6 November 2019

Mr Ken Siong,
Senior Technical Director
International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017
UNITED STATES OF AMERICA

By Email: kensiong@ethicsboard.org

Dear Ken,

Submission on Exposure Draft July 2019 – Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the opportunity to provide comment on Exposure Draft (ED) July 2019 Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.

CPA Australia is broadly supportive of the proposed revisions to the Code of Ethics for Professional Accountants (the Code) which enhance the Professional Accountant’s (PA) understanding of their role and the mindset required to execute engagements in accordance with the fundamental principles. We support the principles-based approach adopted by the IESBA for the proposed revisions and commend the IESBA for incorporating in the ED, the views obtained by an extensive consultation process.

The ED requests respondents to address seven specific issues. CPA Australia’s responses to these issues, as well as recommendations with respect to the proposed amendments are located at Appendix 1. Additional comments and further recommendations in response to the ED are located in Appendix 2.

We trust that the IESBA will find these comments useful in considering proposed changes to the Code.

Should you have questions regarding this submission, please do not hesitate to contact Josephine Haste CPA, Policy Adviser – Ethics and Professional Standards on +613 9606 9693 or josephine.haste@cpaaustralia.com.au.

Yours sincerely

Dr Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
Appendix 1 – CPA Australia’s Responses to Specific Questions

The IESBA requested participants to provide specific comments with respect to questions raised at paragraph 63 of the ED.

1. **Role and Values of Professional Accountants**

   *Do you support the proposals in Section 100 that explain the role and values of professional accountants as well as the relationship between compliance with the Code and professional accountants acting in the public interest?*

   CPA Australia supports the IESBA’s view that the Code is not a suitable place for an “oath” or “mission statement” for PAs.

   Paragraph 100.1 A1 states that ‘Compliance with the Code enables accountants to meet their responsibility to act in the public interest and involves upholding the ethical values upon which the Code is based…’, however paragraph 19 of the Explanatory Memorandum acknowledges that the Code ‘will not be up-to-date at any given point in time or be able to fully address the changing expectations of the public.’ We suggest that paragraph 100.1 A1 be amended to state that compliance with the Code ‘supports’ or ‘assists’ accountants to ‘manage’ (rather than meet) their responsibility to act in the public interest.

   As noted, Paragraph 100.1 A1 refers to compliance with the Code: ‘…upholding the ethical values upon which the Code is based….’. We submit that the concept of ‘values’ is not explored within the Code nor is it a defined term within the Code which may create confusion for the reader. We suggest that this sentence refer to the ‘ethical principles upon which the Code is based…’.

   Paragraph 100.1 A2 describes characteristics which elevate accountancy as a profession. However, the attributes outlined in, and the structure of, this paragraph are more attuned specifically to members in business than PAs more generally. Considering that Part 1 of the Code applies to all PAs, it is suggested that 100.1 A2 include clients or members of the public as stakeholders that involve PAs in a range of matters. This will improve applicability of the paragraph to PAs in public practice.

   Paragraph 100.1 A3 is not helpful in assisting PAs understand the role and mindset required of the accountant in executing their duties in accordance with the fundamental principles. This paragraph conveys a different purpose from that which is intended by the Code. Paragraph 100.1 A3 may be better placed on the IESBA website or in other forms of marketing collateral to demonstrate the broad reach of the Code.

2. **Determination to Act Appropriately**

   *Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?*

   CPA Australia appreciates the importance of affirming the PAs responsibility to act appropriately when confronting difficult circumstances, as this forms the basis of ethical behaviour. What is considered appropriate behaviour by an individual PA, however, may depend a range of factors, including for example, the level of experience of the PA and their level of understanding of the issues that are presented. CPA Australia does not object to the material contained in Subsection 111.1 A2, however, we are of the view that the behaviours demonstrated by a PA when confronting difficult situations are also relevant to other, if not all, fundamental principles. The material contained in Subsection 111.1 A2 may be better placed in Section 100 of the Code as overarching principles and behaviours expected from the PA.

   The phrase, “standing one’s ground” is a colloquialism which may not be understood in some cultures as it is intended by the IESBA. In Australia, for example, ‘standing one’s ground’, can be interpreted negatively as a
reluctance to consider alternative viewpoints in the presence of contradictory and credible evidence. This phrase may create issues for translation of the Code in non-English speaking jurisdictions. CPA Australia suggests the phrase “have the courage of (one’s) convictions” which is defined as:

‘To have the confidence to act or behave in accordance with one’s beliefs or ideologies, especially in the face of resistance, criticism, or persecution.”

3. Professional Behaviour

Do you support the proposal to require a professional accountant to behave in a manner that is consistent with the profession’s responsibility to act in the public interest in paragraphs 110.1 A1 (e) and R115.1?

The cornerstone of the accounting profession is ‘to act in the public interest’. This is achieved by the decisions and actions of PAs. It is the individual PAs responsibility to behave in a manner that is in the public interest and it is the profession’s responsibility to provide the framework by which the PA may be assessed against this concept. CPA Australia suggests that R115.1(a) should refer to the PA’s responsibility in this regard rather than the Profession’s responsibility.

The phrase ‘Behave in a manner’ is subjective in nature as suitable types of behaviour are not provided for or defined by the Code. As a result, it may be difficult to assess the PAs compliance with this requirement. Requirements which are ambiguous or subjective generally lack enforceability and are more suited to application material. CPA Australia suggests removing the phrase ‘Behave in a manner’ from R115.1 and clearly state that the PA must act in the public interest. The IESBA may consider providing guidance material regarding behaviour characteristics or alternatively, require the PA to exercise Professional Judgement when considering their behaviour and whether it is in the public interest.

4. Impact of Technology

Notwithstanding that the IESBA has a separate Working Group that is exploring the implications of developments in technology, are there any additional matters relating to the impact of technology beyond the proposals in paragraphs 110.1 A1(b)(iii)

CPA Australia is supportive of the proposed reference to technology at paragraphs 110.1A1(b)(iii) and 120.12 A2. Without pre-empting the proposals of the technology working group, it is suggested that ‘technology’ be a defined term in the Glossary of the Code to include software applications, hardware systems and artificial intelligence.

5. Inquiring Mind

Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?

CPA Australia is not convinced that the term ‘inquiring mind’ encapsulates the appropriate mindset of a PA. An inquiring mind is a softer concept than a ‘sceptical’ or ‘questioning’ mindset. An inquiring mind is interested and eager to learn more about a situation or set of facts without necessarily exhibiting the need to question or critically examine these situations or facts. We suggest that an ‘inquiring mindset’ is at a lower level of experience and understanding of a situation or set of facts than a ‘questioning’ or ‘sceptical mindset.’ A ‘questioning’ mindset understands the technical components of a set of facts and then examines these facts for accuracy and truthfulness. A sceptical mindset approaches a situation or set of facts with doubt. Whilst CPA Australia acknowledges that the term ‘Professional Scepticism’ is a defined term in the Auditing Standards, we contend that this is not a significant reason to quarantine the term from applicability in other disciplines of the accounting profession, such as for example, insolvency and liquidation services. The concept of professional
scepticism is not unique to the accounting profession and is widely used in other professions including law, medicine, risk management, data analytics, statistics, consulting, and engineering.

CPA Australia acknowledges that a sceptical mindset may not be appropriate for engagements other than audit or insolvency, however contends that an inquiring mindset may only be appropriate for low level accounting tasks such as bookkeeping. CPA Australia, therefore, supports the term ‘questioning mindset’ which expects the PA to do more than simply learn or gather facts about circumstances. The phrase ‘to question’, does not imply doubt, but it also does not imply acceptance without due diligence. CPA Australia opines that a questioning mindset, strikes the right balance for PAs performing engagements other than audit and insolvency.

As the term “an inquiring mind” is not considered to be at an appropriate level for the PA, CPA Australia is not supportive of removing the requirement to “remain alert for new information and changes in facts and circumstances.” CPA Australia suggests that R120.5(b) be broken down into two components:

- R120.5(b) Have an inquiring questioning mind; and
- R120.5(c) Remain alert for new information and to changes in facts and circumstances; and
- R120.5(d) Use the reasonable and informed third party test described in paragraph 120.5 A6

6. Bias

Do you support the approach to addressing bias? If so, do you agree with the list of examples of bias set out in paragraph 120.12 A2? Should any examples be omitted, or new ones added?

CPA Australia welcomes the discussion of conscious and unconscious bias at paragraph 120.12 A1. CPA Australia is supportive of the guidance material regarding categories of bias and the potential effects on exercising professional judgement. Unconscious bias remains a significant threat to the fundamental principles of Objectivity and Professional Judgement. Unconscious bias may lead the PA to underestimate the impacts of their actions and decisions as initially assessed and result in the PA overlooking the need to explore available safeguards to address issues relating to bias. To highlight the importance of bias, CPA Australia suggests providing a cross-reference to the material on bias in subsection 112 – Objectivity.

7. Organisational Culture

Are there any other aspects about organisational culture in addition to the role of leadership that you consider should be addressed in the proposals?

CPA Australia is supportive of the discussion at paragraph 120.13 A1. We note that the IESBA has omitted the concept of ‘tone at the top’ when discussing organisational culture. The explanatory memorandum is silent on the omission of the concept. CPA Australia considers that ‘tone at the top’ is a well known and important concept for understanding the role of leadership in organisational culture.

Whilst 120.13 A2 (a) highlights the importance of accountability of those in leadership roles within an organisation, setting the ‘tone at the top’ precedes accountability. It would be beneficial if the discussion at 120.13 A1 and 120.13 A2 related back to the PAs obligations or role in establishing organisational culture, in particular, for Members in Business.

As the proposed ISQM 1 is not yet approved and has been subject to substantial constructive feedback, CPA Australia suggests that references to the proposed ISQM 1 may be premature.
Appendix 2 – CPA Australia’s Additional and General Responses.

The IESBA requested participants to provide general comments with respect to questions raised at paragraph 64 of the ED.

(a) Small- and Medium-Sized Entities (SMEs)

CPA Australia has no general comments in relation to SMEs.

(b) Regulators and Audit Oversight Bodies

CPA Australia has no general comments in relation to regulators and audit oversight bodies.

(c) Developing Nations

CPA Australia has no general comments in relation to developing nations.

(d) Translation

We refer the IESBA to issues noted as follows:

- Within ‘Specific Question 2 – Determination to Act Appropriately’, CPA Australia has expressed its views regarding the use of the phrase, ‘standing one’s ground’.

Other General Comments

Significant Impending Exposure Drafts

CPA Australia notes that the IESBA is due to release EDs on Fees and Non-Assurance Services (NAS) by the end of 2019. To improve adoption, it is suggested that the operative date of these significant changes to the Code for role and mindset, fees and NAS be aligned.

Implementation Date

Due to the significance of changes to concepts in the Code, and to facilitate change management with respect to jurisdictional Codes, CPA Australia recommends that the effective date of the proposed amendments not coincide with the approval of the final pronouncement, as suggested in paragraphs 61 and 62 of the ED.