

Briefing Note

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Standards Board for Accountants® (IESBA®)

Firm Culture and Governance
Project

IESBA Viewpoints on Firm
Culture and Governance

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About the IESBA

The International Ethics Standards Board for Accountants (IESBA) serves the public interest by setting high-quality ethics standards, including independence requirements, as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the International Auditing and Assurance Standards Board (IAASB), the IESBA is part of the International Foundation for Ethics and Audit (IFEA). The Public Interest Oversight Board (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

I. INTRODUCTION

The Firm Culture and Governance Project

1. In December 2024, the IESBA approved a [project proposal](#) to:
Develop a culture and governance framework that promotes, supports and reinforces a high standard of ethical behavior by a firm's leadership, other partners, and staff across all of the firm's services, thereby helping the firm develop a reputation as a highly ethical firm, mitigate the risks of unethical behavior and strengthen public trust and confidence in all of its services.
2. The IESBA's Firm Culture and Governance (FCG) project recognizes that in order to enable accounting firms ("firms") to operate ethically and to mitigate the risks of ethical failure more robustly and holistically, it is essential to address not only ethical behavior at the individual level but also the broader organizational issues of ethical culture and governance of a firm. These considerations should apply across the whole firm, covering all service lines.
3. The FCG framework that the IESBA will develop will serve the important public interest goal of providing a global and consistent point of reference for FCG. There is currently no comprehensive global ethics baseline against which firms can assess their FCG practices across all their services lines.
4. In June 2025, following deliberation of feedback received from stakeholders, the IESBA agreed to "resequence" the standard-setting and non-authoritative material (NAM) workstreams within the project. As part of this strategic decision, the IESBA agreed to develop a set of "IESBA viewpoints" on each of the eight elements of an FCG framework (FCG elements) identified in the project proposal. For more information about the IESBA's FCG project, please visit its [webpage](#).
5. In December 2025, the IESBA accepted the eight sets of IESBA viewpoints to be used as a basis for further engagement with stakeholders in Q1-Q2 2026.
6. The IESBA will consider how best to approach the development of the FCG framework in June 2026, taking into account feedback from the stakeholder engagement in Q1 and Q2. For more information about the context, nature and purpose of the IESBA viewpoints, including the IESBA's decision to resequence the standard-setting and NAM workstreams, see **Section III**.

The IESBA Viewpoints

7. The IESBA developed the IESBA viewpoints by drawing on the FCG Working Group's [Final Report](#) and feedback received from its extensive stakeholder outreach on the project, including its series of FCG global roundtables in 2025. The IESBA emphasizes that these viewpoints **do not** constitute the FCG framework, which is yet to be developed.
8. The IESBA viewpoints underpin the eight elements that form the structure of the FCG framework. They demonstrate that these FCG elements work in a cohesive and mutually reinforcing way, holistically contributing to the development of a strong ethical culture within the firm. For more information about the inter-connectivity between the eight FCG elements, see **Section IV**.

9. The IESBA viewpoints are designed to be high-level, recognizing that their application may vary depending on various factors. The IESBA viewpoints were also developed with proportionality in mind given the wide diversity of firms, including their different sizes, the different types of clients they serve and the various types of services they provide (See **Section V** for the IESBA viewpoints).
10. The IESBA has also developed a [paper](#), in close coordination with the International Auditing and Assurance Standards Board (IAASB), to address the question stakeholders have raised about the connectivity between the IESBA Viewpoints and ISQM 1.¹ This paper explains at a high level the linkages between the IESBA viewpoints and ISQM 1, including the key differences.

Stakeholder Engagement Q1-Q2, 2026

11. The IESBA has agreed to conduct further targeted outreach in Q1-Q2, 2026 on the IESBA viewpoints. As highlighted in paragraph 30, the purpose of the outreach is to obtain feedback on the clarity, implementability and proportionality of the viewpoints, which of them could evolve into principles of, or guidance material for, the FCG framework, as well as the presentation, authority and location of the framework.
12. To facilitate discussion with stakeholders, the IESBA has developed a list of questions to be used during the targeted outreach (see **Section II**).
13. The feedback obtained will help inform the IESBA's consideration of how best to approach the development of the FCG framework at its June 2026 meeting, including whether the framework should be developed within or outside the IESBA Code.²
14. This targeted outreach does not constitute a formal public consultation on the IESBA viewpoints, but a practical and measured approach for the IESBA to involve stakeholders in reaching a decision on the approach to developing the FCG framework, balancing practicality and public interest considerations. Depending on the feedback received, the IESBA may determine to pursue such a public consultation in developing the FCG framework in accordance with its due process.

¹ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

² The [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#)

II. QUESTIONS FOR STAKEHOLDER ENGAGEMENT

15. During the targeted outreach, stakeholders will be asked to share views on questions 1 to 4 below.

Q1. What are the benefits in having a framework that provides a comprehensive global ethics baseline against which firms can assess their FCG practices across all their service lines?

Q2. Recognizing that the Code already contains provisions addressing some, but not all, of the FCG elements,³ what is the potential impact on firms if the FCG framework to be developed by the IESBA is set: (a) within the IESBA Code, or (b) outside the IESBA Code and available for voluntary adoption?

Please provide your reasons, including benefits and challenges as well as any other relevant information.

Q3. For each set of IESBA viewpoints on the eight FCG elements:

(a) Which of the viewpoints do you believe could evolve into key, enduring principles of the framework?

(b) Are the viewpoints clear, implementable and proportionate?

(c) Is there anything missing from the viewpoints that should be included as a key principle of the framework?

Please provide your reasons for your responses.

Q4. Please provide any additional information or matters for the IESBA to consider in the development of the FCG framework, such as your firm's (or firms') practices on ethical culture.

³ For example, paragraphs 120.13 A1 to 120.13 A3, and 300.5 A2 of the IESBA Code (see **Appendix**)

III. IESBA VIEWPOINTS – CONTEXT, NATURE AND PURPOSE

Background

16. In December 2024, the IESBA approved a [project proposal](#) to develop a principles-based FCG framework that promotes, supports and reinforces a high standard of ethical behavior by a firm's leadership, other partners and staff across all of the firm's services, thereby helping the firm to strengthen its reputation and long-term value as a highly ethical firm, mitigate the risks of unethical behavior and strengthen public trust and confidence in all of its services. The project proposal anticipated that an exposure draft would be approved by the end of 2025. The IESBA also agreed to initiate a separate workstream to develop NAMs that would complement the output of the standard-setting project.
17. The IESBA's decision to launch the standard-setting project was based on the extensive fact-finding work its FCG Working Group had undertaken over the course of 2024 and the Working Group's conclusions and recommendations as embodied in its [final report](#) to the IESBA.⁴ The IESBA took on FCG as a strategic priority following recurrent high-profile cases of unethical behavior in accounting firms in several jurisdictions in recent years that resulted in damaging consequences for individual professional accountants (PAs) as well as their firms and staff.
18. As the project proposal explained, unethical behavior in a firm can significantly tarnish its reputation, result in the delivery of poor-quality services, and have major adverse impacts on the firm and its employees, the profession, and the public. Further, ethical failures in a firm's non-assurance service lines may impact not only public trust in that service line but also all other service offerings of the firm, including its audit services. In this regard, consulting services, including tax advisory and services provided to government bodies, may also carry high levels of public interest. Additionally, where firms provide services that have banking, other industry or economy-wide effects or impact public services, the firms' actions may have broader impacts on industries and economies, with significant public interest implications.
19. Therefore, ensuring that ethics is a high priority across all of a firm's service lines is essential for the firm to maintain public trust and confidence in its work in the long term. As the project proposal stated, firms should recognize that adherence to the highest ethical standards across all service lines is a strategic value proposition, and this may be one of the best safeguards against reputational risks from unethical behavior and related consequences.
20. Thus, to facilitate firms operating as ethical firms and thereby mitigate the risk of ethical failure more holistically, it is essential to address not only ethical behavior at the individual level but also the

⁴ The Working Group's charge included, among other matters, gathering an understanding of culture and governance and their impact on compliance with ethical requirements in accounting firms and, where applicable, their networks and developing recommendations to the IESBA. The development of the report was informed by extensive outreach to stakeholders, including regulators and oversight bodies, investors and the corporate governance community, accounting firms, professional accountancy organizations, jurisdictional standard setters (JSS) and the [Stakeholder Advisory Council](#) (SAC), as well as a review of academic literature.

broader organizational issues of ethical culture and governance, including leadership. These broader issues should be considered firm-wide, covering all service lines.

21. The FCG framework will also serve the important public interest goal of providing a global and consistent point of reference for FCG. There is currently no comprehensive global ethics baseline against which firms can assess their FCG practices across all their services lines.

Resequencing of Standard-setting and NAM Workstreams

22. As part of the public consultation process to inform the development of the proposed framework as well as the development of NAM, the IESBA embarked on a series of six global in-person and virtual [roundtables](#) in March and April 2025. The roundtable discussions generated rich and diverse perspectives, insights, observations and suggestions⁵ regarding the eight elements of an FCG framework identified in the project proposal as fostering an ethical culture: (1) ethical leadership; (2) oversight and governance; (3) independent input; (4) accountability; (5) incentives and rewards;⁶ (6) a culture of open discussion and challenge; (7) continuous education and training; and (8) transparency.
23. While there was broad agreement among roundtable participants that fostering an ethical culture requires more than just policy statements or compliance frameworks, there were also mixed views as to whether the IESBA should focus on developing a new standard, with a number of participants preferring a flexible, principles-based approach centered on NAM.
24. In addition to the global roundtables, the Project Team (PT) and Board Advisors to the PT also conducted additional outreach in Q2 2025, including meetings with the Forum of Firms, the International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group, the IESBA-JSS liaison group and the International Federation of Accountants (IFAC) Small and Medium Practices Advisory Group. In gathering further input from these stakeholder engagements on the elements of the FCG framework, the IESBA noted support for setting clear expectations for those elements as part of the project. However, the IESBA also heard some questions regarding whether adding new provisions to the IESBA Code would be effective in terms of changing behaviors. Some of these stakeholders emphasized the relevance and usefulness of NAM over standard-setting.
25. Alongside the ongoing FCG work, the IESBA also engaged in discussions with the SAC and IESBA-JSS liaison group in Q2 2025 on key trends in the external reporting ecosystem and the potential implications for its standard-setting work.⁷ Also in Q2 2025, IFAC and IESBA convened a multi-stakeholder summit on global standards focused on furthering the public interest. Among the key takeaways from these discussions were (1) stakeholders need time to assimilate a number of recently issued standards, and (2) greater priority should be given to developing NAM and other supporting

⁵ See the [summary of feedback from the global roundtables](#).

⁶ The Project Team has subsequently recharacterized the element of “incentives and rewards” as “incentives and disincentives” based on the discussions at the global roundtables and in other stakeholder outreach.

⁷ The discussion with the SAC was undertaken jointly with the IAASB.

materials as opposed to new standards. In light of this feedback and as part of the mid-cycle review of its Strategy and Work Plan 2024-2027 at its June 2025 meeting, the IESBA determined to slow down standards issuance and devote a greater focus on reinforcing support for adoption and implementation of the IESBA Code, among other calibrated adjustments to its forward strategy for 2025-2026.

26. Consistent with this strategic adjustment to the pace of standard-setting and the prioritization of NAM support, and taking into account feedback from the global roundtables and other outreach in Q2 2025 regarding the standard-setting work, the IESBA agreed in June 2025 to accept the PT's proposal to resequence the standard-setting and NAM workstreams.
27. The resequencing involves the IESBA:
 - (a) Developing a plan for practical guidance and other initiatives in 2026 to create awareness and dialogue among stakeholders around the elements of the FCG framework, and help firms foster an ethical culture that supports long-term public trust in all their services and activities; and
 - (b) With a view to determining by June 2026 how best to approach the development of the FCG framework, developing by December 2025 a set of IESBA viewpoints on each of the eight elements of an FCG framework for purposes of further engagement with stakeholders in Q1-Q2 2026.

Nature and Purpose of IESBA Viewpoints

28. In deciding to resequence the standard-setting and NAM workstreams, the IESBA made it clear that the resequencing did not mean that it had abandoned the standard-setting workstream.⁸ Instead, the resequencing will create space for the IESBA to:
 - (a) Analyze the input it has collected from its extensive information-gathering activities on the topic, including the research and other fact-finding as summarized in the Working Group's final report as well as the global roundtables and other stakeholder outreach;
 - (b) Distill from this analysis the essential, *consensus-driven* messages the IESBA heard from stakeholders concerning the eight elements of the FCG framework; and
 - (c) With the benefit of its own perspectives and reflections on the outputs from (a) and (b), develop and refine a series of IESBA viewpoints on the FCG elements by December 2025 to be used as an instrument for further discussion with stakeholders in Q1-Q2 2026.
29. The IESBA viewpoints reflect the key characteristics of each element of the FCG framework. The key characteristics are outcome-oriented and are aimed at supporting, driving and shaping ethical behavior within firms. The operationalization of the key characteristics will differ from firm to firm, depending on factors such as a firm's size, the types of services it provides, the markets in which it operates, and the nature and types of clients it serves.

⁸ See the [June 2025 IESBA minutes](#), pages 10 and 11.

30. Through the engagement with stakeholders around the IESBA viewpoints in Q1-Q2 2026, the IESBA will:
- (a) Seek their feedback on the clarity, implementability and proportionality of the viewpoints, having regard to firms' internal practices on ethical culture;
 - (b) Explore which of those viewpoints could evolve into draft FCG principles or guidance, forming a framework to guide firms' efforts to build and sustain a strong ethical culture and related governance practices; and
 - (c) Seek their input on any other matters to consider in the development of the FCG framework.
- Whether some of the viewpoints could evolve into draft FCG principles will depend on whether there is a broad consensus among stakeholders that they are fundamental levers to promote ethical culture and can do so effectively without necessarily requiring prescriptive requirements.
31. As part of the engagement with stakeholders around the IESBA viewpoints, the IESBA will also seek their feedback on how best to approach the development of the FCG framework, including its content, presentation, authority and location.⁹

How the IESBA Viewpoints are Drafted

32. The IESBA viewpoints are drawn from the FCG Working Group's final report and the input received from the extensive stakeholder outreach conducted since the commencement of the project, particularly the six global roundtables held in 2025.
33. The IESBA viewpoints are intended to be high-level. The IESBA plans to develop supporting materials in 2026 to complement the viewpoints and provide practical guidance to help firms take steps towards strengthening their ethical culture. Some of the viewpoints recognize that their application will vary depending on various factors.
34. The IESBA viewpoints reflect the fact that building and sustaining an ethical culture in a firm is a long-term commitment that extends to all levels of the firm. Importantly, they recognize the special responsibility of senior leadership of the firm, given their central role in driving a strong ethical culture, regardless of the size of the firm and the types of professional services provided and clients served.
35. In terms of applicability, the IESBA viewpoints:
- Are intended to be scalable and proportionate, given the wide diversity of firms, the types of clients they serve and the types of services they provide. Where relevant, the IESBA viewpoints incorporate specific scalability and proportionality considerations (e.g., see independent input, and oversight and governance).
 - Are relevant to firms operating on their own or as part of a network.

⁹ That is, whether the FCG framework should be incorporated into the IESBA Code.

Linkages Between IESBA Viewpoints and ISQM 1

36. The IESBA recognizes that there is an important question regarding the nature and extent of the linkages between the IESBA viewpoints and ISQM 1, given that the latter speaks to some aspects of FCG as they relate to designing, implementing and operating a system of quality management.
37. In response to this question, the IESBA has developed, in coordination with the IAASB, a paper that explains at a high level the linkages between the IESBA viewpoints and ISQM 1, including the key differences. Although it does not purport to be a like-for-like assessment for the reasons therein explained, the paper also presents, for illustrative purposes, an overview of the linkages between the IESBA viewpoints and ISQM 1 in relation to two FCG elements – Ethical Leadership, and Incentives and Disincentives.

IV. BUILDING AND SUSTAINING A STRONG ETHICAL CULTURE

38. An ethical culture reflects the shared values and beliefs of those within a firm about expected ethical behavior that is aligned with the principles of the IESBA Code. These ethical values are firmly embedded into the firm's organizational and governance structures and mechanisms which, in turn, support, activate and enable real and practical adherence to such values by partners and staff in their day-to-day judgments, decisions and actions.
39. A strong ethical culture also helps the firm enhance its reputation and reduce organizational risks arising from unethical behavior within the firm (e.g., reputational damage, loss of clients and regulatory sanctions). Ultimately, embedding ethical values into its culture and governance helps a firm fulfil its responsibility to act in the public interest and builds public trust.
40. The IESBA viewpoints underpin each of the following eight key FCG elements:
- Ethical leadership
 - Oversight and governance
 - Independent input
 - Accountability across the firm
 - Incentives and disincentives
 - Open discussion and challenge
 - Education and training
 - Transparency
41. These elements complement and reinforce each other. Taken together, they form the structure of the FCG framework that helps leadership in:
- (a) Making ethics a central part of setting the firm's strategic direction, core values and operations; and
 - (b) Fostering an ethical culture that prioritizes ethical values in decision-making at all levels and across all service lines of the firm.

These elements help shape and sustain a strong ethical culture and are premised on all partners and staff working together to build such a culture. This holistic, comprehensive approach ensures ethics is consistently prioritized at both a strategic and operational level – guiding day in, day out the judgments, decisions and actions of every leader, partner and staff across all of the firm's service lines.

42. Two of the eight FCG elements are key drivers to building and sustaining a strong ethical culture within a firm, ensuring the effective working of the other six elements in promoting ethical behavior:
- ***Ethical leadership*** Strong ethical leadership by the firm's senior leadership sets the tone for the whole firm by demonstrating through their judgments, decisions and actions that ethical

behavior and acting in the public interest are of paramount importance. Senior leaders are unwavering in their commitment to, and take the necessary steps to reinforce the importance of, the other FCG elements.

- **Oversight and Governance** An oversight and governance structure that is rooted in ethical values ensures the firm's ethical culture and performance are continuously monitored, evaluated and improved, holding leadership and others accountable for their behavior. Ethical values are safeguarded and reinforced by effective governance mechanisms put in place and continuously monitored by senior leadership. These mechanisms facilitate independent input when necessary, promote transparency, enable proper oversight, and provide the right incentives and disincentives to facilitate the effective implementation of ethical standards and policies and compliance with them across the whole firm.
43. The other six FCG elements, along with the two interconnected elements above, work in a cohesive and mutually reinforcing way, holistically contributing to the development of a strong ethical culture within the firm:
- **Independent Input** Input on certain strategic and governance matters provided in an impartial way by individuals or organizations who are not involved in the day-to-day operations of the firm and free from conflicts of interest with the matter at hand can be important for the firm's leadership in aligning strategic decisions with the firm's ethical values and the public interest.
 - **Accountability Across the Firm** Having well-defined accountability and promoting personal responsibility of all partners and staff within the firm reinforce individual ethical conduct, and how such individual conduct contributes to the ethical standing of the firm.
 - **Incentives and Disincentives** Effective incentives and disincentives reflect ethical behavior as one of the main factors influencing career progression within the firm, and provide for clear consequences for unethical behavior for all partners and staff. Consistent and transparent application of such mechanisms motivate ethical behavior and discourage or deter unethical conduct, contributing to the effective functioning of accountability across the firm.
 - **Open Discussion and Challenge** An environment where open discussion and challenge are welcomed encourages partners and staff to raise potential ethical issues in a psychologically safe way. Such an environment contributes to the early identification and resolution of ethical issues before they become more significant problems. An environment of open discussion and challenge also reinforces continuous learning and enables leaders to demonstrate ethical behavior in practice.
 - **Education and Training** Continuous ethics education and training programs designed to be practical and impactful help develop and strengthen the ethical mindset of partners and staff, enabling them to identify potential ethical questions and better navigate complex ethical dilemmas. Such programs support individual accountability by equipping partners and staff with the knowledge and confidence needed to make decisions that align with the firm's ethical values.

- **Transparency** Communicating information about relevant ethics-related situations or matters, for instance, how the firm's leadership dealt with breaches of ethical standards, including consequences to the firm and those responsible, is a source of trust for stakeholders from both within and outside the firm.
44. Building and sustaining a strong ethical culture is a long-term commitment that extends to all levels and service lines of a firm, and it takes time, resources and commitment to achieve.
 45. The application of the FCG elements may vary from firm to firm, depending on factors such as size, service offerings, markets in which firms operate, and the types of clients they serve. For sole practitioners with no staff, not all the FCG elements may be applicable (e.g., promoting a culture of open discussion and challenge). However, other elements such as strong ethical leadership and personal accountability remain important.

V. IESBA VIEWPOINTS

46. The following are the eight sets of IESBA viewpoints on the eight FCG elements.

A. Ethical Leadership

Public Interest Rationale

- A1. The senior leadership of a firm play a pivotal role in driving and fostering a strong ethical culture within the firm.
- A2. As ethical leaders, a firm's senior leadership demonstrate that they understand that they and the firm have an overarching responsibility to act in the public interest under the IESBA Code in all of the firm's professional services. This responsibility permeates the ethical culture of the firm and is fundamental to safeguarding public trust in, and the reputation of, the firm.

Ethics-Driven Senior Leadership

- A3. Senior leadership that are ethics-driven are committed to ensuring ethical conduct at every level of the firm and across all its professional services. They demonstrate this commitment when exercising their role as senior leaders by prioritizing ethics in all their decisions and actions including commercial considerations.
- A4. Senior leadership have an ethical mindset with a strong knowledge of the IESBA Code. They take an uncompromising stance in abiding by the IESBA Code's principles when making judgments and decisions, especially in difficult situations involving ethical conflicts or dilemmas.
- A5. In their oversight capacity, these leaders embed the firm's ethical values in the firm's overall business strategy. They ensure that the firm's governance, systems, policies, and procedures prioritize those values and minimize the risk of ethical failures. They accept full accountability for maintaining a strong ethical culture within the firm at all times.
- A6. In maintaining a strong ethical culture, senior leadership understand the value of independent input on strategic and governance matters, and they seek such input as needed.
- A7. Senior leadership recruit and promote partners and staff who demonstrate alignment with the firm's ethical values. They also reward those who are champions of ethical behavior and hold partners and staff accountable for unethical behavior.

Tone at the Top

- A8. Senior leadership that are ethics-driven set the tone at the top on ethical behavior at all levels within the firm by demonstrating their commitment to the firm's ethical values through their decisions and actions. Their ethical behavior serves as a model for all partners and staff to follow.
- A9. The tone of senior leadership influences and impacts every aspect of the firm, including how ethics contributes to the strategic direction and overall governance of the firm.
- A10. Senior leadership emphasize in their communication to all partners and staff the firm's ethical

expectations and the importance of adhering to the IESBA Code in all professional activities and services. They reflect these expectations in the firm's performance evaluation, incentives and disincentives.

- A11. Senior leadership are transparent in their decision-making, demonstrating how they have prioritized ethics in their decisions and actions, for which they are accountable.

B. Oversight and Governance

Public Interest Rationale

- B1. Oversight and governance are foundational to cultivating a strong ethical culture within a firm.
- B2. Ethics-based oversight and governance reinforce ethical expectations across all of a firm's professional services and the accountability of the firm's senior leadership. Such oversight and governance help mitigate the risks of unethical behavior within the firm and safeguard the public interest.

Role of Oversight and Governance in Fostering an Ethical Culture

- B3. Oversight and governance that prioritize ethical values facilitate:
 - Ongoing monitoring of ethical behavior within the firm;
 - Evaluation of the effectiveness of systems, policies and processes in reinforcing ethical conduct at all levels within the firm;
 - Assessment of difficult situations involving ethical conflicts or dilemmas; and
 - Continual improvement of the firm's ethical culture and performance.
- B4. Implementing effective oversight involves assigning ultimate responsibility for overseeing ethical conduct and culture within the firm to an individual or group of individuals with the appropriate authority for decision-making on matters of ethical conduct, including situations involving the firm's senior leadership. Whether such responsibility is assigned to an individual or group of individuals is a matter for the firm to determine.
- B5. Firm governance structures, including the organization of the senior leadership's roles and responsibilities, accountability mechanisms, and decision-making processes, that prioritize ethical values contribute to building trust in the firm irrespective of changes in leadership.
- B6. Good governance that is grounded in ethical values guides the firm's senior leadership in making challenging ethical decisions that uphold those values with integrity and transparency. Such governance also encourages ethical behavior across all levels of the firm, fostering a strong ethical culture.
- B7. The appropriate governance mechanisms, systems and processes depend on the firm's specific circumstances, including its size and nature of professional services it provides.
- B8. For network firms, having consistent expectations regarding oversight and governance helps promote a shared understanding of expected ethical behavior across the whole network. In addition, regular dialogue about ethics-related matters within the network promotes shared learnings across the network.

C. Independent Input

Public Interest Rationale

- C1. Independent input is impartial and comes from sources that are free from conflicts of interest. Incorporating such input into the decision-making processes for strategic and governance matters provides opportunities to obtain different perspectives and challenges that help achieve a balanced outcome. This contributes to the ethical culture of a firm.
- C2. Independent input, from an ethical and public interest perspective, helps decisions reflect broader stakeholder considerations on strategic and governance matters. This increases confidence and transparency in the firm's ethical decision-making processes and its commitment to the public interest.

Obtaining Independent Input

- C3. There is no uniform approach to obtaining independent input on strategic and governance matters.
- C4. Not all situations need or benefit from independent input. Identifying and describing the criteria under which independent input is sought promotes consistency in approach and shared understanding among senior leadership.
- C5. Obtaining effective independent input involves selecting the individual(s) or organization with the relevant skills, knowledge, and experience, while being appropriately impartial and free from conflicts of interest.
- C6. A firm can obtain independent input from a variety of sources. This may include independent non-executives (INEs), a committee of independent advisors to the firm, individuals with extensive business experience or regulatory expertise, professional accountancy organizations, other firms including within the firm's network, or retired partners of the firm.
- C7. The appropriate source depends on factors such as the size of the firm, whether the firm provides audit and other assurance services or other engagements of a public interest nature, and the clients' profile. For instance, firms that audit public interest entities may consider appointing INEs as part of their governance structure.
- C8. A firm may obtain independent input on an ad hoc basis, or through a formal mechanism or role within its organizational structure. The decision depends on factors such as the size and resources of the firm.

D. Accountability Across the Firm

Public Interest Rationale

- D1. Accountability of all partners and staff across a firm contributes to the firm's ethical culture as it promotes personal responsibility, making it clear that each partner's and staff's ethical conduct matters and contributes to the ethical standing of the firm.

Personal Accountability of Partners and Staff

- D2. All partners and staff share a personal responsibility for adhering to the IESBA Code and upholding the firm's ethical values from the moment they join the firm, regardless of their role and seniority.
- D3. Making a commitment to acting in accordance with the IESBA Code and the firm's ethical values supports the accountability of partners and staff to the firm. This includes being answerable for those ethical values and accepting the consequences if ethical expectations are not met. It also includes justifying decisions and actions when warranted in the circumstances.

Promoting Accountability

- D4. Continuous education and training programs on ethics help to promote awareness and understanding of the IESBA Code and the firm's ethical values, against which partners and staff are accountable.
- D5. Performance evaluation that includes evaluating the behavior of partners and staff against ethics criteria helps to support personal accountability.
- D6. Enforcing appropriate consequences for unethical behavior through clearly defined disincentives, including specific sanctions which may vary depending on the circumstances, underscores the importance of ethical conduct of partners and staff.
- D7. Firms' governance structures and mechanisms through which they monitor and reinforce accountability may vary depending on the firm's specific characteristics and circumstances, including their size and nature of professional services they provide.

E. Incentives and Disincentives

Public Interest Rationale

- E1. Incentives and disincentives that promote ethical behavior strengthen a firm's ethical culture and underscore its commitment to ethical values and the public interest.
- E2. Performance evaluation and incentives and disincentives that prioritize expected ethical behavior alongside other performance goals help encourage enduring ethical behavior and the long-term sustainability and reputation of a firm.
- E3. Designing and implementing incentives and disincentives that recognize, support and promote ethical behavior, and establish clear consequences for unethical behavior, signal to all partners and staff the importance of ethical values. They also act as motivating factors to achieve the expected ethical behavior and set up a "standback" mindset, reducing the risk of unethical behavior.

Incentives Aligned with Ethical Behavior

- E4. Incentives that promote and recognize ethical behavior reinforce a firm's expectations on all partners and staff to act in accordance with the firm's ethical values and the public interest.
- E5. Rewarding outstanding ethical behavior (such as proactively championing the importance of ethical behavior) of partners and staff, whether through compensation, promotion or other incentives, reinforces the firm's commitment to ethical values and contributes to the development of ethical leaders.
- E6. Factoring the ethical behavior of partners and staff, such as acting with integrity when confronted with difficult situations, into promotion decisions helps firms select partners and staff with the right ethical values and mindset for leadership positions.

Disincentives

- E7. Implementing disincentives reinforces the importance of acting ethically and promotes accountability.
- E8. Regularly communicating the consequences of unethical behavior helps deter behaviors that fail to meet the firm's ethical values and expectations.
- E9. Responding to unethical behavior in a timely, decisive, consistent and fair manner demonstrates to internal and external stakeholders that senior leadership prioritize ethical behavior as a key performance measure and a strategic objective. This, in turn, contributes to building public trust in the firm.
- E10. The manner in which firms apply disincentives depends on factors such as the nature of the unethical behavior, including its severity and frequency of occurrence, and the roles of the offending partners or staff.

F. Open Discussion and Challenge

Public Interest Rationale

- F1. An environment of open discussion and challenge promotes ethical decision-making and accountability within a firm. It encourages partners and staff to feel empowered to raise ethical concerns and seek guidance from others in the firm who might have dealt with similar matters, including ethical dilemmas.
- F2. Such an environment enables timely identification, consideration and mitigation of ethical issues, thus contributing to public trust in the firm.

Culture of Open Discussion and Challenge

- F3. A culture of open discussion and challenge involves the cultivation of a psychologically safe environment of mutual respect and trust for dialogue, where partners and staff are empowered to engage in dialogues about ethics-related matters and raise concerns without fear of adverse consequences.
- F4. Acknowledging that mistakes are part of the learning process and that ethical dilemmas can be complex encourages and normalizes transparent conversations about ethics-related matters.
- F5. In an environment of open discussion and challenge, partners and staff understand how to engage in constructive dialogue and are encouraged to speak up on behalf of themselves and others.
- F6. A culture of open discussion and challenge benefits from a firm's policies and internal mechanisms on resolving differences of opinion. Such a culture is also strengthened by clear, accessible and confidential speak-up channels, and where applicable whistleblowing mechanisms, by allowing ethical issues to come to light, promoting transparency and accountability.
- F7. Timely and consistent resolution of ethical issues raised reinforces the firm's commitment to ethical behavior and demonstrates to partners and staff that their concerns are listened to and addressed.
- F8. For network firms, having shared expectations of what a culture of open discussion and challenge looks like encourages all partners and staff to communicate openly and freely, regardless of cultural differences across jurisdictions.

Role and Expectations of Leadership

- F9. Leaders at all levels of the firm have critical roles in creating a psychologically safe environment where partners and staff feel comfortable and safe in voicing their perspectives and concerns.
- F10. Senior leaders cultivate such an environment when they consistently model the firm's ethical values, engage authentically with partners and staff, and demonstrate alignment between personal conduct and the ethical values promoted by the firm.
- F11. Other leaders, such as engagement leaders and managers, through their regular interactions with partners and staff, can directly support and encourage ethical conversations as a part of day-to-day operations where open discussion and challenge are not only encouraged, but expected.

G. Education and Training

Public Interest Rationale

- G1. Continuous education and training on ethics matters play an important role in fostering an ethical culture in a firm as they equip partners and staff with the knowledge, skills and judgment needed to navigate ethical dilemmas and act in the public interest.

An Ethical Mindset

- G2. Effective education and training on ethics not only enhance knowledge of the IESBA Code and other relevant ethical standards, policies, rules and regulations, but also develop an ethical mindset of partners and staff across all service lines that brings ethical behaviors to be top-of-mind.
- G3. Such education and training strengthen the ability of partners and staff to identify ethical issues, which can be complex in nature, and make judgments and decisions that uphold ethical values and are in the public interest.

Effective Education and Training on Ethics

- G4. Embedding mandatory education and training programs at the commencement of employment and throughout the careers of partners and staff with the firm reinforces the foundational role of ethical values. Such programs position decision-making on ethical matters as a core ability on par with technical competence.
- G5. Leadership's involvement in education and training programs demonstrates the strategic importance of ethical values to the firm and facilitates open discussion.
- G6. Effective education and training programs use practical, relatable, and interactive scenarios that connect abstract principles to everyday ethical dilemmas as well as focus on grey areas.
- G7. Taking into consideration the partner's or staff's background (PAs or not), role, seniority and service line enables a firm to deliver relevant and fit for purpose education and training programs.
- G8. Regularly updating education and training programs to incorporate developments in the IESBA Code and other relevant ethical standards, policies, rules and regulations enables such programs to address emerging ethical issues.
- G9. Firms with limited internal resources to develop their own ethics training programs may use external resources that suit their needs, such as materials developed by professional accountancy organizations, commercial organizations specializing in training, or academia.

H. Transparency

Public Interest Rationale

- H1. A firm's transparency about relevant ethics-related aspects of the firm's performance highlights its commitment to its ethical values, the public interest, and accountability to its clients, partners, staff, and other stakeholders.
- H2. Subject to confidentiality restrictions, reporting as appropriate on a firm's policies or actions to drive ethical behavior, or how a firm has responded to ethical failures, contributes to an ethical firm culture and builds or rebuilds public trust in the firm.

Internal Transparency

- H3. A firm's senior leadership being transparent to partners and staff about their decisions and actions to promote and uphold ethical values demonstrates the firm's commitment to ethical values and compliance with the IESBA Code.
- H4. For network firms, sharing ethics-related learnings and experiences promotes consistency of approaches and helps to reduce the risk of similar cases of unethical behavior occurring in other parts of the network.

External Transparency

- H5. Public disclosure of relevant information by a firm on how it prioritizes ethical values helps demonstrate the firm's commitment to ethical behavior and responsibility to act in the public interest.
- H6. External transparency may also contribute to building and strengthening public trust in the firm.

APPENDIX

Extant Provisions in the IESBA Code about FCG

The following is an extract of paragraphs 120.13 A1 to 120.13 A3, and 300.5 A2 of the IESBA Code, included for reference:

(...)

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Professional accountants are expected to:

- (a) Encourage and promote an ethics-based culture in their organization, taking into account their position and seniority; and
- (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountants, the firm or the employing organization has a professional or business relationship.

(...)

300.5 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.

- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

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