



441 G St. N.W.
Washington, DC 20548

October 31, 2019

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

GAO's Response to the International Ethics Standards Board for Accountants' July 2019 Exposure Draft, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the *International Code of Ethics for Professional Accountants* (Code) and GAGAS.

We appreciate the International Ethics Standards Board for Accountants' (IESBA) efforts to promote the role, mindset, and behavioral characteristics expected of professional accountants. We support the IESBA's conclusion that the term professional skepticism be reserved for use only in an audit and assurance context. In our specific comments that follow, we suggest clarifying the concept of determination to act appropriately and moving the discussion on biases to a different section of the Code to assist professional accountants in applying the conceptual framework to identify, evaluate, and address threats to compliance with the fundamental principles of ethics. We believe that our suggestions will improve the clarity of the Code.

Specific Comments

Role and Values of Professional Accountants

- 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 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. We have not identified any other relevant matters that should be highlighted in these paragraphs.

Determination to Act Appropriately

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 the inclusion of the concept of determination to act appropriately in difficult situations. We suggest that the IESBA consider whether the concept could be strengthened by clarifying the meaning of “difficult situations” and when it is appropriate to challenge others. For example, the guidance could clarify the expectations of an accountant in business if management and the accountant had different interpretations of an accounting standard that are both reasonable but the accountant’s interpretation is more conservative. The expectations to stand one’s ground or challenge others would be different in situations where there is a reasonable difference of opinion versus a situation when management requested that an accountant record a clearly fraudulent entry. In what circumstances should an accountant conclude that a threat to integrity is not at an acceptable level if the accountant does not challenge management?

The importance of clarifying when it is appropriate to challenge others is magnified by the lack of safeguards noted in the Code. If an accountant does conclude that a threat to integrity is not at an acceptable level, there are few safeguards noted in the Code that the accountant could use to reduce or eliminate the threat. Per the Code, the accountant is expected to decline or end the professional activity and may be required to resign from the employing organization if the accountant cannot reduce the threat to an acceptable level. We believe that additional guidance is necessary to assist accountants in applying the concept of determination to act appropriately in difficult situations and to help them identify, evaluate, and address threats to compliance with the fundamental principles.

Moving the concept of determination to act appropriately to Section 270, Pressure to Breach the Fundamental Principles, may clarify the expectation for accountants to stand their ground. We believe that the concept of pressure to breach is clearer than the concepts of dilemmas or difficult situations in the Code and that moving this guidance will assist accountants in identifying situations when it would be necessary to stand one’s ground and challenge others. Also, we believe that actions such as standing one’s ground and challenging others may be appropriate when accountants face pressure to breach any of the fundamental principles, not exclusively the principle of integrity. We also suggest that the IESBA consider adding more examples of safeguards to the Code to assist accountants in addressing threats to compliance with the fundamental principles.

Professional Behavior

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?

We 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.

Impact of Technology

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?

We did not identify 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 we believe should be addressed specifically as part of the Role and Mindset project.

Inquiring Mind

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

We agree with the concept of an inquiring mind as set out in the proposals in Section 120.

Bias

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?

We support providing the list of common forms of bias in the Code. However, we suggest placing the list in Subsection 112 as application material for the concept of objectivity. We believe that the examples of bias would assist accountants in identifying threats to objectivity and would better meet the IESBA's goal of addressing threats to compliance with fundamental principles arising from bias. In our view, moving the bias examples list to the subsection addressing objectivity may help accountants address bias by assisting them in identifying a threat to objectivity, evaluating the threat, and addressing the threat by eliminating or reducing it to an acceptable level. We also believe that the IESBA should consider additional examples of safeguards to eliminate or reduce any threats to objectivity posed by the different types of biases.

We believe that the examples of bias should be aligned with the International Auditing and Assurance Standards Board's (IAASB) final approved International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statement*. We encourage the IESBA to continue working with the IAASB to ensure alignment of the types of biases.

Organizational Culture

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 support including additional guidance highlighting the importance of the organizational culture on effectively applying the conceptual framework. We have not identified any other aspects about organizational culture that should be addressed in the Code.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin
Director
Financial Management and Assurance