

**Meeting:** Stakeholder Advisory Council (SAC)

**Meeting Location:** New York

**Meeting Date:** October 21–22, 2025

## Agenda Item

# 2

### Technology and the Impact on Audit, Assurance, and Ethics

#### Introduction

1. Emerging technologies—including artificial intelligence (AI)—are transforming the environment in which professional accountants operate, both in public practice and business. These technologies bring tremendous opportunities to enhance decision-making and quality, improve efficiency and productivity, and expand the range and value of accounting, advisory, and assurance services.
2. Alongside these opportunities, such technological tools present new challenges because they often exhibit one or more of the following characteristics:
  - *Opacity*: the tool's logic or decision-making process is not transparent (often referred to as "black-box" behavior).
  - *Non-determinism*: where identical inputs can produce different outputs due to probabilistic processing, contextual sensitivity, or other unpredictable influences.
  - *Adaptivity*: the tool evolves post-deployment through user interaction, updates, or retraining.
  - *Propensity for bias*: the tool's tendency to inherit, amplify, or create new forms of unfairness due to biased data, design choices, or societal structures embedded in their development and deployment.
  - *Propensity for hallucination*: the tool's tendency to generate or present information that sounds plausible but is false, misleading, or unsupported by evidence.
3. These characteristics are especially pronounced in Generative AI (Gen AI) technological tools, which have gained prominence across professional and business contexts. They raise distinct implementation challenges for both auditing and assurance standards and ethical requirements. Accordingly, the IAASB and IESBA (collectively, the SSBs) are considering how their standards or related activities can best support the consistent application of quality management and ethics principles in a rapidly evolving environment. Proactive attention is critical to ensure innovation remains aligned with the public interest and sustains trust in the profession's work.

#### Background and Context

##### IAASB

4. In September 2024, the IAASB adopted its [Technology Position](#), which affirms the Board's commitment to facilitating and, where appropriate, encouraging the responsible use of technology by firms and practitioners. The Position recognizes technology's transformative potential to enhance audit and engagement quality, while emphasizing the importance of safeguarding the public interest through sound quality management and alignment with ethical requirements.

5. Building on this Position, in June 2025 the IAASB launched its **Technology Quality Management Workstream**. This initiative is exploring how the principles of its quality management standards, ISQM 1<sup>1</sup> and ISA 220 (Revised)<sup>2</sup>, apply in the context of emerging technologies, and where additional support may be needed to help firms and auditors implement these standards effectively.
6. A key element of these quality management standards is compliance with relevant ethical requirements,<sup>3</sup> which ordinarily comprise the provisions of the [\*International Code of Ethics for Professional Accountants \(including International Independence Standards\)\*](#) (“the IESBA Code”) together with national requirements that are more restrictive.
7. To inform this work, the IAASB is convening a series of roundtables from September through November 2025 with a broad range of stakeholders, including firms, practitioners, regulators, standard setters, audit committee members, investors and other users of external reporting, and academics. The discussions focus on how emerging technologies affect quality management at the firm and engagement level.
8. To support these discussions, the IAASB has prepared a Briefing Note for roundtable participants (see **Agenda Item 2-B (FOR REFERENCE)**). The note outlines characteristics of emerging technologies that may give rise to new risks, highlights potential challenges in applying the IAASB’s quality management standards to those risks, and references external AI governance frameworks that could inform the IAASB’s future actions under the working hypothesis that non-authoritative materials may be the most timely and effective way of achieving our objectives given the rapid pace of technological change.
9. SAC members are not expected to review the Briefing Note in detail, but may find Sections 1, 3, and 4 helpful in framing the discussion. Input from the SAC at this stage is especially valuable, as it will help shape the IAASB’s perspectives while the roundtables are still underway and ensure that a broad range of stakeholder insights are taken into account.

#### IESBA

10. The IESBA recognizes that while emerging technological tools bring a wide range of new opportunities, they also present significant risks and challenges. These new risks and challenges include (in addition to those associated with the characteristics noted in paragraph 2 above such as opacity and the propensities for bias and hallucination) misinformation, automation bias, maintaining data privacy, accountability and speed of change. The IESBA’s fact-finding [\*Phase 2 report\*](#) on technology (2022) provides an analysis of some of the ethical dimensions of disruptive technologies and emphasizes that the fundamental principles<sup>4</sup> in the IESBA Code serve as critical ethical guardrails in the face of rapid digitalization.

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<sup>1</sup> International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>2</sup> International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>3</sup> Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.

<sup>4</sup> Integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

11. In April 2023, following a four-year journey, the IESBA released [technology-related revisions](#) to the IESBA Code aimed at keeping the IESBA Code fit for purpose amid technology-driven change. These revisions, informed by extensive stakeholder input, strengthen the principles and provide enhanced guidance on how professional accountants in both public practice and business should uphold an ethical mindset and behavior when using technology. The revisions include new provisions on confidentiality, professional competence and due care, managing complexity, and clarified independence in the context of audit and other assurance engagements.
12. The IESBA recognizes that technology continues to be a strategic environmental driver<sup>5</sup> that has the potential to impact the relevance of the IESBA Code. Through its Technology Working Group and strategic coordination with the IAASB, the IESBA is closely monitoring technological developments in order to assess whether additional measures are warranted.
13. The close monitoring is part of the IESBA's four-pillar approach to technology, which includes internal Board education, horizon-scanning with expert input from the IESBA's Technology Experts Group, ad-hoc analysis of technology impacts on other IESBA projects, and commissioning or facilitating new guidance or other initiatives<sup>6</sup> based on the Phase 2 Report recommendations. This approach ensures that the IESBA Code remains relevant and responsive to the nature and pace of technological developments.

## Discussion and Analysis

14. While emerging technologies bring tremendous opportunities for professional accountants, they introduce risks that existing IAASB quality management standards and the IESBA Code may not always address with sufficient clarity. The SSBs wish to seize the opportunity to promote clarity, consistency and acceptance around the application of their quality management and ethics principles in relation to emerging technologies. The following sections highlight where principles may be tested in practice and where additional support from the SSBs could help professional accountants, firms and other stakeholders (e.g. regulators, investors and other users of external reporting, and academics) as they navigate these developments.

## Quality Management Considerations

15. For example, applying quality management standards such as paragraph A100 of ISQM 1<sup>7</sup> can be challenging when technologies exhibit characteristics such as opacity, non-determinism, or adaptivity. These features pose unique challenges for firms to interpret and implement the standards consistently in practice.

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<sup>5</sup> [IESBA's Strategy and Work Plan, 2024 - 2027: Towards a More Sustainable Future: Advancing the Centrality of Ethics](#)

<sup>6</sup> New IESBA initiatives include the development of an updated installment on AI in the *Exploring the IESBA Code* series (which will include coverage of agentic AI), and the IESBA Technology Podcast (which was Launched at the September 2025 [IESBA Ethics and Independence Conference](#) in Lisbon, Portugal).

<sup>7</sup> Paragraph A100 of ISQM 1 states the firm may consider the following matters in obtaining, developing, implementing and maintaining an IT application: The data inputs are complete and appropriate; Confidentiality of the data is preserved; The IT application operates as designed and achieves the purpose for which it is intended; The outputs of the IT application achieve the purpose for which they will be used; The general IT controls necessary to support the IT application's continued operation as designed are appropriate; The need for specialized skills to utilize the IT application effectively, including the training of individuals who will use the IT application; and The need to develop procedures that set out how the IT application operates.

16. A particular challenge is assessing whether a tool operates as designed and achieves its intended purpose. Gen AI, for instance, often operates as a “black-box,” making it difficult to assess its reliability. This also raises an ethical question: can professional accountants appropriately rely on a tool whose design and operation they may not fully understand?
17. Another difficulty lies in assessing whether the data used to develop or train a tool are complete and appropriate. For large-scale Gen AI models, the size, proprietary nature, or inaccessibility of training datasets may make it impracticable for a firm to evaluate the completeness and appropriateness of the training data, leaving firms uncertain about how to apply this principle.
18. Challenges such as these also affect direction, supervision, and review of the work of engagement teams when outputs are difficult to explain or replicate. For example, a Gen AI tool may generate different summaries of the same contract across multiple runs. Such variability, combined with the inherent opacity of many emerging technological tools, makes it harder for practitioners to demonstrate how outputs were evaluated, challenged or deemed reliable.

*Questions:*

1. *What quality management principles are essential in relation to the use of emerging technological tools to contribute to building and sustaining trust in audit and assurance engagements?*
2. *What actions can the IAASB take to promote clarity, consistency and acceptance in relation to the application of existing quality management standards to emerging technologies, while continuing to foster innovation?*

*Ethical Implications of Emerging Technologies*

19. Accountability stands out as a core area tested by the use of, and reliance on, AI and other advanced technological tools. Professional accountants cannot delegate or diminish their responsibility to comply with ethical requirements when using AI-driven systems. In practical terms, this implies a need for professional accountants to establish sufficient transparency and explainability of AI-models to understand how results are generated and to confidently take responsibility for those results. However, this may not always be feasible considering some of the characteristics<sup>8</sup> exhibited by these tools.
20. In addition to accountability, upholding the principle of objectivity and independence remains crucial to public trust in professional accountant's work. The IESBA Code specifies that objectivity may be compromised by undue influence or over-reliance on technology. For instance, professional accountants who uncritically accept outcomes produced by AI-tools are susceptible to automation bias, which can adversely affect their professional judgment. It is also important for professional accountants to remain vigilant regarding emerging ethical risks posed by innovative technologies, such as self-review threats when an audit firm develops an AI system for a client and later audits the outputs of that same system.

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<sup>8</sup> Refer to paragraph 2

21. The growing integration of emerging technologies into professional accountants' professional duties presents significant ethical implications in the longer term. The fundamental principles (particularly integrity, and professional competence and due care) remain paramount as automation increases within workflows. Integrity obligates professional accountants to communicate honestly and transparently regarding AI usage, while professional competence and due care necessitate continuous development of relevant knowledge and skills in response to rapidly advancing technology.
22. Crucially, regardless of a professional accountant's technological sophistication, AI cannot replace informed professional judgment or expertise. Professional accountants are responsible for understanding both the capabilities and limitations of these technologies and exercise professional judgment. This includes critically assessing AI-generated results with an inquiring mind and identifying potential biases or inaccuracies rather than merely accepting the outputs of the AI tools. An ethical mindset alongside ongoing education is essential for professional accountants to take maximum advantage of the opportunities and benefits of AI and related tools while minimizing their downside risks. Ultimately, increased automation demands an equally heightened commitment to upholding the five fundamental principles set out in the IESBA Code.
23. Emerging technologies may also impact ethical culture, governance, and talent within the profession. As technology changes services and business models, firms may need to include data scientists, AI specialists, and other professionals on their teams. This may result in a need to assess how technology affects ethical culture, governance, and talent structures. It may also be necessary to address the integration of ethical governance into C-suite and boardroom discussions in order to support reputational resilience, maintain public trust in the profession, and enable it to continue to uphold its overarching responsibility to act in the public interest.

*Questions:*

3. *What are the ethical implications of the growing use of, and reliance on, AI-enabled and other advanced technologies in audit, assurance and advisory services, and from a business context?*
4. *What role should IESBA play in addressing such implications and in promoting ethical governance of emerging technologies to encourage innovation that aligns with the public interest, maintain public trust in the profession, and reduce regulatory fragmentation globally?*

**Material Presented**

*For Discussion*

Agenda Item 2-A      Presentation: Technology and the Impact on Audit, Assurance and Ethics

*For Reference*

Agenda Item 2-B      Briefing Note: IAASB Technology QM Roundtables