

October 29, 2019

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, New York 10017 USA

Re: *Exposure Draft, Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*

Dear Mr. Siong:

We appreciate the opportunity to provide comments on the exposure draft "Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants" (the "ED") issued in July 2019 by the International Ethics Standards Board for Accountants ("IESBA" or "Board").

We overall support efforts by the Board to continue to promote and clarify the role of the professional accountants as it relates to compliance with the Code and serving the public interest. We note that this is the second time in the past few years that the Board is proposing changes to the conceptual framework provisions in Section 120, which was just recently revised for clarity and became effective in June 2019. The conceptual framework is core to the Code and making continual amendments may have the potential of undermining the Board's strategic theme of increasing global adoption and effective implementation of the restructured Code.

The fundamental principles are the foundation of the Code and the proposed addition of many new terms and concepts appear to compete with the fundamental principles. We have concerns this might threaten to undermine the readability, understandability and ease of use of the Code, which were primary objectives of the restructuring project. Notably, the ED includes the introduction of what seems to be a new "fit for purpose" quasi-legal standard for the quality of advice provided by an accountant. The ED also includes the use of idioms like "standing one's ground" which we don't consider should be used in professional standards as such phrases are difficult to translate into other languages because their meaning might not be easily understood.

We are also concerned at the inclusion of the undefined concept of the public interest into requirements in the Code, through the amendments to the definition of the fundamental principle of professional behavior. Without defining the concept, there might be inconsistency in the clarity and enforceability of the requirement which ultimately works against the public interest. The concept of acting in the public interest is an important concept underpinning the Code, and the proposal risks undermining the key message that compliance with the whole Code (not just the fundamental principle of professional behavior) enables accountants to meet their responsibility to act in the public interest.

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## Specific Comments

### ***Role and Values of Professional Accountants***

#### **Question 1 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? Are there other relevant matters that should be highlighted in these paragraphs?**

We acknowledge the view that compliance with the Code cannot guarantee that a professional accountant has acted in the public interest, however it is important to provide certainty that such compliance plays an important role in enabling a professional accountant to meet their responsibility to act in the public interest. We therefore support continuing to include a statement of this nature in 100.1 A1, subject to the following comments.

We do not agree with the introduction of a new concept of "values" throughout Section 100. We consider the values on which the Code is based are the fundamental principles, otherwise, it is unclear what other values are being referenced or how they are expected to be upheld.

In addition, the sentence added in 100.1 A1 has a redundancy that we suggest be removed ("Compliance with the Code enables accountants to... and involves ...complying with the specific requirements of the Code") as follows:

*"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 as well as complying with the specific requirements of the Code.~~"*

We understand the intent behind the addition of paragraph 100.1 A2, however it includes many new concepts and ideas, some of which have unclear meaning, and some of which seem to set new standards. For example:

- We suggest deleting "*Accountants understand and acknowledge that...*" The phrase is hard to read and understand but also appears to contradict explanatory paragraph 16 in which the IESBA concluded that the Code is not the appropriate place to promote a mission statement or professional oath. Furthermore, the phrase does not contribute anything to the sentence as the relevant concept is why accountants are hired or engaged, not the accountant's understanding or acknowledgement of why they are important to organizations.
- We suggest deleting the "*Use of business acumen*". This is unclear in meaning and may imply a role that is not intended, when the requirement to exercise professional judgment appears to be sufficient.
- We suggest deleting "*The application of these skills and values enables professional accountants to provide advice or other output that is fit for the purpose for which it was provided, and which might be relied upon by intended users of such output.*" "Fit for purpose" is a legal standard used in consumer protection laws in many countries, and used in a business context, implies that quality can only be defined in terms of the purpose or goals of the client. We are concerned at the implied establishment of a new legal standard for the quality of advice provided by an accountant.

Paragraph 100.2 A1 is duplicative of the additions in 100.1 A1, yet also slightly differs in material respects as it appears broader. It could also be confusing when read in conjunction with 110.2 A1:

- 100.1 A1 states "The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants. Compliance with Code enables accountants to meet their responsibility to act in the public interest".

- 100.2 A1 states that "The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants in meeting their responsibility to act in the public interest."
- 110.2 A1 states "The fundamental principles of ethics establish the standard of behavior expected of a professional accountant."

We suggest deleting the first proposed additional sentence in 100.1 A1 and moving it to replace the suggested wording in 100.2 A1. We also recommend consideration of how these words and concepts (for example "ethical behaviors", "standard of behavior" and "professional behavior") are used in the Code to ensure consistency, avoid confusion and provide clarity of expectations.

### ***Determination to Act Appropriately***

#### **Question 2 Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?**

We support providing guidance on the principle of integrity in the context of how it supports compliance with the Code. It is unclear how terms such as "acting appropriately" or "standing one's ground," or personal characteristics such as "resolve" or "courage" provide any greater clarity about what ethical behavior is expected of the accountant when complying with the principle of integrity, or how these concepts relate to the conceptual framework. For example, simply standing one's ground when one has a difference of opinion with a client may not be acting appropriately in the circumstances. It is also unclear how 111.1 A2 interacts with Section 270 *Pressure to Breach the Fundamental Principles*, which requires the accountant not to allow pressure from others to result in non-compliance with the fundamental principles.

We agree an accountant may confront a dilemma or difficult situation, which could involve facing pressure to breach the fundamental principles or could involve having to weigh the consequences of possible courses of action which may include not complying with a requirement of the Code. We consider that the guidance could simply state that complying with the principle of integrity means withstanding such pressure, complying with the Code and upholding the fundamental principles, even in the face of potential adverse personal or organizational consequences.

### ***Professional Behavior***

#### **Question 3 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?**

It is profoundly important for the Code to contain requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

We acknowledge this new requirement seems to be an articulation of what can already be inferred from the Code (i.e., the profession has a responsibility to act in the public interest and accordingly, this is the corresponding behavior expected of the professional accountant). However, as noted in the introduction, we are concerned at the lack of clarity created by the inclusion of the undefined concept of the public interest into the requirements of the Code through the proposed amendment to the definition of the fundamental principle of professional behavior. The key message should not be diluted that it is compliance with the whole Code (not just the fundamental principle of professional behavior) that enables accountants to meet their responsibility to act in the public interest.

### ***Impact of Technology***

**Question 4 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), 113.1 A2 and 120.12 A2 that you consider should be addressed specifically as part of the Role and Mindset project?**

No, we do not think any additional matters need to be addressed until the Technology Working Group concludes its current project.

### ***Inquiring Mind***

**Question 5 Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?**

We agree with the broad expectation that professional accountants should approach professional activities with an impartial and diligent mindset and apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated. These concepts are already embedded in the fundamental principles of the Code, most notably the principles of objectivity and professional competence and due care.

We have previously offered our view that the concept of "professional skepticism" should not be extended beyond what is included in the auditing, review and other assurance standards. We now believe the concept of an "inquiring mind" could be interpreted as skepticism in other words. We do not consider that professional accountants should be required to question all information provided to them in every instance but the proposed concept of needing to "obtain an understanding" implies a positive action in every situation to conclude on whether further investigation is needed.

Paragraph 120 already contains a requirement to apply professional judgement, yet the new concept suggests that determining whether further "investigation" is needed is no longer related to the exercise of professional judgment. If there is a concern that professional accountants are not being sufficiently impartial and diligent in considering whether they should assess the facts on which their advice is based, we believe this is more appropriately addressed through guidance on applying professional judgment (as set out in the extant provisions).

The second bullet of paragraph 47 of the Explanatory Memorandum "[c]larifies that the relevant information for further investigation or critical evaluation is the information already obtained (see 120.5 A3(b) and 120.5 A4, last bullet) to avoid the perception that a professional accountant must consider any information available to the accountant or any other persons." This is an important clarification however we do not consider it has been fully articulated in Section 120 and in fact the phrase "information (*or lack thereof*) that might be require further investigation" (emphasis added) may be contradictory to this concept.

We suggest deleting the phrase "or lack thereof" and amending the references to "the information obtained" to the "information already obtained."

**Bias**

**Question 6 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?**

Bias is mentioned in the context of its impact on objectivity and we recognize the benefit of providing guidance as to how an accountant could mitigate the impact of bias on the exercise of professional judgment. It is strangely placed, however, as a new section entitled "Other Considerations when Applying the Conceptual Framework" when it refers to being important to the exercise of professional judgment. We question whether the concept of bias should therefore be discussed in connection with the exercise of professional judgment specifically, rather than as a separate section on the application of the conceptual framework.

Regarding the examples of bias listed in 120.12 A2, we have concerns that there are no standard definitions or cited source for the examples, the examples are psychological and not grounded in accounting or auditing, and they may raise potential unintended consequences such as not being translatable. Overall, we do not consider this material belongs in the Code, but would be supportive of the Board doing a thought piece explaining bias in non-authoritative material. If the Board retains the list in 120.12 A2, we suggest providing the descriptions of some relevant biases without the "labels" attached which would be less distracting and give greater emphasis to the underlying concepts. For example, simply saying "placing more weight on information that confirms one's previously existing beliefs" without the label "anchoring bias" would be clearer for a reader.

**Organizational Culture**

**Question 7 Are there any other aspects about organizational culture in addition to the role of leadership that you consider should be addressed in the proposals?**

We do not have any suggestions with respect to the proposal.

**Other**

110.1 A1 and R110.1 state that a fundamental principle of ethics for professional accountants is "to exercise professional or business judgments without being compromised by . . . undue reliance on individuals, organizations, technology or other factors." Same or similar wording appears in 120.16 A2, although it appears the word "undue" was omitted. Similar language appears in 220.4(e). We ask the board to consider whether "undue" adequately qualifies "reliance" in light of the fact that auditors rely on such sources of information in accordance with professional standards.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Senior Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,



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