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Dear Board Members

Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants

We are pleased to have the opportunity to respond to the proposals laid out in the IESBA Exposure Draft of Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants. We set out below our overall comments on the proposals followed by detailed responses to the questions raised.

Overall Comments

We are very supportive of IESBA's efforts to raise the awareness and importance of all professional accountants applying an appropriately inquiring/questioning mindset when undertaking their activities. For many years auditors have been, rightly, required to apply Professional Skepticism in their duties. In our view, it is highly appropriate, given the public interest responsibilities of all professional accountants, that all those involved in the financial reporting supply chain apply an appropriate mindset when assessing the financial information with which they are associated. We consider that the proposals are an appropriate way to introduce the concept of an inquiring mind for all accountants, while retaining Professional Skepticism as a term applicable to auditors only as this is now well established in the Audit Profession.

It is, however, unfortunate that these proposals will require an update to the 2018 Code so soon after its publication. We believe that there will need to be clear messaging regarding the targeted nature, and the importance, of these changes. Furthermore, IESBA should consider how it can best convey these important messages across to Professional Accountants in Business (PAIBs) as it is inherently more difficult to address that population than it is for, say, the large Audit networks. In this regard, targeted marketing and working closely with member bodies of IFAC will be critical to the success of these proposals.

It is unfortunate, though perhaps understandable, that IESBA has not adopted the suggestion from the roundtable events to develop an overarching purpose statement, or oath, for Professional Accountants. An oath akin to the Hippocratic Oath for medical practitioners might, we believe, strengthen the profession's standing, helping to stress to all Professional Accountants the public interest role that they hold. Perhaps something like "First commit

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no fraud” may be powerful in reminding professional accountants of their responsibilities! Broader oaths might appropriately refer to “transparency in all we do” and “acting in the public interest”.

Roles 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?

Response: We agree with and support the proposals made in Section 100.

It is clear that the profession has a responsibility to act in the public interest and stressing this in paragraphs 100.A1, 100.2.A1 and 110.1.A1(e), for example, is helpful. In our view, the more clarification, guidance and examples that can be provided to explain what ethical behaviour looks like can only have a positive impact.

Expressing the requirement of Objectivity positively is consistent with the way the other four principles (Integrity, Professional Competence and Due Care, Confidentiality and Professional Behaviour) are expressed, and we welcome this amendment to 110.1.A1(b) along with additional text around conflict of interest or undue influence in 111.1.A1(b)(ii).

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?

Response: We support the concept of acting appropriately in difficult situations, which further strengthens the concept of Integrity. However, we believe that this requirement should be strengthened by requiring Professional Accountants to “act appropriately when confronting dilemmas and difficult situations” rather than merely having a “determination to act”. Using the terminology in the ED, what would prevent a Professional Accountant intending to act with integrity from ultimately “giving in” to external pressures; would this not be akin to “trying hard but failing an examination”? Given the public interest, would this be good enough?

The examples provided in 111.1.A2 are helpful in putting this requirement in context, although further clarity and guidance may be helpful regarding the bullet point “challenging others as and when appropriate”.

Professional Behavior

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- 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?

Response: We support the proposals in 110.1 A1 and R115.1 relating to professional behavior. We note, however, that this expands the definition of "Professional Behavior" from that used in the widest sense to reflect Professional Accountant's responsibility to act in the public interest which does not apply to all professions.

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?

Response: We support the consideration of technology in relation to the role and mindset of professional accountants. Technology increasingly plays a large part in every aspect of an accountant's role so it is extremely important to set appropriate expectations.

We agree with the IESBA conclusion that the impact of technology is more likely to relate to "undue reliance" on technology and "automation bias", both of which are, in our view, equally applicable to PAIBs, Auditors and other accountants in practice but who are not auditors. The risk of "computer says no" (or indeed "yes") is significant in all walks of life and it is imperative that all Professional Accountants are constantly aware of this risk.

We agree with IESBA that it would be premature to develop application material in advance of the technology working group deliberations; however, it is important to provide guidance on how to address the issues relating to technology. To this end, we assume that the technology working group will develop appropriate guidance in the near future.

Inquiring Mind

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

Response: We agree with the introduction of the concept of an "inquiring mind" applicable to all accountants and agree with IESBA that this should be distinguished from Professional Skepticism as applied by Auditors. However, we believe that all professional accountants, including PAIBs, should apply a similar level of "skepticism" when applying their "inquiring mind" to financial information. As such we believe that 120.5 A3(b) could be strengthened by amending the current text to "Critically evaluating the information obtained..." rather than merely being required to "Consider whether there is a need to critically evaluate...". Given the issue identified relating to bias, particularly automation bias, we do not believe it is appropriate that PAIBs are required to only "consider" whether they should critically evaluate information. This is especially important considering societal changes towards placing undue reliance on information from electronic sources, such as the internet, without appropriate challenge. A change to the text of 120.5 A3(b) would have a consequential impact on 120.A5 A4 where the current proposal relates to situations where an accountant might consider certain factors or circumstances.

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?

Response:

We support the approach to addressing bias and we consider that the list of examples provided is informative and descriptive. With respect to other potential areas for consideration, we wonder whether the list in 120.12 A2 might also include something along the lines of “background bias”, where one’s upbringing and societal/cultural norms may lead to a risk of unconscious bias?

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?

Response:

An organisation’s culture is reflective of the ‘tone at the top’ and the role and behaviour of the leaders of an entity will determine its internal culture. Overall, we do not consider there is a significant need for change in this section; however, it may be worth considering adding content about ethical organisations actively encouraging, supporting and protecting whistleblowers who report unethical behaviours.

Editorial comments:

In addition to our responses to the exposure draft, we provide the following editorial comments which we trust you will find helpful.

- 120.13 A2 – we suggest amending references to ‘that ethical culture’ to ‘an ethical culture’ (also in 2nd bullet point 200.5 A3)
- 200.5 A3 – amend “management process” to “management processes”
- 111.1 A2: Should this say “...when confronted by dilemmas...” as opposed to “...when confronting dilemmas...”? If amended, a similar amendment would be required in 120.16 A2.
- Para below 100.1 A2(d): Use of the phrase “other output” is vague and further clarity and/or guidance would be helpful (e.g. “products, services or information”?)

Yours faithfully,



Dr Paul Winrow

Director of Professional Standards

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