Meeting: IESBA
Meeting Location: New York, USA
Meeting Date: December 3-5, 2018

Agenda Item 9

Promoting the Role and Mindset Expected of Professional Accountants

Objectives of Agenda Item

1. To discuss issues and preliminary Task Force proposals related to the Role and Mindset project, in particular:
   (a) A draft Introduction for the Code and proposed revisions to Section 100; and
   (b) The Task Force’s current thinking about actions that IESBA might take to achieve actual change in behavior among professional accountants.

   The Task Force welcomes any advance comment and drafting suggestions on its proposed text in Agenda Item 9-A. Please email comments to: geoffkwan@ethicsboard.org.

Task Force

2. The Task Force comprises:
   - Richard Fleck, Chair and IESBA Deputy Chair
   - James Barbour, IESBA Technical Advisor
   - Hironori Fukukawa, IESBA Member
   - Trish Mulvaney, IESBA Member

Activities since Last IESBA Discussion

3. Some Task Force members met in-person in October to develop an initial draft of the proposed text. Informed by this preliminary in-person meeting, the Task Force held two teleconferences to develop the agenda materials for this meeting.

Coordination with other Standard Setting Boards (SSBs)

4. The Task Force Chair provided input to the International Auditing and Assurance Standards Board’s (IAASB) October 2018 Professional Skepticism Communiqué. The IAASB publication was published to update stakeholders about the IAASB’s activities with respect to professional skepticism and to summarize the IESBA and International Accounting Education Standards Board (IAESB) related activities.

5. The Task Force Chair will participate in a teleconference with the respective chairs of the IAASB PS Subgroup and IAESB PS Task Force to share knowledge and obtain high level feedback to the

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1 Part 1, Complying with the Code, Fundamental Principles and Conceptual Framework, Section 100, Complying with the Code
Task Force’s draft material in late November 2018. The Task Force Chair will brief the Board on the significant matters discussed during the December Board meeting.

Matters for IESBA Consideration

Proposed Introduction to the Code

6. In considering material to describe the role, mindset and behavioral characteristics expected of all professional accountants (PAs) when performing professional activities, the Task Force:
   - Considered roundtable participants’ views about the characteristics and behaviors expected of PAs.
   - Reviewed the introductory material that was included in previous versions of the IESBA Code, in particular the 2001 edition.
   - Considered the text of national ethics code from other jurisdictions (e.g., Germany, Japan, Scotland, U.K., and USA).

The Task Force also took into consideration the IESBA’s decisions in finalizing the Structure of the Code project, in particular the efforts made to clarify and streamline the material in the extant Code.

7. Against this background, the Task Force formed the view that it would be helpful for users to establish an Introduction before the various Parts of the Code. The Task Force’s proposed Introduction sets out the role of professional accountants (in a broad sense) in society, their responsibility to act in the public interest and the overarching objective expected of PAs. The Task Force intends for this new material to serve as an effective reminder to all PAs, whatever their position or experience, of the importance of their work and, to encourage them to serve the public interest by complying with the Code. Whilst this Introduction does not fall within the other Parts of the Code and does not contain any requirements or application material, it should be treated as part of the Code.

8. The draft material explains the role of the global accountancy profession in society and the confidence it receives from the public for its work. It also points out that a professional accountant in the “broad sense” is generally someone who is a member of a professional accountancy body with certain characteristics such as achieving a prescribed level of expertise and committing to observe a code of ethics and professional behavior. This contextual information underpins the importance for professional accountants to act in the public interest and sets the scene for the overarching objective expected of PAs set out in paragraph 5 of the Introduction Section (Agenda Item 9-A).

Placement of the Proposed Introduction

9. The Task Force believes that the proposed Introduction should be positioned immediately after the Preface to the Code, before Part 1 of the Code. In contrast to the Guide to the Code, the Task Force proposes that its proposed Introduction should be part of the Code.

Consideration of an Oath or Mission Statement for PAs

10. The Task Force considered the support voiced by various global roundtable participants for the inclusion of an overarching statement of purpose at the beginning of the Code, perhaps in the form of a mission statement or professional oath. Upon reflection, which included a review of the
professional oaths currently used by a number of IFAC member bodies, the Task Force is of the view that the Code is not the appropriate place to promote such an oath or mission statement. It would be more appropriate for IFAC, as part of its member body obligations, to require or suggest the promulgation of a mission statement for professional accountants and how it should be promoted. Nevertheless, as such an approach is already adopted in a number of jurisdictions, the Task Force believes there is merit in referring to this practice in the Introduction Section (Paragraph 10 in Agenda Item 9-A)

Proposed Revisions to Sections 100 and 120

Culture

11. The Task Force is of the view that having the right organizational culture and tone at the top is essential in effecting ethical behavior of PAs. This is consistent with views expressed by the IESBA Consultative Advisory Group (CAG) and the Board in September 2018.

12. The Task Force has developed proposals relating to culture in paragraphs 100.1 A3 and 100.1 A4 in Agenda Item 9-A.

13. The Task Force noted that the IAASB’s proposed ISQM 1 also contains proposed requirements and application material that recognizes the importance of a firm’s culture in influencing the behavior of its personnel. The Task Force’s proposals relating to culture aligns with the material on culture in proposed ISQM 1.

14. The Task Force notes that the IAASB anticipates approving proposed ISQM 1 at its December 2018 meeting. Therefore, it will revisit the material in Agenda Item 9-A relating to culture to ensure that it continues to be aligned with proposed ISQM 1. The Task Force will also consider whether there is any suitable material in proposed ISQM 1 that can supplement the Task Force’s draft material on organizational culture.

Exercising Professional Judgment

15. To respond to the underlying issues relating to professional skepticism, including clarifying the related behavior that is expected of all professional accountants, the Code includes new application material that emphasizes the importance of understanding facts and circumstances when exercising professional judgment in Section 120. The IESBA's approval of the application material in December 2017 was a short term measure to be revisited as part of the Board’s Role and Mindset project (formerly named Professional Skepticism).

16. Upon further review, the Task Force believes that the application material relating to professional judgment should be repositioned. Accordingly, the Task Force proposes that paragraphs 120.5 A1 and 120.5 A2 should revised and be placed earlier in the Code at proposed paragraphs 100.1 A5 to 100.1 A7 as illustrated in Agenda Item 9-A. In doing so, the Task Force seeks to make it clear that the exercise of professional judgment is not only required for the application of the conceptual framework, but is, in fact, essential in achieving compliance with the fundamental principles and other requirements in the Code.

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2 Proposed International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

3 Part 1, Section 120, The Conceptual Framework, paragraphs 120.5 A1-120.5 A3
17. A mark-up of the proposed revisions to Sections 100 and 120 is shown in Agenda Item 9-B. The Task Force notes that the revised paragraphs 100.1 A8 to 100.1 A9 repeat material that is already included in the Code. Notwithstanding, the Task Force is of the view that the proposed text is necessary to emphasize and make prominent key concepts.

Matters for Future Task Force Consideration

New Application Material in Support of the Fundamental Principles

18. The Task Force plans to develop new application material for inclusion in Section 110⁴ and/or Section 120 to explain the linkage between the role, mindset and behavioral characteristics expected of PAs as described in the proposed Introduction to the Code and the proposed revisions to Section 100⁵ in Q1 of 2019.

19. The Task Force’s deliberations to-date indicate the need to consider:

- Whether the concept of “courage” should be added in the Code as an “enabler” to comply with the fundamental principles. The Task Force’s discussions suggest that courage is needed for PAs to act in an ethical manner and to comply with the Code when facing ethical dilemmas, particularly when there are personal financial or reputational consequences. The Task Force also considered whether the concept of courage relates principally to the fundamental principle of integrity, which is described in Subsection 111.⁶ The Task Force will take into consideration the presentation by representatives from the Institute of Chartered Accountants of Scotland (ICAS) at the March 2016 IESBA meeting on ICAS’ “The Power of One” initiative and discussions about “moral courage” determine whether, and if so how, to incorporate in the Code. The Task Force notes that the term “moral” could be interpreted differently across cultures and anticipates the need to consider a different word.

- Whether it would be more beneficial and impactful for users if the requirements in the Code relating to the fundamental principle of objectivity should be is rephrased to convert the negative statements to positive ones. The Code states that a PA:⁷

  - “...shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.”

  - “... shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant’s professional judgment regarding that activity.”

- Consider whether application material should be established in the Code to provide more guidance to PAs on how to comply with the fundamental principle of objectivity.

- Whether there should be any linkages with technology, such as the fundamental principle of professional competence and due care, and the role, mindset and behavioral characteristics expected of PAs, particularly in light of the current pace of change to businesses and societies as a result of emerging technology developments.

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⁴ Part 1, Section 110, The Fundamental Principles
⁵ Part 1, Section 100, Complying with the Code
⁶ Part 1, Section 110, Subsection 111, Integrity
⁷ Part 1, Section 110, Subsection 112, Objectivity, paragraphs R112.1 and R112.2
Questioning Mindset

20. The proposed text in Agenda Item 9-A does not include the concept of a “questioning mindset.” It is the Task Force’s current view that it might be more appropriate to include that or a similar concept as application material for the fundamental principles in Section 110. For example, application material under the principle of objectivity and professional competence and due care in subsections 112 and 113 respectively, could highlight the importance of applying a “questioning mindset” if the circumstances, such as conflicting information, demonstrated the necessity for it. The Task Force has also considered developing this concept under Section 120 as part of the material on how to apply the conceptual framework.

21. The Task Force noted that the IAESB recently considered whether to introduce definitions of terms such as, “questioning mindset”, “critical thinking” and “professional judgement” into their Standards. The Task Force will continue to liaise with the IAESB and the IAASB to ensure there is appropriate alignment in the relevant terms used in the SSBs’ standards to the extent practicable.

Bias, Pressure and Other Impediments

22. The Task Force has explored how best to expand the Code to include a discussion about bias, including possible locations for the material. One option is to insert a separate and new section at the end of Section 110 on the topic of bias and, by doing so, highlight that bias is a potential threat to compliance with each of the fundamental principles. Another alternative would be to introduce new material on the topic of bias in Section 120. The Task Force will also consider developing non-authoritative material to discuss the issue of bias.

23. The Task Force will also consider how PAs should deal with the impediments to compliance to the fundamental principles (e.g., pressure). The Task Force plans to take into account the existing material in the Code relating to pressure in Section 270.9

Scalability

24. Some IESBA members have questioned whether, and if so how, the Code should reconcile the tension between setting expectations for all PAs on the one hand and, on the other hand, establishing specific guidance for the different roles that professional accountants accept when performing specific professional activities. It is noted that those different roles necessitate different types and levels of training, experience, skills and expertise. To address this, the Task Force plans to develop proposals that explain the expectations of PAs in a manner that is seen to be proportional to the role being undertaken and therefore, relevant to all PAs.

The Bigger Picture - Effecting Behavioral Changes

25. The IESBA CAG and the Board both noted during their September 2018 meetings, that enhancements to the Code alone will not achieve changes in mindset and behavior, and ultimately the actions taken by PAs. The Task Force acknowledges that influencing changes in behavior and practice will require efforts by other organizations. The Task Force notes the need fora structured program of activities, including marketing, promotion and raising awareness, education and

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8 Part 1, Section 110, Subsection 113, Professional Competence and Due Care

9 Part 2, Professional Accountants in Business, Section 270, Pressure to Breach the Fundamental Principles
training. In this regard, the Task Force will develop plans to, among other matters:

- Identify and develop suitable non-authoritative guidance material to supplement the new material to be included in the Code. For example, the Task Force might consider the use of staff publications such as FAQs to address the issues of pressure and other impediments.
- Work with the IAESB and the International Accounting Education Transitional Advisory Group to educate PAs about the importance of their work and the role, mindset and behavior expected of them.
- Promote the key concepts in the Code with different stakeholders including the relevant IFAC committees such as the Forum of Firms, Small and Medium Practices Committee and the Professional Accountants in Business Committee.

Materials Presented

Agenda Item 9-A Proposed Text (Clean)
Agenda Item 9-B Proposed Text (Mark-up)

Action Requested

26. IESBA members are asked to provide:
   (a) Input to the proposed texts that set out the preliminary draft Introduction to the Code and the proposed revisions to Sections 100 and Sections 120 in Agenda Item 9-A.
   (b) Views and suggestions on the other matters discussed in this paper, including the Task Force’s current thinking about:
      (i) New application material to support existing material relating to the fundamental principles.
      (ii) Promotion of a “questioning mindset” or a similar concept.
      (iii) Material to address bias, pressure and other impediments to compliance with the fundamental principles.

27. IESBA members are asked to share views that might assist the Task Force with its plan on achieving actual mindset and behavioral changes.

Anticipated Timeline

28. The proposed timetable for the Task Force’s outputs are as follows:

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<th>Indicative Timing</th>
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<td>December 2018</td>
<td>Discussion of proposed Introduction to the Code and proposed revisions to Sections 100 and 120 with IESBA</td>
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<td>March 2019</td>
<td>• Discussion of Task Force drafts with IESBA CAG</td>
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<td>• Discussion of Task Force proposals and first read of Exposure Draft with</td>
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