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July 16, 2018

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

Re: Consultation Paper, *Proposed Strategy and Work Plan, 2019-2023*.

Dear Members of the International Ethics Standards Board for Accountants:

We are pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its Consultation Paper, *Proposed Strategy and Work Plan, 2019-2023* (the “Proposed Strategy and Work Plan”).

After reviewing the April 2018 International Code of Ethics for Professional Accountants (PAs), we identified three opportunities for potentially improving the relevance and application of the code during the 2019-2023 time-horizon as described below.

1. “Standard of Behavior”

On page 5 of the Code, the Board asserts that the International Code of Ethics is a “standard of **behavior**”¹. However, the establishment of a code of ethics to guide PAs’ **professional judgments** is potentially just as important as guiding their behaviors. Moreover, the Board has an opportunity to additionally mandate that PAs engage in **critical thinking** before expressing professional judgments.

¹ “The International Code of Ethics for Professional Accountants (including International Independence Standards) (“the Code”) sets out fundamental principles of ethics for professional accountants, reflecting the profession’s recognition of its public interest responsibility. These principles establish the **standard of behavior** expected of a professional accountant. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior” (IESBA 2018, p5, emphasis added).

Recommendation: Rather than a standard of behavior, consider broadening the scope of the Code to establish the Code as a standard of PAs’ **critical thinking, professional judgments, and behaviors**. (See the “theory” section below for a more in-depth discussion about how this might be executed.)

2. Purpose of the Code

In the section of the Code labeled “Purpose of the Code”, the board states:

“The Code provides a conceptual framework that PAs are to apply in order to identify, evaluate, and address threats to the compliance with the fundamental principles” (IEASB 2018, p5).

The prominence of this conceptual framework throughout the Code implies that the process of identifying, evaluating, and addressing threats to one’s own judgments and behaviors is paramount to the process of exercising good judgments and engaging in professional behaviors in the first place.

Recommendation: Consider shifting the focus and emphasis of the Code from a discussion of threats to more discussion about how the fundamental principles (e.g., integrity, objectivity, competence) are expected to drive high quality critical thinking, professional judgments, and behaviors. The next section explains how this might be executed.

3. Theory

Part I of the Code focuses on either the fundamental principles or the threats to high quality behavior. However, neither of these main themes are rooted in one overarching social psychological theory, which threatens the Code’s relevance and application in both academia and practice. Without theory, researchers cannot test whether the fundamental principles in the Code comprise all of the relevant principles that yield high quality critical thinking, professional judgment, and behaviors. Similarly, researchers cannot test whether or not the Board identified and included all of the relevant threats to PAs complying with the principles or their threats to independence.

Grounding the Code in theory will guide the Board as to which constructs are most relevant and how they relate to one another. It will also help clarify and refine the definitions of the constructs (e.g., professional skepticism), which will facilitate a mapping to past, present, and future research.

To demonstrate how rooting the Code in theory can inform future revisions to the Code, we drafted an example of a theoretical framework in Figure 1. The framework depicts how the Code’s fundamental principles directly influence PAs’ *critical thinking* and indirectly affect their *professional judgments and behaviors*. In the paragraphs that follow, we discuss the framework from right to left starting with the PAs’ behaviors that the Code is meant to guide.

Professional Accountants' Behaviors

The Code is expected to guide a number of key PAs' behaviors. For example, PAs are expected to stand up to management in cases where management is violating GAAP. They are also expected to maintain confidentiality of financial information and behave respectfully both on the job and in their personal lives.

Note that on Figure 1 we reclassified the fundamental principles of *confidentiality* and *professional behavior* to simply behaviors the Code is expected to guide. We made this change because we struggled with the logic of having behaviors as fundamental principles in a "standard of behaviors".

Professional Judgments

The current definition of professional judgment in the Code is:

"Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved." (IESBA 2018, pg 22)

Should this definition include the fundamental principles of competence, integrity, objectivity, and due care since presumably these principles are the bedrock for high quality critical thinking, professional judgments, and behaviors? Moreover, should this definition include explicit references to the fact that professional judgments are evaluative and associated with a target (e.g., evidence) and thus, serve as proxies for PAs' underlying attitudes?² To explain, professional judgments that significantly drive PAs' behaviors include evaluative judgments associated with financial statements, others (e.g., client), and one's self.³ Auditors' evaluative beliefs and feelings associated with the financial statement risks and the evidence necessary to address those risks serve as proxies for **professional skepticism** (Nolder and Kadous, 2018). Auditors' evaluative beliefs and feelings associated with the client serve as proxies for auditors' **independence of mind** (Kadous, Nolder, and Peecher, 2019). And last, auditors' self-evaluation of their *critical thinking* (i.e., metacognition), *competence*, *autonomy*, *independence*, *objectivity*, *authority*, and *integrity* provide insights about potential threats to their ability to comply with the fundamental principles and independence standards. For example, the Code currently emphasizes the importance of self-reflection (without using the term) in a number of sections.

"In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether the accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment" (IEASB 2018, 22).

² An attitude represents an evaluative integration of cognitions and affects experienced in relation to an object (Crano and Prislin 2008).

³ See Kadous, Nolder, and Peecher, 2019 for a deeper discussion about these constructs and their relationships.

Recommendation: The Board might consider enhancing and clarifying the definition of professional judgment to include reference to the fundamental principles. In addition, the Board might consider explicitly including the construct of **self-reflection** in the Code as it may prove to be as integral as the concepts of professional skepticism and independence of mind in understanding and explaining PAs' behaviors.

Critical Thinking

The critical thinking⁴ construct captures the stages described in many professional judgment frameworks developed by public accounting firms (e.g., Ranzilla, Chevalier, Herrmann, Glover, and Prawitt, 2011; EY2012). These stages include (1) understanding and identifying the issues, (2) gathering the facts, (3) considering alternatives, and (4) performing analyses (Nolder and Kadous, 2018). In social psychology, there is considerable evidence to show that the nature and extent of individuals' critical thinking determines the persistence and resistance of their resulting attitudes such as professional skepticism (Griffith, Nolder, and Petty, 2018). Accordingly, it is important for the fundamental principles to significantly guide auditors' critical thinking in order to optimize the quality of their resulting professional judgments and behaviors.

Foundational Principles

We organized the foundational principles thought to significantly influence PAs critical thinking in terms of PAs capacity⁵ (ability, knowledge, experience, and traits) and motivation (e.g., accuracy, defense, and impression). Parsimoniously organizing the constructs that affect individuals' critical thinking in terms of motivation and capacity is widely accepted in social psychology theories (See Petty and Cacioppo 1986 and Chaiken 1980). Fundamental principles associated with PAs' capacity include their **competence** and **integrity**. Fundamental principles associated with PAs' motivation include **accuracy**, impression, and defense. For example, an accuracy motivated PA engages in critical thinking that is objective, diligent, and unbiased. In contrast, an impression or defense motivated PA engages in biased critical thinking that leads to biased professional judgments and perhaps noncompliant behaviors as well.

Recommendation: Perhaps the Board may want to consider adding a section that describes accuracy motivation as a fundamental principle that allows for PAs to perform critical thinking that is both objective and diligent (i.e, with due care).

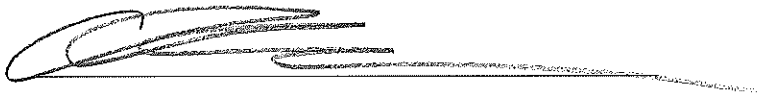
⁴ Critical thinking is a proxy for the more esoteric academic construct of cognitive processing.

⁵ In the social psychology literature, capacity also include factors such as time and resources. However, we did not include these in the proposed framework because a code of conduct assumes that the individual has control over his or her own critical thinking, professional judgments, and behaviors. In the auditing and accounting profession, the PA may or may not have control over the time they have to complete the task or the necessary resources (e.g., training) to execute the task.

In summary, the necessity of grounding the Code in theory cannot be overemphasized. Theory increases the likelihood the code will be relevant and applied because it increases the likelihood that it will include the most relevant constructs regardless of technological advancements. Moreover, grounding the Code in theory helps us clarify and refine the definitions of the constructs contained within, which facilitates a productive dialogue between academics on the one side and practitioners and regulators on the other side. And last, adding theory provides more clarity on how each of the constructs relate to one another.

We appreciate the opportunity to offer our comments.

Sincerely,

A handwritten signature in dark ink, appearing to read "Christine Nolder", written over a horizontal line.

Dr. Christine Nolder, Suffolk University, Boston

A handwritten signature in dark ink, appearing to read "Jeanmarie Lord", written over a horizontal line.

Dr. Jeanmarie Lord, University of Montana

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Figure 1: Example of a Theoretical Framework Applied to the Professional Accountants' Code of Ethics

