



National Association of State Boards of Accountancy

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October 22, 2019

International Ethics Standards Board
for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017

Via email: KenSiong@ethicsboard.org

Attention: Ken Siong, IESBA Technical Director

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

Dear Members and Staff of the International Ethics Standards Board for Accountants (IESBA):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft. NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all professional accountants whether in business or in public practice. State Boards are charged by law with protecting the public, both through establishing requirements regarding the competence of the individuals they license and preventing the deception of the public regarding the level of competence that may reasonably be expected of a given practitioner.

In furtherance of that objective, we offer the following comments on the Exposure Draft.

General Comments

In our letter of August 10, 2018, we responded to the *IESBA Consultation Paper on Professional Skepticism – Meeting Public Expectations* (Consultation Paper), which suggested an approach in which all professional accountants, including those outside the assurance environment, would apply principles akin to “professional skepticism.” We agreed that the professional accountant should approach his or her work being mindful of the public interest.

Our key concern is that the proposal centers around the professional accountant's obligation to “act in the public interest” – an essential concept the IESBA Code does not currently define. We acknowledge the

critical importance of the public interest, a notion that exists in the AICPA Code¹ and in many state accountancy boards' laws and regulations. However, the lack of a clear description of what it means to act in the public interest, which is highly subjective, coupled with the prescriptive nature of the proposed revisions, leaves in question whether an individual failed to act in the public interest and, therefore, breached the fundamental principles.

NASBA appreciates the difficult task the IESBA has taken on. We understand that the IESBA has initiated a workstream to redefine the term, "Public Interest Entity." We suggest the IESBA consider expanding the scope of that prospective project to include the notion of "acting in the public interest" as part of that project. We also believe the language should be reworked to align better with the IESBA Code's principles-based structure and approach.

Professional accountants assume many roles in serving their clients and employers and we suggest the impact of the proposed requirements on these roles be considered in the current proposal. NASBA is concerned that application of the proposed standard to all professional accountants, regardless of the role they fill, will lead to unintended consequences. For example, professional accountants often are retained to serve as trustees or fiduciaries for their clients or employers. In that role, under the Common Law the professional accountant owes a fiduciary duty to place the interests of her or his client above all others. In a similar vein, a professional accountant is often retained to be an advocate for a client as to a matter before a taxing authority, or as a forensic adviser or expert witness in a judicial or administrative legal proceeding, and these rules again require fidelity to the client's interests as opposed to the government's or other third party's. In these roles the professional accountant is required to place the interests of her or his client/employer above other considerations. Without this differentiation, the proposal may create an irreconcilable conflict between "acting in the public interest" and exercising due care.

Responses to Specific Questions

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?

As noted in our introduction, NASBA believes the proposed changes to Section 100 may create unintended consequences for professional accountants due to the lack of a definition of the public interest and consideration of the accountant's role with respect to an engagement. The Code already requires professional accountants to act in compliance with the five fundamental principles. NASBA does not see that the proposed changes in Section 100 provide significant improvement to the current Code's requirements. Should the IESBA proceed down this path, we do suggest an addition. The AICPA Code's interpretation of Competence² indicates that a member should apply knowledge and skill *with reasonable*

¹ 0.300.030, The Public Interest

² 1.300.010.02 and 2.300.010.02

care and diligence, however, the *member does not assume a responsibility for infallibility of knowledge or judgment [emphasis added]*. We believe the concepts in this statement would be a valuable addition to 110.1 A1(c).

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?*

NASBA believes that the concept of determination to act appropriately should clearly be the goal of any professional accountant, whether they are in public accounting or business. However, the term “challenge” connotes more than simply refusing to “go along,” which can be a quiet action. The addition seems to imply a more confrontational stance on the part of the professional accountant, which could be counterproductive. We note that these matters are addressed in great detail in at least two of the Code’s provisions; *Pressure to Breach the Rules* (Section 270) and *Noncompliance with Laws and Regulations* (Sections 260 and 360).

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?*

The goal is admirable, but NASBA repeats our previously stated key concern about the lack of an adequate definition of “act in the public interest.”

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?*

NASBA believes it would be best to allow the Technology Working Group to complete its work and, if appropriate, suggest revisions to the Code at that time rather than use a piecemeal approach. Further, we do not believe it is necessary to call out technology in these provisions. For example, 113.1 A2 does not require the addition of “and technology-related” as the material is already complete and can stand on its own without the additional verbiage.

Inquiring Mind

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

This appears to be a new concept intended to parallel the requirement that auditors exercise professional skepticism as described in applicable audit and assurance standards. We believe IESBA should describe

the desired conduct in a level of detail that the professional accountant can understand and achieve. We recommend IESBA forego use of the term “inquiring mind” (a common phrase used in advertising) or any other abbreviated term for the desired conduct which could not capture the essence of this requirement.

Does this appropriately correlate to the requirements for auditors and other professional service providers? For example, in the United States, the *Statements on Standards for Tax Practice* require a professional accountant to make “reasonable inquiry” when performing tax services. Technical auditing and tax standards describe how the professional accountant should achieve these goals.

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 agree that professional accountants should be aware of bias. Avoidance of bias is currently in the Code’s requirement to maintain objectivity and we support inclusion of a list of examples to promote awareness.

As to the list of examples, we suggest modifying the following examples to include the items in quotes:

- Availability bias - which is the tendency to place more weight on “information,” events.....
- Groupthink - which is the tendency to think or make decisions as a group “in a manner” that

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?*

No comment.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

We believe that professional accountants, whether in public practice or in business, should comply with the Code’s fundamental principles and be mindful of the public interest. However, we are concerned that introducing ambiguous terms such as “acting in the public interest” and “inquiring mind” to the Code would be challenging to enforce due to the lack of an appropriate framework from which to judge what those terms mean.

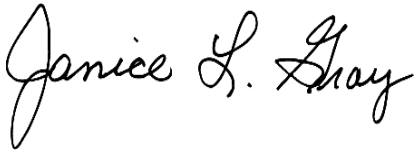
International Ethics Standards Board for Accountants
Attention: Ken Siong, IESBA Technical Director
October 22, 2018
Page 5 of 5

We suggest that IESBA also consider the interplay between these proposed changes to the Code and the provisions on responding to noncompliance with laws and regulations (NOCLAR), which, as we understand, do not require the professional accountant to seek out NOCLAR. Under the proposed changes, would the accountant be in violation of the Code for failing to make inquiries that would have uncovered NOCLAR?

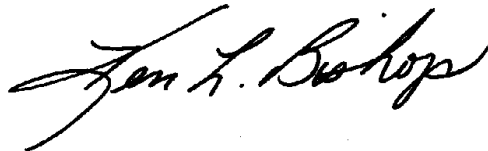
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Thank you for the opportunity to comment on the IESBA *Exposure Draft on Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*.

Very truly yours,



Janice L. Gray, CPA, CVA
NASBA Chair



Ken L. Bishop
NASBA President and CEO