

October 31, 2019

Mr. Ken Siong  
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International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017

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

Dear Ken,

The International Federation of Accountants (IFAC) Professional Accountants in Business (PAIB) Committee values the opportunity to comment on the IESBA Exposure Draft, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*. This response reflects the views of the PAIB Committee and those professional accountants who provide business information for internal and external purposes. In addition to the general comments below, appendix 1 contains responses to the detailed questions posed in the Exposure Draft.

Ensuring responsible business practices requires accountants to abide and live by the fundamental ethical principles of professional accountancy. Professional accountants working in business and the public sector play a key role in safeguarding the reputation of an organization, as well as providing the insights necessary for effective decision making. For accountants to be trusted professionals, they must challenge the organization, and themselves, when needed with professional objectivity and integrity.

At a time when the accountancy profession is under enormous pressure and scrutiny, the professionalism of accountants working in organizations is crucial to provide legitimacy, trust and accountability within both corporations and government. With this in mind, the PAIB Committee believes it is important that the Code includes strong terms to describe the required behavioral characteristics and mindset of professional accountants. The proposed new concepts of “determination to act appropriately” and “inquiring mind” are not strong enough for a professional code. To strengthen the concepts, the PAIB Committee would welcome the addition of:

- The word “courage” within the new application material in Subsection 111 relating to the fundamental principle of “integrity”. An accountant may know something is wrong, but actually having the courage to speak up is vital. “Determination to act appropriately” does not capture the need for courage. (See also response to question 2).
- The term “professional challenge” for professional accountants in business. A constructive challenge mindset is valued by boards, management, and external stakeholders. Accountants working in organizations can have an inquiring mind, as can anybody else, but they cannot take information at face value without appropriate challenge. (See also response to question 5).



If you require additional clarification, would like to discuss any of the issues raised above, or if there is any additional way the PAIB Committee can support IESBA in its future work on this matter, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Charles Tilley'. The signature is written in a cursive, flowing style with a long, sweeping tail on the final letter.

Charles Tilley

Chair

IFAC Professional Accountants in Business Committee



## Appendix 1

### 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?***

The relationship between compliance with the code and acting in the public interest is not clear from the proposed text in the introductory paragraph 100.1 A1. The paragraph states that “compliance with the Code enables accountants to meet their responsibility to act in the public interest”. The Exposure Draft also proposes a new requirement that accountants “behave in a manner that is consistent with the profession’s responsibility to act in the public interest”. But the proposals do not give any guidance as to what this means in practice (see also question 3 below).

The new introductory text also highlights that compliance with the Code “involves upholding the ethical values upon which the Code is based”. Including this without explaining the ethical values upon which the Code is based may cause confusion. We do not agree that this makes clearer the point that accountants need to comply not only with the letter of the Code but also its spirit.

The next paragraph 100.1.A2 then refers to four “skills and values” accountants bring to professional activities, which may cause additional confusion.

### 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?***

Having a concise paragraph on having to stand one’s ground is helpful to those in facing ethical dilemmas, however the IESBA is using the term “*determination to act appropriately*” as a way of avoiding the terms “*moral courage*” or “*courage*”.

The PAIB Committee does not believe that this alternative term is a strong enough concept and are strong advocates for the inclusion of the word “courage”.

Our focus at PAIB Committee meetings has centered around moral courage, moral awareness, and moral competence. At the end of the article [Dealing with Ethical Dilemmas with Confidence](#), we asked for feedback on the usefulness of a moral intervention model. The feedback has been positive with 80.5% (62 out of 77 respondents) indicating they found it useful. 16.9% indicated that it would benefit with additional guidance. This suggests that the term “moral courage” is likely to resonate with the majority of accountants.

Other concerns with the proposed concept:

- Using the term “determination” suggests that accountants need to be strong enough to always make the right choice, but when facing an ethical dilemma, situations may not be so clear cut in



terms of what is the right choice. Most business dilemmas involve trade-offs and there cannot always be a right or wrong answer, but it is important to be conscious of the trade-offs being made when addressing a business dilemma. Accountants need to use their own judgements and stand for what they believe is right. Acting on their own beliefs is missing from the text.

- To “act appropriately” is subjective.

### **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 proposed amendments introduce a requirement to behave in a manner that is consistent with the profession’s responsibility to act in the public interest, but there is no proposed content to provide guidance on what this means in practice or how to ensure compliance.

Opinions on what is considered to be in the “public interest” can be subjective. If the IESBA is to add such a requirement, further guidance and examples would be useful to help accountants understand what it means to “*behave in a manner that is consistent with the profession’s responsibility to 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?***

No not as part of the role and mindset project, but we would support further exploration of technology implications through the work of the separate Technology Working Group.

### **Inquiring Mind**

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

The PAIB Committee has mixed views on the proposed concept of an “inquiring mind”. During our recent meeting, we polled the committee on whether they agreed with the concept; 26% agreed, 37% were strongly opposed, 37% were unsure or felt it needed further refinements.

The [PAIB Committee’s previous view](#) was that professional skepticism (PS) should be applicable to all accountants, including professional accountants in business. However, in accepting the IESBA’s analysis following its consultation on PS and the consensus view that PS should be reserved for auditors, the PAIB Committee considered “professional challenge” as an alternative to PS for accountants in business.



This is on the basis that for professional accountants in business, it would recognize a questioning mind and being part of the team driving business success, as well as professionalism.

Conceptually, treating auditors differently to other accountants has led to endless debates on what alternative language can and cannot be used for non-auditors. The proposed changes to the requirement in paragraph R120.5 do not solve the underlying conceptual issue.

If professional skepticism applies in an audit and assurance context only, for accountants in business this means that they only have the requirement to exercise professional judgement, have an inquiring mind, and use the reasonable and informed third party test. But this is missing any form of challenge. A constructive challenge mindset is valued by boards, management, and external stakeholders. Accountants working in organizations can have an inquiring mind, as can anyone else, but they cannot take information at face value without appropriate challenge.

The content on inquiring mind has been derived from the existing content on “professional judgement”, and this causes confusion between the terms because of the cross-over.

The Exposure Draft proposes the inclusion of the ‘description’ of professional judgement in the glossary ‘in light of the importance of the concept’. However, one could argue that because of its importance, it should in fact be properly defined so it can be properly understood and evaluated. A definition of professional judgement, which applies to all accountants could potentially solve the issue of terminology without having to introduce a new concept or term. The PAIB Committee would support an explicit definition and enhanced description of professional judgement.

Other comments from the PAIB Committee on inquiring mind:

- Those that supported the concept of inquiring mind, felt that it is a more positive concept than professional skepticism.
- If the proposed text in paragraph R120.5 remains, the order of the requirements would more logically flow if it was changed to first need an inquiring mind, then use the third party test, and then exercise professional judgement.
- There is no problem with inquiring mind and curiosity as concepts in general, but it is important to put into context that this is a professional code of ethics, and at a time when the profession is under enormous pressure and scrutiny, the term “inquiring mind” is inadequate. A stronger term like ‘professional challenge’ is needed.

## **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?***

The PAIB Committee is not in a position to comment on whether the list of biases included are complete or accurate. A review of academic research would be needed to reach such a conclusion.

The PAIB Committee felt that describing different types of bias is not necessary in the Code itself. Whether one can describe bias is not relevant, it is about recognizing it. The focus in the Code should



be more around ensuring accountants have an awareness of the risk of bias and how one would mitigate it.

Bias is inherent in the human mind, and will never be completely eliminated, only mitigated. Training on conscious and unconscious bias can help to recognize biases.

There is a general statement in paragraph 120.12 A3 about mitigating bias by involving others and seeking advice from experts, but there may be situations where legally accountants are unable to do this. There is risk too that the expert is biased.

It may be worth exploring more specifically what accountants can do to reduce bias. As an example, the need for diversity is crucial throughout an organization, not just gender, but also factors such as background, experience, character and age. Bias might still happen, but diversity is one safeguard.

### **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?***

Accountants can operate within a corporate culture which may lead them to do whatever is mandated by the leadership. We therefore agree that the role of leadership in setting, demonstrating and encouraging an ethical culture is fundamental. The challenge for accountants is when they are working in an organization that does not have a strong ethical culture, which then comes back to the need for them to demonstrate “moral courage” in standing up to ethical improprieties or when dealing with ethical dilemmas.