

**IESBA Firm Culture and Governance Working Group —  
Draft Terms of Reference****A. Background**

1. In recent years, public trust in the accountancy profession has been buffeted by recurring high-profile corporate failures and cases of unethical behavior in firms. In particular, some of the recent cases of unethical behavior by professional accountants in public practice (PAPPs) have resulted in significant sanctions and other adverse consequences to individual PAPPs and their firms in several jurisdictions.
2. In response to these issues, the IESBA released a public [statement](#) in July 2023 emphasizing the critical importance of ethical behavior for all PAs and reminding them of their ethical obligations under the Code. These obligations include upholding the fundamental principles and complying with the specific requirements of the Code, which enable PAs to meet their responsibility to act in the public interest. The Global Accounting Alliance (GAA) also issued a [statement](#) in August 2023 highlighting the profession's responsibility to act in the public interest despite increasing pressures on PAs to act unethically, thereby reinforcing the Code's importance.
3. The IESBA is of the view that the persistence of such unethical behavior in firms raises the broader issue of firm culture and governance and how these might impact the ethical behavior of PAs and compliance with the Code. As highlighted in the IESBA's 2024-2027 Strategy and Work Plan (SWP), firm culture impacts not only the reputation of individual firms and the public's trust in the accountancy profession but also the attraction and retention of talent, an issue that goes to the heart of the vibrancy and longer-term sustainability of the profession.
4. Given the significant public interest consequences when unethical behavior occurs in firms, the IESBA believes it should take a leadership role as a global ethics standard-setter in addressing the topic of firm culture and governance as a strategic priority during the next strategy period. In committing to this strategic priority, the IESBA recognized that the Code currently only deals in a limited way<sup>1</sup> with ethical culture and tone at the top within organizations.

**B. Objectives**

5. The objectives of the Working Group (WG) are to:
  - (a) Gather an understanding of what factors contribute to breaches of ethics and independence requirements in accounting firms ("firms") and, where applicable, their networks;
  - (b) Review the extant provisions on organizational and firm culture in Parts 1, 2, and 3 of the Code and consider whether the Code should be further strengthened to bring to the fore the importance of leadership and governance in reinforcing a robust culture of ethical behavior within firms.

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<sup>1</sup> Paragraphs 120.13 A3, 200.5 A3 and 300.5 A2, set out an expectation that professional accountants, taking into account their position and seniority within their organizations or firms, encourage and promote an ethics-based culture within their organizations or firms.

- (c) Consider whether to recommend that the IESBA commission non-authoritative materials (NAMs) to raise awareness of and emphasize key provisions of the Code;
- (d) Raise awareness of the project objectives through outreach activities; and
- (e) Develop a report and recommendations to the IESBA.

**C. Focus**

- 6. The focus of this work stream will be on ethical culture and governance in firms.
- 7. However, certain aspects of culture that a firm might choose to embrace, such as a profit-driven culture, may impact the firm's ethical culture and would therefore be relevant to the focus of this work stream.

**D. Approach**

- 8. As part of gathering an understanding of relevant developments, the WG will undertake the following activities:
  - (a) Undertake desktop research into published reports, articles, and other publications on the concept of "ethics and firm culture" and related developments.
  - (b) Engage with relevant stakeholders to obtain insights, raise awareness, and exchange views on the issues and developments.
- 9. Relevant stakeholders would include the following:
  - Members of the Monitoring Group
  - IAASB and IESBA Stakeholder Advisory Council
  - Firms
  - Corporate governance community
  - Investor community
  - Professional accountancy organizations and IFAC PAIB and SMP Advisory Groups
  - National standard setters and regulators
  - International policy-making organizations such as the Organization for Economic Co-operation and Development (OECD)
  - Academia
  - Other professional organizations with a nexus to the topic
- 10. Engagement could take various forms, including focus group meetings, roundtables, interviews, surveys, and electronic communications.
- 11. The WG will liaise with other IESBA Task Forces or Working Groups on overlapping considerations or issues.
- 12. The WG will consider issuing or recommending that the IESBA issue appropriate public communications as it progresses its work.

13. The WG will aim to present its preliminary findings and possible ways of addressing the issues identified at the September 2024 IESBA meeting.

#### **E. Deliverables**

14. The WG will:
  - (a) Update the IESBA on activities undertaken and issues identified for the IESBA's consideration and direction during each quarter;
  - (b) Conduct face-to-face and virtual outreaches as part of the fact-finding and awareness-raising effort in Q2 and Q3 2024;
  - (c) Raise awareness of the importance of promoting an ethical culture and the behavior expected of PAs through outreach activities and
  - (d) Present a report of the WG's findings and recommendations to the IESBA at the December 2024 meeting.
15. Subsequent deliverables will be determined following the IESBA's consideration of the recommendations in the final report.

#### **F. Composition**

16. The WG consists of the following IESBA members:

- Channa Wijesinghe, WG Chair
- Rich Huesken
- Héctor J. Lehuedé
- Rania Uwaydah Mardini

It is also supported by:

##### IESBA STAFF

- Geoffrey Kwan
- Carla Vijian

##### CONSULTANT

- Richard Fleck