

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

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (IESBA)

Comments from ACCA
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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our **219,000** members and **527,000** students in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of **110** offices and centres and more than **7,571** Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the proposals to revise the Code to promote the role and mindset expected of professional accountants. We are supportive of what the IESBA is trying to achieve and the proposals are helpful. However, we have identified some drafting issues and these are highlighted in our response where appropriate. We are grateful to have been involved in the Role and Mindset project to help shape changes to the Code in this area and we look forward to working with the IESBA in advancing the restructured Code's relevance and impact.

AREAS FOR SPECIFIC COMMENT

Role and Values of Professional Accountants

Question 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 development of the section on Complying with the Code (Section 100) and the proposals to explain the wide-ranging role and skills and values of professional accountants, as these help to manage the expectations of stakeholders and increase trust and confidence. However, we believe the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest is not clearly articulated.

We agree that compliance with the Code plays an important role in *enabling* professional accountants to meet their responsibility to act in the public interest. We also agree that compliance with the Code does not mean that professional accountants have necessarily *discharged* their responsibility to act in the public interest in full. However, we are concerned that the proposals relating to professional behaviour and the public interest, as currently drafted in paragraphs 110.1 A1 (e) (i) and R115.1 (a) of the Exposure Draft, appear to place a **personal duty on the individual professional accountant to act in the public interest**. We comment on this further in our response to Question 3.

Determination to Act Appropriately

Question 2: Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?

We believe the changes to the Fundamental Principles within Section 110 have achieved the objectives set and adequately describe the attitudes and behaviours required.



We support the inclusion of the concept of determination to act appropriately in difficult situations and its position within the principle of *Integrity* in Subsection 111. The determination to act emphasises the need to do the right thing through thick and thin, but stops short of the need to exercise ‘moral courage’.

We also welcome the redrafting of the principle of *Objectivity* which is expressed more positively; the additional references to technology in the principles of *Objectivity* and *Professional Competence and Due Care* which highlight the importance of this area; and the new behavioural requirement in relation to the public interest within the principle of *Professional Behaviour*.

Professional Behaviour

Question 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?

In previous submissions, ACCA has argued for the Fundamental Principles to be linked to the professional accountant’s public interest responsibility. The Introduction should emphasise the need to act in the public interest and link this to compliance with the Fundamental Principles. We have also argued that the Code would be strengthened by the inclusion of an overarching requirement that the professional accountant shall uphold the public interest.

We therefore welcome the greater emphasis on the need to act in the public interest within the Code, which reinforces the importance of the professional accountant being proactive in acting in the public interest. However, as outlined in our response to Question 1, we are concerned that the relationship between compliance with the Code and a professional accountant’s responsibility to act in the public interest is not clearly articulated within the proposals to strengthen the principle of *Professional Behaviour*.

In particular, we are concerned about the proposed wording in paragraphs 110.1 A1 (e) (i) and R115.1 (a) to “*behave in a manner that is consistent with the profession’s responsibility to act in the public interest*”. While we agree that a professional accountant should behave in a manner which upholds the public interest, we believe that upholding the public interest is the **duty** of the accountancy profession and a professional accountant contributes to that, but a professional accountant cannot solely be responsible for safeguarding the public interest on behalf of the profession. The Code should not impose such a public interest responsibility on the individual professional accountant and, in our opinion, the wording in paragraphs 110.1 A1 (e) (i) and R115.1 (a) could be taken to mean this, creating unintended consequences which would be unfair. We also believe there could be practical difficulties in applying and enforcing this requirement.

Furthermore, ‘the public interest’ is not defined within the Exposure Draft. We accept that ‘the public interest’ is an abstract concept and challenging to define. It varies in individual situations



and professional accountants need to think about the facts and circumstances as a whole when meeting their responsibility to act in the public interest. Where matters relating to the public interest are not covered by the Code, the professional accountant should always refer to the Fundamental Principles and Conceptual Framework in order to ensure compliance with the terms and the spirit of the Code.

Impact of Technology

Question 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?

The inclusion of technology in the Fundamental Principles and Conceptual Framework is also helpful. This recognises the transformations in accounting, assurance and finance as a result of technology developments and their potential impact on compliance with the Code. At this stage, we have not identified any additional matters relating to the impact of technology that should be addressed specifically as part of the Role and Mindset project.

We believe technology is an important strategic issue for ethics and the IESBA needs to engage with this subject matter as it is likely to impact on the Code. ACCA has undertaken research to examine the challenges of new technology, the importance of ethics in an evolving digital environment, and the technical, ethical and interpersonal skills and competencies that professional accountants will need in the future. We would therefore welcome the opportunity to be involved in future discussions to explore the implications of developments in technology and whether further enhancements to the Code are necessary.

Inquiring Mind

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

We are generally supportive of the enhancements to the Conceptual Framework (Section 120) in relation to having an inquiring mind, awareness of bias and the importance of organisational culture. However, we challenge some aspects of these enhancements in our responses to Questions 6 and 7.

The inclusion of the term 'inquiring mind' in Section 120 is welcome and we are pleased that the IESBA has sought to distinguish between the exercise of 'professional scepticism' in performing audit and other assurance engagements and services provided by accountants in business and accountants in practice who are not auditors. That said, we are similarly pleased that the concepts are aligned and complementary as the exercise of scepticism is a vital quality for a professional accountant.



We also welcome the use of the word ‘mind’ as this indicates a way of thinking and suggests scalability, whereas the alternative word ‘mindset’ relates to a state and a set of attitudes. We believe that if the need for further investigation or critical evaluation was expressed as an expected ‘mindset’ of the professional accountant it would have been unenforceable.

Bias

Question 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 the approach taken to addressing bias and welcome the illustrative list of examples of bias and definitions set out in paragraph 120.12 A2. It can be onerous and difficult to be aware of bias and this provides a framework by which to consider points regarding bias. We believe the inclusion of clear application material within the Code (instead of within supplementary guidance) will improve the understanding of the professional accountant when required to exercise professional judgement and help them to apply the Conceptual Framework more effectively. It is also consistent with standards produced by The International Auditing and Assurance Standards Board (IAASB) and supported by regulatory bodies.

The eight examples of bias are helpful and highlight specific areas to consider. We note that the examples focus predominantly on ‘unconscious’ bias which undermines behaviour, as opposed to ‘conscious’ bias which undermines decision making. This may be due to the fact that impediments to the compliance with the Fundamental Principles are usually identifiable, whereas cognitive bias (a subset of unconscious bias) often is not.

There are numerous types of bias which affect a professional accountant’s judgement and behaviour. For example, in ACCA’s report on *Banishing bias? Audit, objectivity and the value of professional scepticism*¹ we identified 12 cognitive biases that are most relevant to the audit process. While it may be helpful to include further illustrative examples of bias (for example, outcome bias, hindsight bias), we believe the IESBA should avoid making the application material too technical and detailed as this would impact on its understandability and could cause translation difficulties.

¹ https://www.accaglobal.com/content/dam/ACCA_Global/Technical/audit/pi-banishing-bias-prof-scepticism.pdf



Organisational Culture

Question 7: Are there any other aspects about organisational culture in addition to the role of leadership that you consider should be addressed in the proposals?

We recognise that the internal culture of an organisation can impact the professional accountant's ability to comply with the Code and act ethically. However, we question the proposal to include organisational culture within paragraphs 120.13 A1 and A2 and whether this information is best placed within the Code as application material, or within supplementary guidance. We also question to whom the section on organisational culture is addressed.

We are uncertain what the requirements are in relation to organisational culture, or whether this is purely guidance in respect of 'other considerations' to be aware of when applying the Conceptual Framework. The section on organisational culture doesn't attach to any specific requirement, and is therefore 'hanging' application material. We believe sections with no requirements are more challenging to interpret.

While the proposed section on organisational culture provides context and raises awareness, the inclusion of this new application material impacts on whether professional accountants comply with the Code and enforcement. It depends upon the level of seniority of the individual as to whether organisational culture can be influenced. In our opinion, it would not be possible to discipline a firm or an individual for failing to do enough to promote a positive organisational culture.

With regard to other aspects about organisational culture, we believe that whistleblowing should be addressed in the application material, in addition to the role of leadership.

Request for general comments

Small and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs):

This topic is of particular significance to SMPs and SMEs. Due to the more limited resources within SMPs and SMEs, it is important that the Code is supported by relevant guidance and other resources if behaviours are to change and the public are to understand the responsibilities of professional accountants. We believe that the current proposals, as drafted, achieve meaningful improvements and provide greater clarity (subject to our comments on public interest).

Regulators and Audit Oversight Bodies:

Any changes to the Code must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the Code's requirements are comprehensive. Therefore, the drafting of the Code must be clear, and it must be drafted with due regard to enforceability.



Developing Nations:

Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the restructured Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by professional bodies. The provisions need to provide practical and effective guidance, in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations.

Translations:

Translation of the restructured Code for adoption in their environments is a challenging process for translators. Further changes so soon after the restructure create inefficiencies and will inevitably place additional demands on translation resources which could threaten accurate translation of the Code and compliance. However, we acknowledge that the IESBA made a prior commitment to promote the role and mindset expected of professional accountants and we recognise that the revisions are important, as the concept goes fundamentally to the heart of what it means to be a professional accountant.

Although, as drafted, most of the proposed revisions would be unlikely to present translation issues as they use generally understood phrases rather than specific terms, we believe there may be problems in translating the examples of bias. The IESBA should remain alert to this in proposing any further changes to the existing wording and ensure the proposals are clear.

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