

IESBA Firm Culture and Governance Working Group — Approved Terms of Reference March 2024

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 ~~for~~ 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 way¹ 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 culture and governance and their impact on compliance with](#) ethics and independence requirements in accounting firms ("firms") and, where applicable, their networks ("firms");~~
 - ~~(a) _____~~

¹ 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.

~~(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;

~~(b)~~

~~(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)~~(c) Raise awareness of the [project objectives issues relating to, and the importance of, governance and ethical culture within firms](#) through outreach activities; and

~~(e)~~(d) 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.

DC. Approach

~~8.6.~~ As part of [gathering an understanding of relevant developments](#)~~its information gathering~~, the WG will undertake the following activities:

- (a) Undertake desktop research into published reports, articles, and other publications on the concepts of ["ethics and firm culture and governance"](#) and related developments.
- (b) Engage with relevant stakeholders to obtain insights, raise awareness, and exchange views on the issues and developments.

~~9.7.~~ Relevant stakeholders would include the following:

- Members of the Monitoring Group
- ~~IAASB and IESBA~~[The Standard Setting Boards'](#) Stakeholder Advisory Council
- Firms
- Corporate governance community
- Investor community
- ~~Professional~~ accountancy organizations ~~and~~
- ~~IFAC~~ [Professional Accountants in Business Advisory Group](#)
- ~~IFAC~~ [Small and Medium Practices Advisory Groups](#)
- [Forum of Firms](#)
- ~~National~~ standard setters and regulators
- [Governments and parliamentarians](#)

- 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
8. Engagement could take various forms, including focus group meetings, roundtables, interviews, surveys, and electronic communications.
9. The WG will consider the issues in the context of multi-disciplinary firms and their networks. The WG will also consider other factors, such as geographic differences as well as advances in technology and working arrangements.
10. As part of its approach, the WG will consider the approach and requirements set out in ISQM 1,² particularly with respect to the Governance and Leadership quality component for engagements within the scope of that standard. The WG will coordinate with the IAASB on this aspect.
- ~~40. Having regard to the SWP, the WG will gather stakeholders' views on the link between firm culture and the meaning of "audit client," to inform IESBA's approach as to how it might address that definition in the Code under the work stream on audit client-audit firm relationship.~~
11.
- ~~11.12.~~ The WG will liaise with other IESBA Task Forces or Working Groups on overlapping considerations or issues.
- ~~12.13.~~ 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.~~

ED. 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 ~~to~~ and Q~~4~~3 2024;
 - ~~(c) Raise awareness of the importance of promoting an ethical culture and the behavior expected of PAs through outreach activities and~~
 - ~~(d)~~(c) Present a final report ~~on~~ of ~~the WG's~~ its 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.

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

EF. 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