IESBA®

Role and Mindset

Richard Fleck

IESBA Deputy Chair & Task Force Chair

IESBA Meeting (Virtual)

March 16, 2020

Overview of the Session

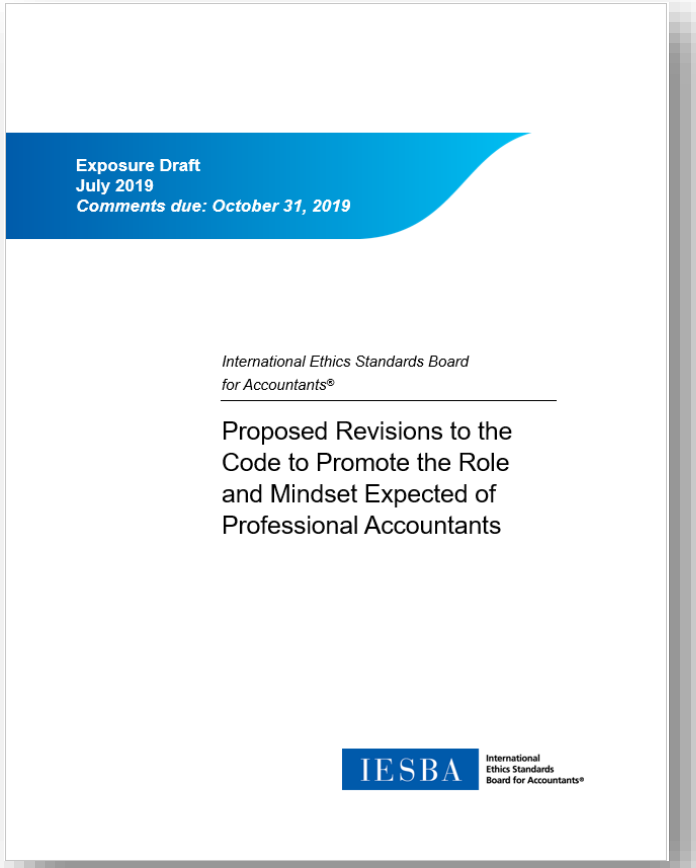
1. To present significant issues and key comments received on the Role and Mindset ED and the TF's proposals

2. To receive input on the TF's suggested revisions to the ED (First Read)



IESBA

Exposure Draft - Recap



Exposure Draft

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

- Proposed changes primarily to Part 1 of the Code
- Extensive Board deliberations about key concepts
- Discussed with IESBA CAG three times
- Coordinated with IAASB and IAESB in development of proposals
- 7 specific questions on the key changes
- Comment period ended October 31, 2019

IESBA®

Key Proposed Changes

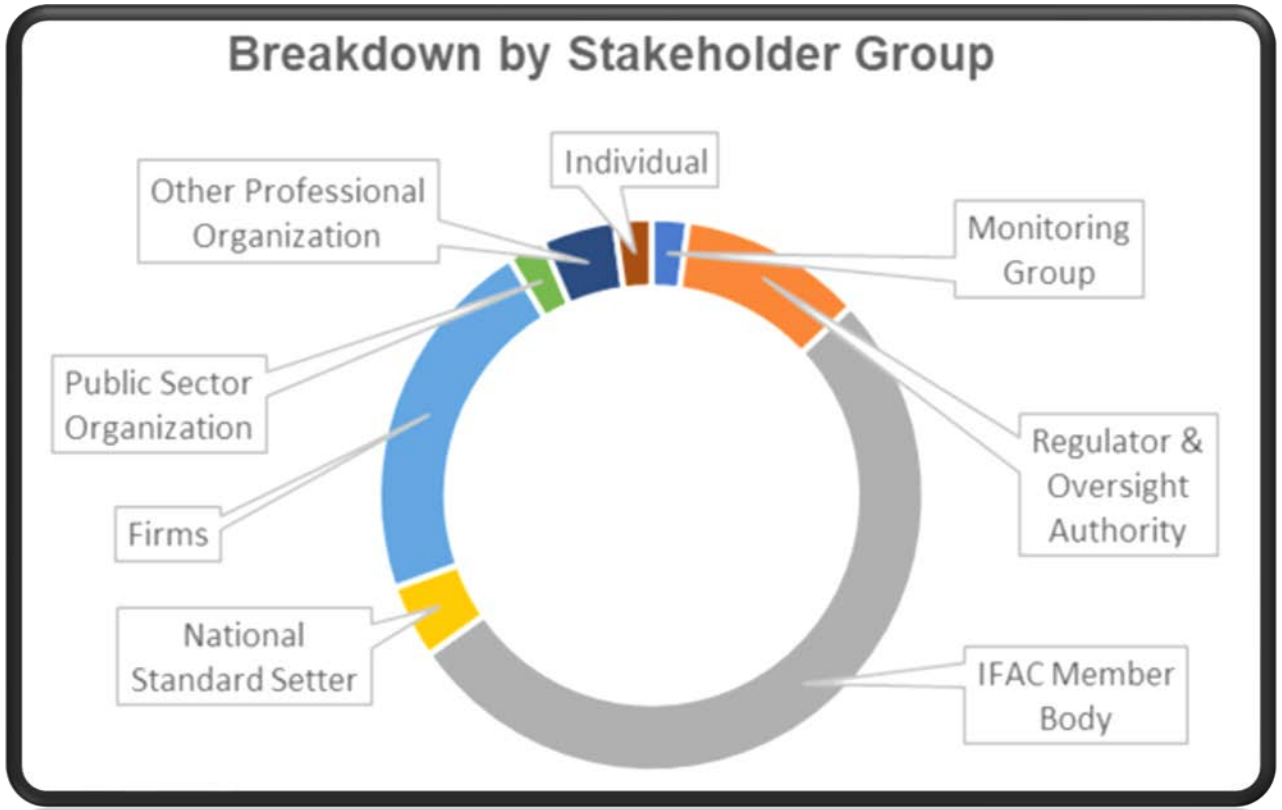
Overview

Section 100	Highlight wide-ranging role of PAs because of their skills and values
	Highlight relationship between compliance with Code and PA's responsibility to act in public interest
Section 110	Increase robustness of FPs of integrity objectivity and professional behavior
	Introduce concept of determination to act appropriately in difficult situations (as part of FP of integrity)
Section 120	Require all PAs to have an inquiring mind when applying the CF
	Emphasize importance of being aware of bias and having the right organizational culture

Include enhancements that reflect impact of technology

IESBA

Overview of Responses



- Total of **46** comment letters
- 1 MG member: Basel Committee
- IFAC MBs and Committees 56%
- 10 firms (all FoF members) and SMPC responded
- Global (28%); Asia-Pacific (20%) and Europe (24%)
- No responses from investors, TCWG or academic groups

Overview of Responses

Most significant comments relate to meaning of public interest, PA's responsibility to act in public interest, ethical values

Alternatives for "Determination to act appropriately"

Overall Support for project & proposals

TWG to review other suggested technology-related changes

Need to collaborate with IAASB on list of bias and suggested additional types

Important to include PAs' responsibility to promote ethical culture

Suggestions for "inquiring mind" range from refinements to stronger terms

IESBA

Report Back – IAASB WG Teleconference



Feb 2020 Teleconference with Chair of IAASB PS Sub-Working Group & Participants

- **Concept of "having an inquiring mind"**
  - Support for proposed revisions
- **Bias**
  - Agreement with IAASB ISA 220 TF on wordings on examples of bias
- **Reference of proposed ISQM1**
  - No issues raised

Report Back – March 2020 IESBA CAG

- General support for the TF revised proposals
- PIOB welcomes and supports the revised proposals
- Suggested alternatives to “consider” in para. R115.1 (a)
- Agreed not to use “ethical value” but a few queried the term “ethical concepts”
- Support for revised proposals on “having an inquiring mind”



Acting in Public Interest, Role & Value of PAs



ED 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?



ED 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?

Acting in Public Interest, Role & Value of PAs

ED Proposals

- New material in paragraphs 100.1 A1 to 100.2 A3 and R115.1
- Highlight wide-ranging role of PAs due to their skills and values which ultimately underpin public trust in the profession
- Highlight importance of compliance with the Code in PAs meeting their responsibility to act in the public interest whilst acknowledging such compliance does not necessarily mean the public interest responsibility has been discharged in full
- Emphasize that compliance with the Code involves also upholding the ethical values upon which the Code is based (i.e., not only letter of the Code but also its spirit)
- New requirement under FP of professional behavior that PAs behave in a manner consistent with their responsibility to act in the public interest



Acting in Public Interest, Role & Value of PAs

Key Comments

Acting in the Public Interest

- Most significant comments on the proposed revisions to Section 100 and Subsection 115 relate to the terms “public interest” and “act in the public interest”
- Whilst some appreciated the difficulty in developing such an explanation in a global code; others called for further explanation of these terms to ensure consistent application across jurisdictions
- A few recommended the development of a public interest framework
- Some respondents did not support the proposed requirement in para. R115.1 (a) for a PA to behave in a manner that is consistent with the profession’s responsibility to act in the public interest”:
  - A personal duty on the individual PA to act in the public interest and arguably created a 6th FP
  - Upholding the public interest is the profession’s responsibility which, if extended as an additional requirement to individual PAs, may put PAs in an impossible position
  - Such a personal responsibility may be difficult to enforce

Acting in the Public Interest

TF Responses & Proposals

- Further clarification/explanation of public interest/acting in the public interest is not practical or possible given the global and principle-based nature of the Code.
- Recommend that IESBA staff explore the option of non-authoritative guidance material as part of the broader discussions on collaboration between IFAC and the SSBs
- With regard to concerns that the proposed new requirement in paragraph 115 has created a 6th FP and has imposed undue responsibility on PAs, the TF was of the view that:
  - The proposed requirement helps emphasize the importance of PAs being proactive in acting in the public interest
  - The idea that PAs have a responsibility to act in the public interest already exists in extant Code
  - To address the concern, the TF agreed to replace “Behave in a manner that is consistent with” with “Consider”

Compliance with the Code and Public Interest

Key Comments

Relationship between Compliance with the Code and Public Interest

("Compliance with the Code enables accountants to meet their responsibility to act in the public interest…")

- Some concerns with use of the words "enables" and "meeting" in the proposed paragraph 100.1 A1
- Some respondents suggested that the sentence could be taken as meaning that compliance with the Code will in fact meet PA's public interest responsibility in full; also potential translation issues
- Alternatives suggested include:
  - Substitute "enables" with either "facilitates", "supports" or "assists"
  - Substitute the word "meet" in "meet their responsibility to act in the public interest" with "manage
  - Substitute "act in" in "act in the public interest" with "consider" or "give due consideration to"

TF Responses & Proposals

- Agreed to replace the word "enables" with "assists"
  - To clarify that whilst compliance with the Code plays an important role in a PA meeting their responsibility to act in the public interest, such compliance does not necessary mean the responsibility has been fully discharged

Ethical values

Key Comments

Ethical Values

("… and involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code…")

- Some queried the meaning of "ethical values", if it equates FPs and suggested the term did not properly convey the IESBA's message in the ED:
  - i.e., PAs need to ensure that they comply with not only the letter of the Code but also its spirit
- Alternatives suggested include "ethical principles" and "spirit of the Code."

TF Responses & Proposals

- TF view: "Spirit of the Code" is also likely to create confusion
- Agreed to replace "ethical values" with "ethical concepts"

Other Comments re revisions to s100 and s115

Key Comments

- Other comments/ suggested enhancements by respondents include:
  - More clarity needed regarding PA's responsibility to client and employing organization in light of the PAs responsibility to act in the public interest
  - Proposals should emphasize public trust in the profession is at the heart of the broad range of roles undertaken by PAs
  - Proposed para. 100.1 A2 and A3 were more suitable as non-authoritative guidance material or a separate introduction to the Code
  - Proposals in ss100 and 115 not warranted as extant material is already sufficient

Other Comments re revisions to s100 and s115

TF Responses & Proposals

- TF agreed to the following revisions:
  - Clarified that in meeting their public interest responsibility, a PA does not consider only the preferences and requirements of a client or employing organization
  - Highlight the relationship between public trust in the profession and the role of PAs
  - Improved flow of the proposed material and removed unnecessary duplications
- TF did not agree that the material in proposed paragraphs 100.1 A2 and A3 be removed and developed as non-authoritative guidance material or introductory material outside the Code:
  - The proposed material provides useful contextual information for the Code to speak about role and mindset expected of PAs

Other Comments re revisions to s100 and s115

TF Proposed Revisions

Introduction

100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.1 A2 Public trust in the accountancy profession is the reason why ~~B~~businesses, governments and other organizations involve professional accountants in a broad range of matters. ~~Accountants understand and acknowledge that these organizations do so because they recognize t~~The skills and values that ~~the~~ accountants bring to the professional activities they undertake are fundamental to maintaining public trust and include~~through~~:

Other Comments re revisions to s100 and s115

TF Proposed Revisions

100.1 A5 **(Moved from 100.1 A1)** ~~The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants.~~ Upholding the ethical concepts embodied in the fundamental principles and compliance with the specific requirements of the Code ~~Compliance with the Code enables~~ assist professional accountants ~~to~~ in meeting their responsibility to act in the public interest ~~and involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code~~. ~~In acting in the public interest,~~ In meeting this public interest responsibility, a professional accountant~~'s responsibility is not~~ does not consider only~~exclusively to satisfy~~ the preferences or requirements of an individual client or employing organization when performing professional activities.

Matters for CAG Consideration

Acting in the Public Interest, Role & Value of PAs



Comments on the TF’s responses and proposals?

Determination to Act Appropriately



ED Question 2

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

ED Proposals

- New application material as part of the FP of integrity (paragraph 111.1 A2)
- Emphasizes the importance of having the determination to act appropriately when confronting dilemmas or difficult situations
- IESBA considered using different terms (e.g., moral courage, resolve) but determined not necessary/appropriate or may not translate well
- IESBA also considered including the material under Section 120 as an enabler to the application of CF but concluded the material is more closely aligned with acting with integrity



Determination to Act Appropriately

Key Comments

- General support for new AM with the concept of determination to act appropriately when confronting dilemmas or difficult situations
- The word “determination”:
  - Some suggested the word be replaced:
    “fortitude”, “courage of conviction”, “strength of character”
  - Other suggested it be removed because it is the fact of acting with determination that is important to the principle of integrity
- Other suggestions to refine the proposed text include:
  - Add “physical safety” a factor for consideration -
  - Phrases such as “standing one’s ground” might be subject to interpretation
  - The two examples/elements of having determination to act appropriately not sufficiently clear
- Some also suggested different location for the proposed text

Determination to Act Appropriately

TF Responses & Proposals

- Replaced “determination” with “strength of character”
- TF’s view:

  “Strength of character” is the essential quality required in an individual to propel that individual to follow through with the determination to do the right thing and act accordingly
- Extended the two examples/elements to not only “determination”/strength of character” but more broadly with acting with integrity

Determination to Act Appropriately

TF Proposed Revisions

111.1 A1 Integrity ~~implies~~involves~~.~~ fair dealing, ~~and~~ truthfulness~~.~~ and

~~111.1 A2 Integrity also includes having the determination to~~ having the strength of character to act appropriately when confronted~~ing~~ by dilemmas or difficult situations.

111.1 A2 Acting with integrity ~~This~~ would also involve~~, for example~~:

- Standing one's ground when facing pressure to do otherwise ~~during the course of performing professional activities~~; or
- Challenging others ~~as and when appropriate~~,

during the course of performing professional activities even when doing so might create~~s~~ potential adverse personal or organizational consequences.

Matters for CAG Consideration

Determination to Act Appropriately



Comments on the TF's responses and proposals?

Having an Inquiring Mind



ED Question 5

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

ED Proposals

- Proposed material (paragraphs R120.5 – 120.5 A5)
- The IESBA took into consideration responses from its 2018 Consultation Paper and global roundtable meetings
  - E.g., support for a mindset that encapsulates certain expected behavior, 'professional skepticism' should be reserved for use only in an audit or assurance context
- A new requirement that all PAs shall have an inquiring mind when applying the CF
  - IESBA/TF considered different terms including “questioning mind”, “questioning mindset”, “critical mindset”, “critical mind”, “critical analysis”, “professional challenge”

Having an Inquiring Mind

ED Proposals

- New AM that explains the concept of having an inquiring mind (a scalable concept)
  - Being open and alert for situations and information to determine if further investigation is necessary;
  - consider if need for critical evaluation of information obtained subject to the overall nature of the prof. activity
- New AM that highlights the difference in scope to the exercise of PS



Having an Inquiring Mind

Key Comments

- Respondents (including the Basel Committee) were in large part supportive of the material
- The concept/term “inquiring mind”:
  - Many of the suggested refinements relate to the need to consider the integrity, source and relevance of the information obtained as well as clarifying what is meant by further investigation and critical evaluation
  - Some felt the term does not fully capture the type and level of thinking required of PAs
  - A few suggested that the term should cover the full spectrum of professional activities
  - It was suggested that concept is softer than “skeptical mind”, “questioning mind” and “professional challenge”, and PAs have a responsibility to not just accept information at face value, and to take the necessary action in addition to any investigation

Having an Inquiring Mind

Key Comments

- The concept/term “inquiring mind” (continued):
  - A few observed that it might be difficult to demonstrate an inquiring mind has been applied
  - A few respondents suggested that professional judgment should be enhanced instead
- Relationship with PS:
  - Support for the term “PS” to be retained for audit and assurance work
  - Some were of the view that the concepts of “having an inquiring mind” and “exercising professional skepticism” should be more clearly distinguished in the proposals
- Professional judgment
  - A few respondents suggested that the IESBA definition should be further aligned with the IAASB definition

Having an Inquiring Mind

TF Responses & Proposals

- TF took into consideration that respondents were generally supportive of the new concept
- Clarified that:
  - PAs have a responsibility to challenge matters, not just accept them at face value, and to take the necessary action in addition to any investigation.
  - Once a PA has considered the information with respect to its source, relevance and sufficiency, the PA will then consider if further investigation and other action is necessary
- The TF noted that the concept of “inquiring mind” is not intended to cover all aspects of inquiries, critical thinking and investigation required by laws and regulations or other professional or technical standards
- Removed the term “critically evaluate” to avoid confusion with “further investigation”

Having an Inquiring Mind

TF Responses & Proposals

- Retained the term “inquiring mind”
  - the focus should be on the PA’s actions, characteristics and behaviors rather than what a suitable covering term might be;
- Clarified that inquiring mind and PS serve different purposes
  - TF of the view the Code is not an appropriate avenue for any further explanation about the relationship and differences between inquiring mind and PS
- With respect to professional judgment:
  - TF noted that IESBA already agreed not to include “inquiring mind” in PJ in June 2019; respondents also generally agreed to keep “inquiring mind” as a separate concept
  - TF did not consider sufficient cause for further alignment with the IAASB definition

Having an Inquiring Mind

TF Proposed Revisions

Having an Inquiring Mind

120.5 A3 An inquiring mind is a prerequisite to obtaining aAn understanding of known facts and circumstances ~~is a prerequisite to~~necessary for the proper application of the conceptual framework. ~~Obtaining this understanding entails h~~Having an inquiring mind involves considering, ~~which means~~:

(a) The source, relevance and sufficiency of information obtained having regard to the nature, scope and outputs of the professional activity being undertaken; and

~~(a) Being open and alert for situations and information (or the lack thereof) that might require further investigation; and~~

(b) ~~Considering w~~Whether there is a need ~~to critically evaluate~~for further investigation or other action ~~the information obtained,~~.

~~having regard to the nature, scope and outputs of the professional activity being undertaken.~~

Having an Inquiring Mind

120.5 A4 ~~In~~ When considering the adequacy of the source, relevance and sufficiency of information obtained~~determining if further investigation is necessary~~, the professional accountant might consider, among other matters, whether:

- New information has emerged or whether there have been changes in facts and circumstances.
- There is reason to be concerned that potentially relevant information might be missing from the facts

120.5 A5 ~~When undertaking any professional activities, p~~Paragraph R120.5 requires all professional accountants to have an inquiring mind when applying the conceptual framework to identify, evaluate and address threats to the fundamental principles.~~–~~ Having an inquiring mind has a different purpose to the exercise of professional skepticism. ~~Additionally, a~~Accountants performing audits, reviews and other assurance engagements are required to exercise professional skepticism in order to critically assess evidence ~~as described in paragraphs 120.16 A1 and 120.16 A2~~.

Matters for CAG Consideration

Having an Inquiring Mind



Comments on the TF's responses and proposals?

Changes to Reflect Impact of Technology



ED 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?

ED Proposals

- New material to reflect the impact of technology notwithstanding the ongoing work of the IESBA TWG
- Revised the FP of objectivity by highlighting the risk of undue reliance on technology
- Included “automation bias” in the material on bias but concluded that no other technology examples should be included
- Highlighted the importance of maintaining an awareness and understanding of technology-related developments when complying with FP of professional competence and due care



Changes to Reflect Impact of Technology

Key Comments

- Respondents generally agreed:
  - With the technology related changes in the proposals, such as the revisions to the description of the fundamental principle of objectivity.
  - Other technology-related issues be addressed as part of the IESBA technology initiative (The IESBA TWG is presenting its project proposal at the meeting)

TF Responses & Proposals

- No further changes proposed
- Other technology-related matters passed on to the TWG for its review

Matters for CAG Consideration

Impact of Technology



Comments on the TF’s responses and proposals?

The Risk of Bias



ED 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?

ED Proposals

- New application material in Section 120 (Paragraphs 120.12 A1 – A3)
- Highlights the importance of being aware of bias when exercising professional judgment
- Includes 8 examples of bias (Anchoring bias, automation bias, availability bias, confirmation bias, groupthink, overconfidence bias, representation bias, selective perception)
- Considered proposed material on bias in IAASB's proposed ISA 220 (Revised) ED & coordinated with IAASB representatives to ensure alignment



The Risk of Bias

Key Comments

- General support for the proposed material; only a few respondents suggested that the list should be deleted and be included as guidance material instead
- Majority of comments related to the proposed list of examples:
  - Suggested changes to the existing examples
  - Suggested new examples (e.g., authority bias, information bias and halo bias)
- Some respondents reminded IESBA of importance of collaborating with IAASB to ensure appropriate alignment with material on bias in
- Other comments include:
  - Queried the relevance of the examples to mitigate the impact of bias
  - Conscious and unconscious bias are different in nature and requires different treatment
  - Proposed material may be more appropriate in other parts of Part 1 of the Code

The Risk of Bias

TF Responses & Proposals

- More clearly stating that both conscious and unconscious bias affect the exercise of PJ
- No proposed change to the list of bias with the possible exception of “groupthink”
  - Agreed with IAASB ISA 220 TF to align descriptions of the 4 common examples with those in the Role and Mindset ED; both groups satisfied that the Role and Mindset proposals have extra 4 examples
  - Groupthink:

    ED version: which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility

    Alternative: “…a tendency for a group of individuals to reach a consensus without critical reasoning or evaluation of the consequences or alternatives”
- Strengthened the examples of actions that might mitigate the impact of bias
- Non-authoritative guidance material to discuss other types of bias should be considered

The Risk of Bias

TF Proposed Revisions

120.12 A1 ~~Being aware of the risk of bias, whether c~~Conscious or unconscious~~,~~ bias affects ~~is important to~~ the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility. (Alternative: "…a tendency for a group of individuals to reach a consensus without critical reasoning or evaluation of the consequences or alternatives")

120.12 A3 Actions that might mitigate ~~T~~the ~~impact~~effect of bias ~~might be mitigated by~~include, for example:

- ~~involving others or s~~Seeking advice from experts to provide additional input.
- Consulting with others to ensure ~~or~~ appropriate challenge as part of the evaluation process.
- Receiving self-awareness training on the risk of bias as part of professional development.

Matters for CAG Consideration

The Risk of Bias



Comments on the TF’s responses and proposals?

Importance of Organizational Culture



ED Question 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?

ED Proposals

- IESBA recognizes that internal organizational culture impacts whether PAs comply with the Code
- New application material in Section 120 (paragraph 120.13 A1 – 120.14 A1)
- Highlights the contribution a positive internal organizational culture makes to the effective application of the conceptual framework set out in Section 120 of the Code
- Refers to material in IAASB's proposed ISQM 1 to reinforce the importance of firm culture



Importance of Organizational Culture

Key Comments

- Respondents generally agreed that organizational culture and leadership play a significant role in the ethical behavior of PAs.
- The Basel Committee recommended that the Code should clearly explain that its requirements apply regardless of the organizational culture within which a PA operates
- Some respondents highlighted the importance of whistle-blowing policies and procedures
- Some respondents suggested that the material should also highlight a PA's responsibility in promoting such culture, irrespective of their role and the prevailing organizational ethical culture
- Several respondents queried whether the proposal is suitable given that the ISQM standards have not yet been finalized by the IAASB and may not be adopted in all jurisdictions

Importance of Organizational Culture

TF Responses & Proposals

- Clarified that leaders and those in managerial roles have a role in promoting the importance of the ethical values of the organization.
- Added reward criteria and effective whistle-blowing policies and procedures as factors that affect effectiveness of the promotion of internal ethical culture.
- Clarified that proposed paragraph 120.13 A2 (d) relates to the organization's adherence to ethical values when dealing with third parties.
- Added new AM to demonstrate the importance of PAs promoting ethical behavior irrespective of their position and the ethical culture in their organizations - based on existing material in para. 200.5 A3
- TF formed the view that further clarification in the Code as suggested by the Basel Committee is not necessary
- Minor revisions to material relating to proposed ISMQ1 to acknowledge the fact that some jurisdictions may not adopt the new ISQM 1 when it becomes finalized

Importance of Organizational Culture

TF Proposed Revisions

(a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organization;

(b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote ~~that~~ an ethical culture are in place; ~~and~~

(c) Effective whistle-blowing policies and procedures are in place to protect those who report illegal or unethical behavior; and

(d~~c~~) The organization adheres to E~~e~~thical values ~~are adhered to~~ in its dealings with third parties.

120.13 A3 Professional accountants are expected to encourage and promote an ethics-based culture in an organization, to the extent that they are able to do so, having regard to their position and seniority.

120.14 A1 ~~For professional accountants in public practice,~~ [p~~P~~roposed] ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Matters for CAG Consideration

Importance of Organizational Culture



Comments on the TF’s responses and proposals?

Mark-up from ED (Agenda 2B)

Agenda Item B-2

Promoting the Role and Mindset Expected of Professional Accountants
Proposed Text
(Mark-up from ED)

This Agenda Item should be read in conjunction with **Agenda Item B-1** which contains a summary of the significant comments received to the Exposure Draft, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants* (ED) and the Task Force's responses to these comments.

The revised paragraphs from the extant Code is highlighted in grey, Changes made to the ED are in track changes.

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

Introduction

100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.1 A2 Public trust in the accountancy profession is the reason why ~~B~~businesses, governments and other organizations involve professional accountants in a broad range of matters. ~~Accountants understand and acknowledge that these organizations do so because they recognize t~~The skills and values that ~~the~~ accountants bring to the professional activities they undertake are fundamental to maintaining public trust and include~~through~~:

(a) Adherence to ethical principles and professional standards;

(b) Use of business acumen;

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgment.

The application of these skills and values enables ~~professional~~ accountants to provide advice or other output that ~~is fit for~~meets the purpose for which it was provided, and which might be relied upon by the intended users of such output.

100.1 A3 The Code sets out high quality standards of ethical behavior and the approach to professional activities expected of professional accountants ~~The Code sets out high quality ethics standards~~ for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in particular sectors or their jurisdictions and by firms in developing their ethics and independence policies.

~~**Fundamental Principles and Conceptual Framework**~~

~~100.2 A1 The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants in meeting their responsibility to act in the public interest.~~

100.~~1~~2 A~~2~~2 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence.

~~100.2 A3~~ The ~~remainder of the~~ Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

100.1 A5 **(Moved from 100.1 A1)**~~The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants.~~ Upholding the ethical concepts embodied in the fundamental principles and compliance with the specific requirements of the Code ~~Compliance with the Code enables~~ assist professional accountants ~~to~~ in meeting their responsibility to act in the public interest ~~and involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code. In acting in the public interest,~~ In meeting this public interest responsibility, a professional accountant~~'s responsibility is not~~ does not consider only~~exclusively to satisfy~~ the preferences or requirements of an individual client or employing organization when performing professional activities.

Requirements and Application Material

100.~~2~~3 A1 The requirements in the Code, designated with the letter "R", impose obligations.

100.~~2~~3 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

R100.~~3~~4 A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

100.~~3~~4 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

100.~~3~~4 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

Breaches of the Code

R100.~~4~~5 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

100.~~4~~5 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

(b) Objectivity – to exercise professional or business judgment~~s~~ without being compromised by:

(i) Bias;

(ii) Conflict of interest; or

(iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

(c) Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) Professional Behavior – to:

(i) ~~Behave in a manner that is consistent with~~Consider the profession's responsibility to act in the public interest when performing professional activities;

(ii) Avoid any conduct that the professional accountant knows or should know might discredit the profession; and

(iii) Comply with relevant laws and regulations.

R110.2 A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity ~~implies~~involves~~,~~ fair dealing, ~~and~~ truthfulness~~, and~~

~~111.1 A2 Integrity also includes having the determination to~~ having the strength of character to act appropriately when confronted~~ing~~ by dilemmas or difficult situations.

111.1 A2 Acting with integrity ~~This~~ would also involve~~, for example~~:

- Standing one's ground when facing pressure to do otherwise~~, during the course of performing professional activities~~; or
- Challenging others~~ as and when appropriate~~,

during the course of performing professional activities even when doing so might create~~s~~ potential adverse personal or organizational consequences.

R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information provided recklessly; or

(c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

R111.3 When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

R113.3 Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm or employing organization;

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization;

(d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;

(e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;

(f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and

(g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

(a) Disclosure is required by law, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;

(b) Disclosure is permitted by law and is authorized by the client or the employing organization; and

(c) There is a professional duty or right to disclose, when not prohibited by law:

(i) To comply with the quality review of a professional body;

(ii) To respond to an inquiry or investigation by a professional or regulatory body;

(iii) To protect the professional interests of a professional accountant in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

R114.2 A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

(a) ~~Behave in a manner that is consistent with~~ Consider the profession's responsibility to act in the public interest when performing professional activities;

(b) Avoid any conduct that the accountant knows or should know might discredit the profession; and

(c) Comply with relevant laws and regulations~~.~~

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

120.2 The conceptual framework specifies an approach for a professional accountant to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the threats identified; and

(c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

(a) Part 2 – *Professional Accountants in Business*;

(b) Part 3 – *Professional Accountants in Public Practice*; and

(c) *International Independence Standards*, as follows:

(i) Part 4A – *Independence for Audit and Review Engagements*; and

(ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

R120.4 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

R120.5 When applying the conceptual framework, the professional accountant shall:

(a) Exercise professional judgment;

(b) Have an inquiring mind; and

(c) Use the reasonable and informed third party test described in paragraph 120.5 A6.

Exercise of Professional Judgment

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, ~~including~~ having regard to the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A2 Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the accountant might consider matters such as whether:

- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

Having an Inquiring Mind

120.5 A3 An inquiring mind is a prerequisite to obtaining aAn understanding of known facts and circumstances ~~is a prerequisite to~~necessary for the proper application of the conceptual framework. ~~Obtaining this understanding entails h~~Having an inquiring mind involves considering, ~~which means~~:

(a) The source, relevance and sufficiency of information obtained having regard to the nature, scope and outputs of the professional activity being undertaken; and

~~(a) Being open and alert for situations and information (or the lack thereof) that might require further investigation; and~~

(b) ~~Considering w~~Whether there is a need ~~to critically evaluate~~for further investigation or other action ~~the information obtained,~~

~~having regard to the nature, scope and outputs of the professional activity being undertaken.~~

120.5 A4 ~~In~~ When considering the adequacy of the source, relevance and sufficiency of information obtained~~determining if further investigation is necessary~~, the professional accountant might consider, among other matters, whether:

- New information has emerged or whether there have been changes in facts and circumstances.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A5 ~~When undertaking any professional activities, p~~Paragraph R120.5 requires all professional accountants to have an inquiring mind when applying the conceptual framework to identify, evaluate and address threats to the fundamental principles. ~~–~~ Having an inquiring mind has a different purpose to the exercise of professional skepticism. ~~Additionally, a~~Accountants performing audits, reviews and other assurance engagements are required to exercise professional skepticism in order to critically assess evidence ~~as described in paragraphs 120.16 A1 and 120.16 A2~~.

Reasonable and Informed Third Party

120.5 A6 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying Threats

R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;

(b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;

(c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.

- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

(a) Impact the level of a threat; or

(b) Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

(a) Review any significant judgments made or conclusions reached; and

(b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 ~~Being aware of the risk of bias, whether c~~Conscious or unconscious~~,~~ bias affects ~~is important to~~ the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility. (Alternative: "...a tendency for a group of individuals to reach a consensus without critical reasoning or evaluation of the consequences or alternatives")
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is considered to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate ~~T~~the ~~impact~~effect of bias ~~might be mitigated by~~include, for example:

- ~~involving others or s~~Seeking advice from experts to provide additional input.
- Consulting with others to ensure ~~or~~ appropriate challenge as part of the evaluation process.

- Receiving self-awareness training on the risk of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of an organization.

120.13 A2 The promotion of ~~that~~an ethical culture within an organization is most effective when:

(a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organization;

(b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote ~~that~~ an ethical culture are in place; ~~and~~

(c) Effective whistle-blowing policies and procedures are in place to protect those who report illegal or unethical behavior; and

(d~~c~~) The organization adheres to E~~e~~thical values ~~are adhered to~~ in its dealings with third parties.

120.13 A3 Professional accountants are expected to encourage and promote an ethics-based culture in an organization, to the extent that they are able to do so, having regard to their position and seniority.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 ~~For professional accountants in public practice,~~ [p~~P~~roposed] ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

120.15 A1 Professional accountants in public practice are required by *International Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised.

120.15 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or

other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional Skepticism

120.16 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.16 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
    - Being straightforward and honest when raising concerns about a position taken by a client.
    - Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
    - Having the determination to act appropriately when confronteding by dilemmas or difficult situations. This would involve, for example, standing one's ground when facing pressure to do otherwise or challenging others as and when appropriate, even when doing so creates potential adverse consequences to the firm or individual accountant.

  In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the professional accountant to exercise professional or business judgment without being compromised by:

  (a) Bias;

  (b) Conflict of interest; or

  (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

  For example, the accountant complies with the principle of objectivity by:

(a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and

(b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:

  (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;

  (b) Designing and performing appropriate audit procedures; and

  (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

  In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

PART 2 – PROFFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

...

Requirements and Application Material

General

...

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote ~~that~~an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

...

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

...

Requirements and Application Material

General

...

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

(b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;

(c) Exercise professional judgment to:

(i) Represent the facts accurately and completely in all material respects;

(ii) Describe clearly the true nature of business transactions or activities; and

(iii) Classify and record information in a timely and proper manner;

(d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;

(e) Avoid undue influence of, or undue reliance, on individuals, organizations or technology; and

(f) Be aware of the risk of bias.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

...

Relying on the Work of Others

R220.7 A professional accountant who intends to rely on the work of other individuals, either internal or external to the employing organization, or other organizations shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

...

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.
Professional judgment	*Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, ~~including~~ having regard to the nature and scope of the particular professional activities, and the interests and relationships involved.*
Professional services	Professional activities performed for clients.

Public interest entity	(a) A listed entity; or (b) An entity: (i) Defined by regulation or legislation as a public interest entity; or (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator. *Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.*
Reasonable and informed third party Reasonable and informed third party test	*The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.* *These terms are described in paragraph R120.5 A6.*
Related entity	An entity that has any of the following relationships with the client: (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such

entity;

(c) An entity over which the client has direct or indirect control;

(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and

(e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.

Other Matters

Effective Date

- TF preliminary view is December 2021 (assuming Board and PIOB approval by September 2020)



Next Steps

- March 2020 IESBA meeting (first review of revisions)
- June 2020 IESBA meeting (objective - IESBA approval of final pronouncement)





IESBA®

The Ethics Board

www.ethicsboard.org

@Ethics_Board