards sustainability issues, with some board members, including the CEO, expressing some dismissive views on the importance of sustainability reporting. You should consider challenging these attitudes, but you may be reluctant to do so for fear of jeopardising your professional relationships. There are a number of important matters that you may be reluctant to raise, because you don't want to cause trouble and make a bad impression, including:

- the inappropriate composition of the board of directors, which is not balanced and contains relatively few non-executive directors
- the CEO's statement in the draft 'Environment and Social Impact Report' seems to be misleading
- the inappropriate suggestion of using seconded staff from the external audit firm to provide training and support within the company.

Intimidation: you may face some pressure from other directors to avoid conflict and so avoid raising your concerns about the matters noted above. Specifically, there is a potential intimidation threat related to the tendering process, because there is pressure from the executive directors to use the cheapest provider.

Familiarity: the secondment of three staff members from the external audit firm creates an objectivity threat. Depending on the specific work they perform while on secondment, they could be involved with management decisions, which is not allowed under the IESBA Code. In addition, they will develop close relationships with employees of the company, particularly with the internal audit team, which creates a potential familiarity threat to objectivity when they return to the audit firm.

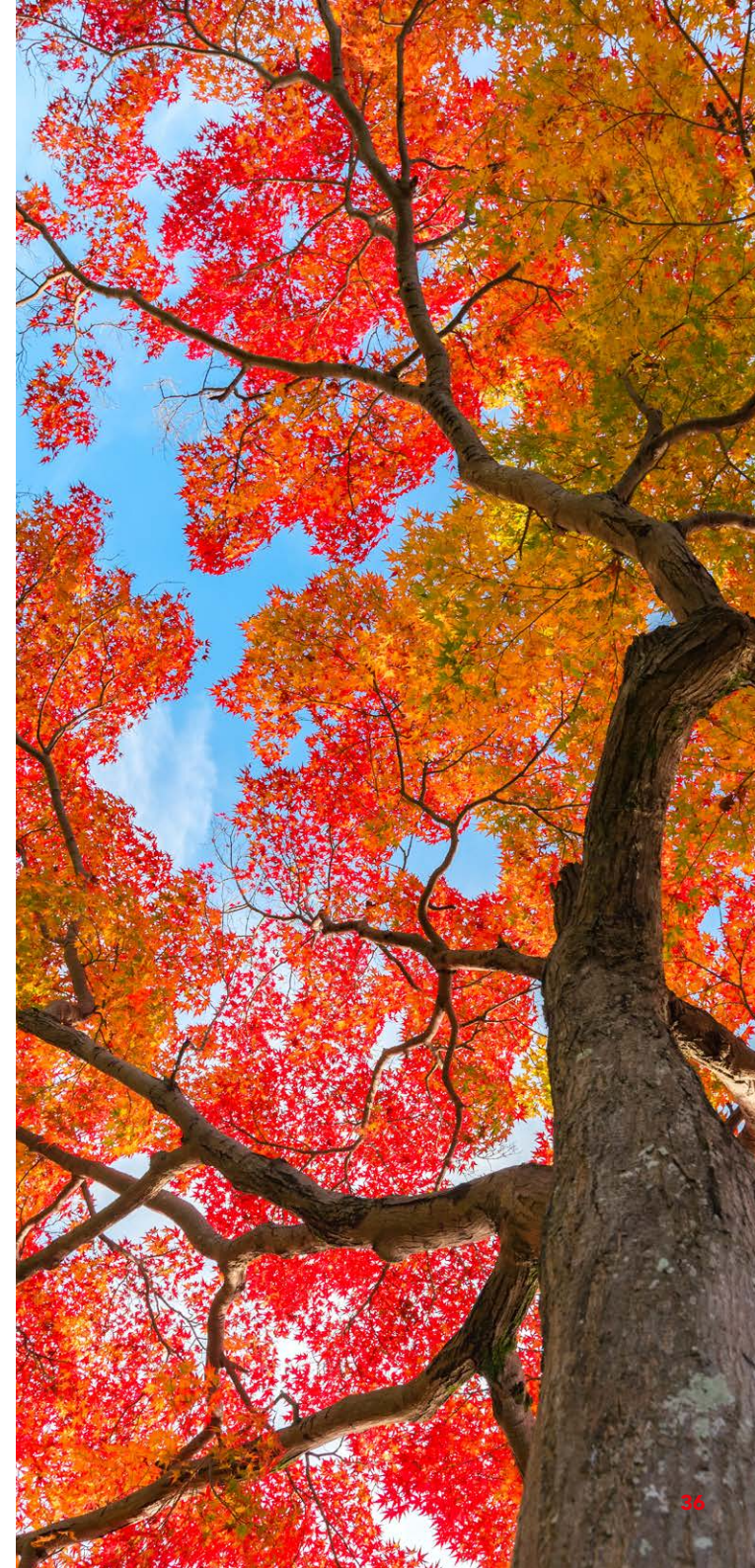
Self-review: self-review risks may also be present in respect of the secondment of staff, the significance of which depends on whether those seconded would have input into matters falling under the scope of the audit (which is likely, given their proposed involvement with internal audit).

Mitigations

Integrity: you have a duty to be straightforward and honest and, as an incoming member of the audit committee, you should be ready to challenge the executives where appropriate. You should not be knowingly associated with misleading information in the 'Environmental and Social Impact Report'. You should request that the wording is changed so that it is not misleading. You may face some intimidation, as the CEO may not wish to change this statement, so you will need to stand firm in your challenge.

Objectivity: the main threats to objectivity relate to the suggestion that staff be seconded from the external audit firm. This is not appropriate, and as a member of the audit committee, you should discuss this issue with the CEO and with the audit partner, although you may face intimidation from the CEO, who seems to think the arrangement would be cost effective.

Professional due competence and due care: outsourcing the company's sustainability reporting function is not a problem. This is common and may strengthen the quality of reporting, given the lack of in-house expertise. Nonetheless, the consultants may find it difficult to 'fit' in the business and it could be difficult to integrate their development plans and reporting requirements into the business operations. The fact that the consultants have changed some metrics and introduced new ones could be a sign that they have developed some highly relevant, good-quality content for the report, but given that this is the first report developed for the company, there are bound to be 'teething problems' and the quality of the disclosures is likely to improve over time. The responsibility of the audit committee is to scrutinise the report thoroughly, to ensure that, to the best of their knowledge and understanding, the report is complete and accurate



and contains nothing misleading. There may be a question as to whether the audit committee members themselves are sufficiently knowledgeable to perform this duty, and training should be provided.

The key issue relevant to competence concerns the choice of assurance provider. There are pros and cons of each shortlisted provider which will determine whether the service will be provided with due competence and care.

- The audit firm is staffed by professional accountants who have been trained in evaluating systems, evidence collection, determining and applying materiality and providing assurance reports. They are bound by the IESBA code of ethics and will have regular inspections of their work by their professional body. Therefore, their work should be of a high quality and the report should be credible. On the other hand, they may lack technical knowledge of sustainability and may be more used to applying financial reporting standards, such as IFRS or local GAAP, than applying sustainability frameworks and standards.
- Conversely, the environmental experts will have relevant technical knowledge, eg in measuring and evaluating specific disclosures, but they may not operate in a regulated and systematic manner. The audit committee should obtain more information about how this provider monitors the quality of its work, what standards it follows and how it trains its staff.

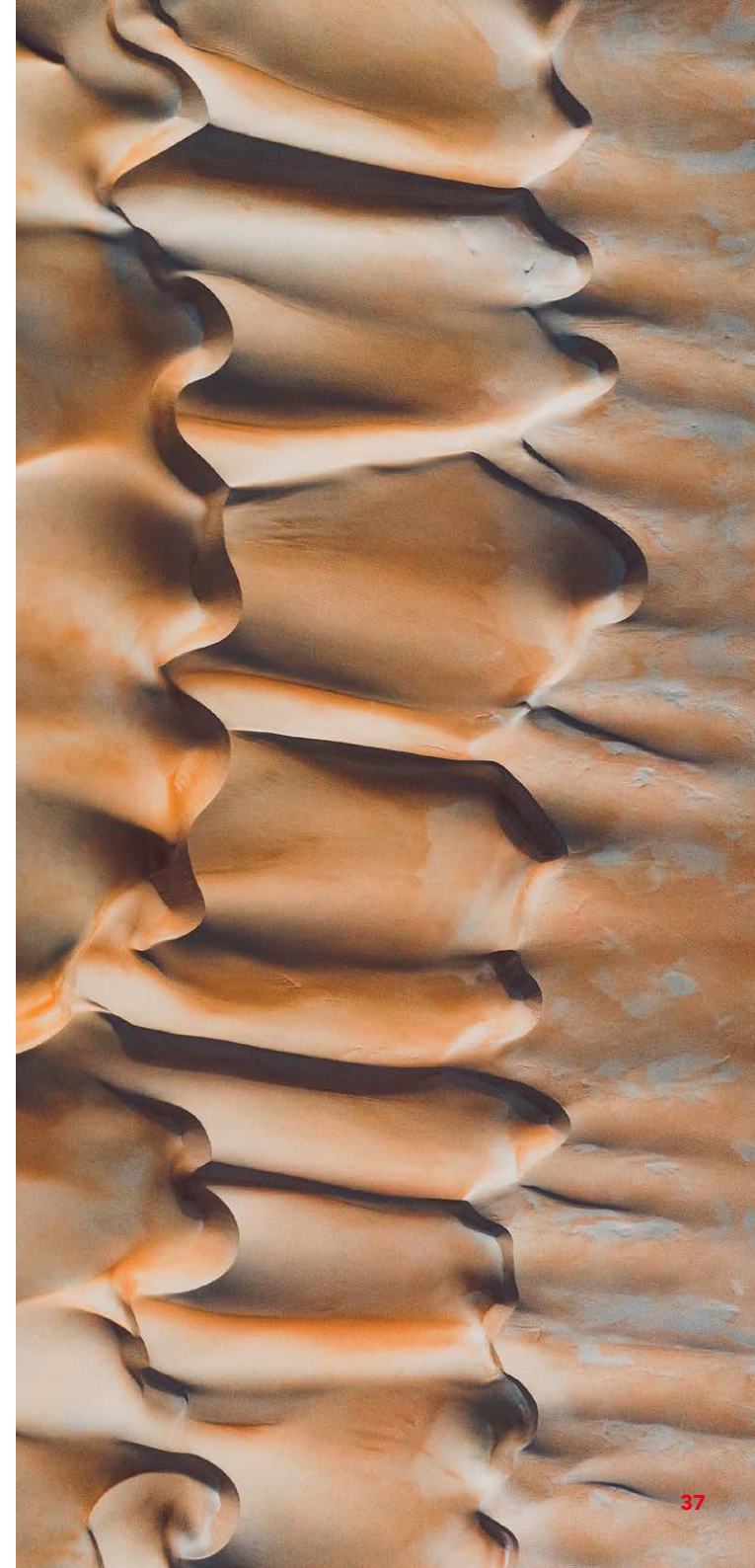
The audit committee should obtain further information from both shortlisted providers, to confirm their understanding of current regulations and standards and any imminent changes, given the fast pace of regulatory development.

There is no 'right' or 'wrong' conclusion – the audit committee members need to weigh up the pros and cons and, importantly, not succumb to pressure from the executive directors to use the cheapest provider. If the former are not happy with the shortlisted providers, they could start a new tendering process.

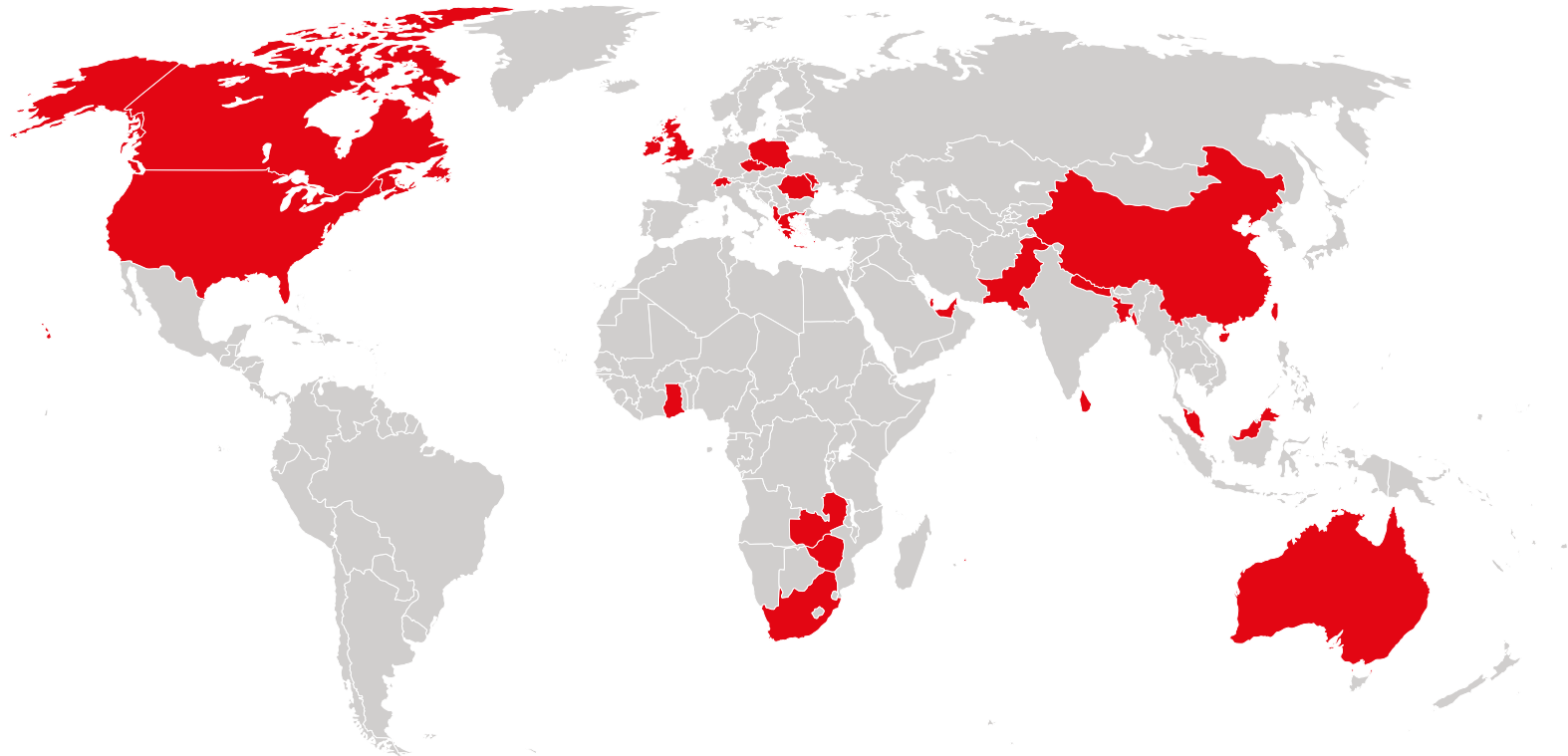
The fact that the 'Environment and Social Impact Report' is scheduled for release in two months' time is concerning, as this does not allow much time for the assurance providers to perform their engagement, once they have been appointed. They will need time to develop their understanding of the business, document relevant systems and controls, obtain and evaluate evidence and form their conclusions. As an audit committee member, you can push for the deadline to be extended, as this will improve the quality of the assurance work and the credibility of the conclusion. You may need to stand firm here, in your discussions with the executive directors, who seem more interested in assurance as 'tick-box exercise' to keep the shareholders happy, and hence may be unwilling to extend the deadline and/or pay more for the assurance.

Confidentiality: one issue here is the fact that the consultancy provides a service to 'many listed companies including others in the financial services sector'. This means that information may 'leak' from the company to its competitors (and vice versa). There is also a risk that the same advice is being given to peer companies, not so much an issue of confidentiality, but creating a potential problem of boiler-plate style of disclosure, which conflicts with the principle of having tailored reports, specific to the needs of the company's stakeholders.

Professional behaviour: the membership of the company's Sustainable Business Committee is skewed towards executive directors. While this is not against any regulation, as a professional accountant you may consider whether it is inappropriate. The committee's decisions may be serving the executives' self-interest, given that their remuneration is aligned to sustainability matters. The Code states that 'professional behaviour' means that 'professional accountants should behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships'. As a professional accountant, you should consider challenging the composition of the committee, as it does not seem to be in line with serving the public interest. ■



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