

**IESBA**

International  
Ethics Standards  
Board for Accountants®

# FIRM CULTURE AND GOVERNANCE

IESBA Meeting  
June 10<sup>th</sup> 2024

**CHANNA WIJESINGHE, IESBA MEMBER AND WORKING GROUP CHAIR**

**GEOFF KWAN, IESBA DIRECTOR**

**CARLA VIJIAN, IESBA PRINCIPAL**

# AGENDA

March 2024 Meeting Recap

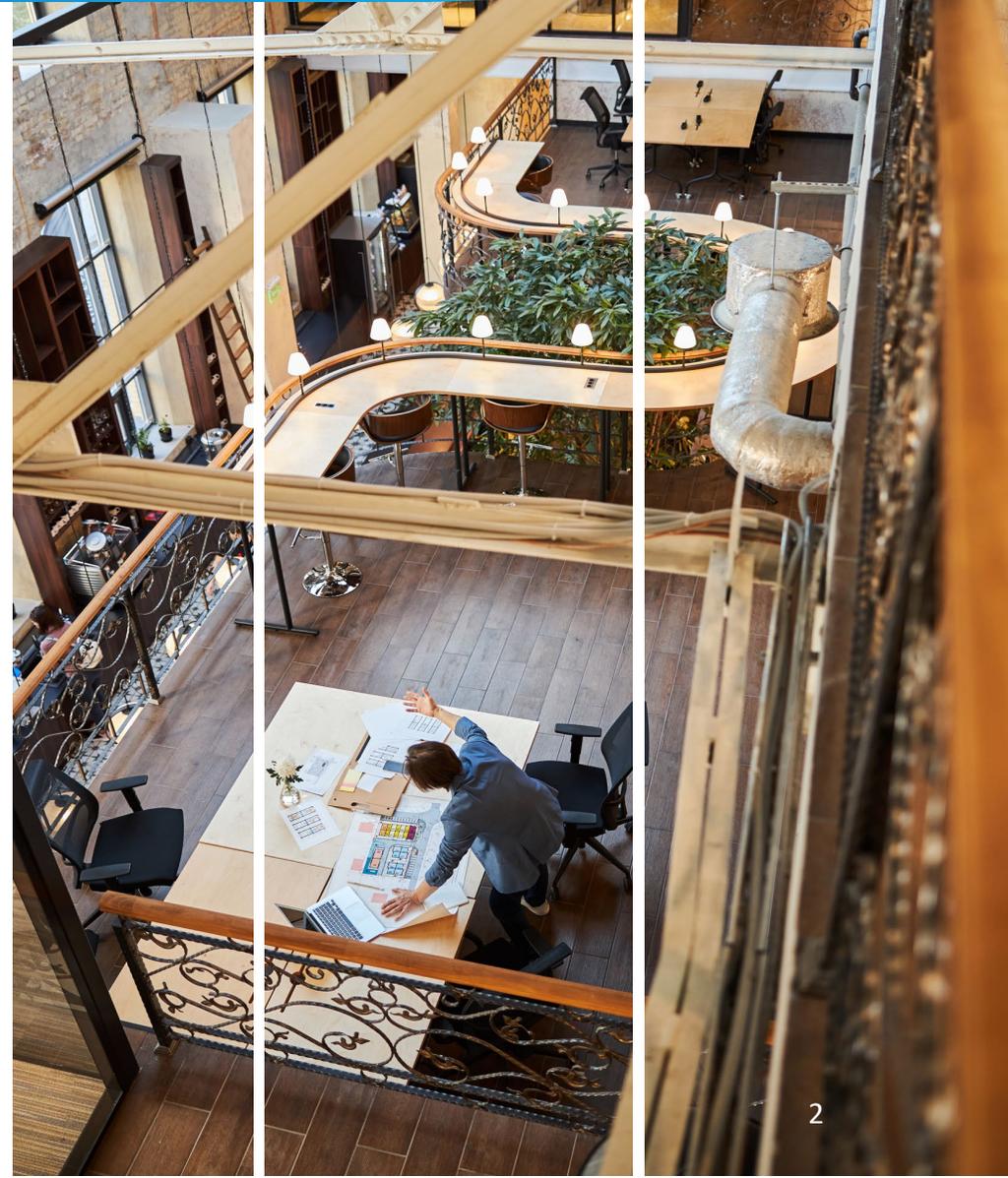
Overview of Stakeholder Meetings

WG's Preliminary Views: Key Themes

Academic Report

ISQM 1 and FRC Code

Next Steps



# MARCH 2024 MEETING RECAP



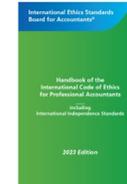
## Presentations

Imran Vanker (IRBA)  
Claire Lindridge and  
Helen Gale (UK FRC)  
Prof. Karthik Ramanna  
(Uni. Of Oxford)  
Jeremy Hirschhorn and  
Rebecca Saint (AU ATO)



## Fact-Finding Exercise

Case Studies  
Australian  
Parliamentary Enquiry



## The IESBA Code

What is in the IESBA  
code?  
What are other  
considerations?



## Draft Terms of Reference

Objectives, scope,  
and timeline for this  
project

# OVERVIEW: STAKEHOLDER MEETINGS



Jurisdictional



Standard  
Setting Boards'  
Stakeholder  
Advisory  
Council



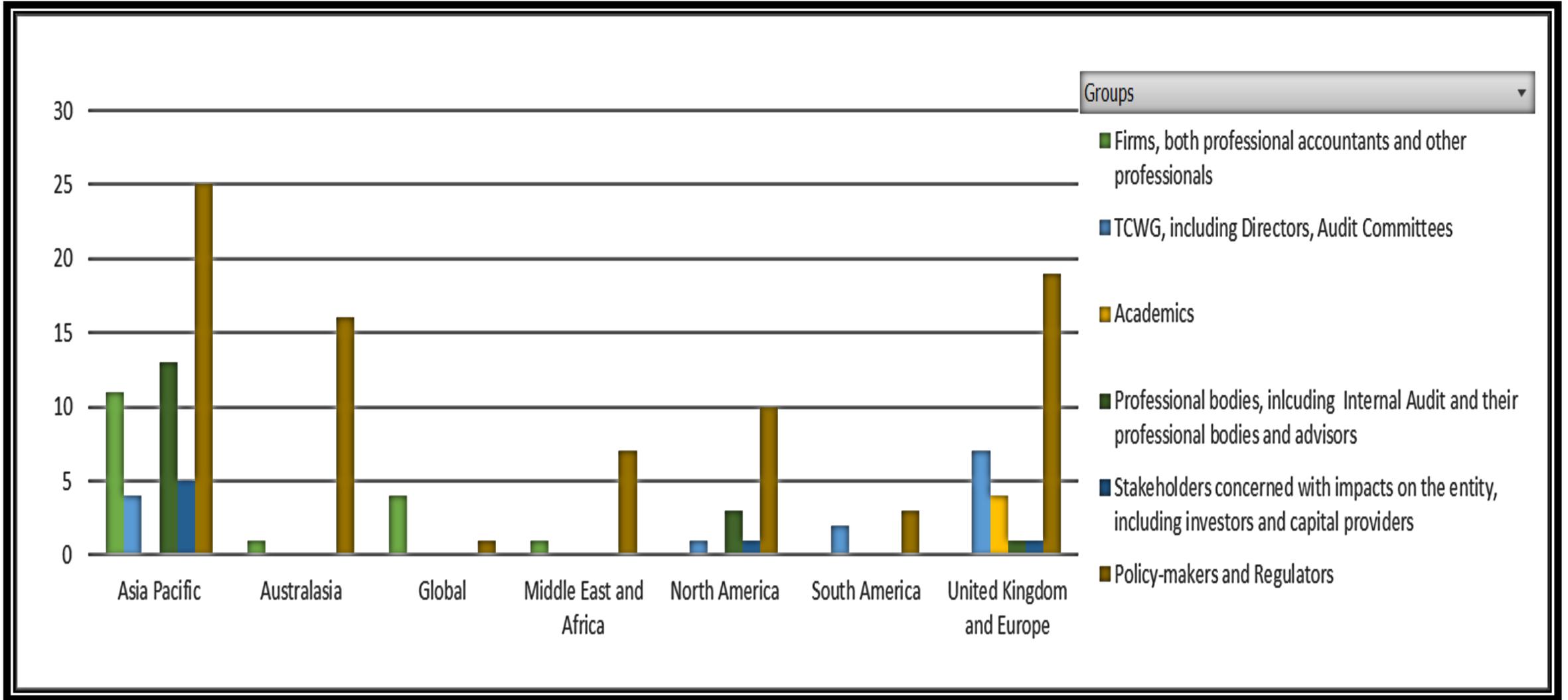
National  
Standard  
Setters

# OUTREACHES (APRIL TO JUNE 2024)

- The Standard Setting Boards' Stakeholder Advisory Council
- Firms
- Corporate governance community
- Professional accountancy organizations
- National standard setters
- Regulators
- Governments and parliamentarians
- Academia
- Other professional organizations with a nexus to the topic



# OUTREACHES (APRIL AND MAY 2024)



# Outreaches: Jurisdictional

## Toronto – Regulators



### Structural and Operational Issues

- Short-term focus
- Expert structures

### Client and Firm Relationship

- Early consideration
- Ethical leadership
  - Disclosure and transparency

### Talent Attraction and Retention

- Challenges in the Netherlands
- Big 4 in Canada

### Regulatory

- Regulatory efforts
- CPAB initiatives
- Global firms and culture

[OSC Staff Notice 52-724 Considerations for Public Accounting Firms in Developing Internal Ethics Policies and Procedures](#)

# Outreaches: Jurisdictional

## Japan – Firms



### CORPORATE GOVERNANCE CODE on Independent Non-Executives

**Pre-requisite for Selection**  
To have a deep understanding of the market and the profession

**Remuneration**  
Non-partner remuneration, including that of INEs, is determined by market conditions



### 01 Selection Criteria

Selection typically considers familiarity with the management team, knowledge of the corporate governance code, and expertise in the relevant industry

### 02 Diversity

A trend toward greater diversity

# Outreaches: Jurisdictional

## Singapore – Regulators



# Outreaches: Jurisdictional

## Singapore – Firms



# Outreaches: Jurisdictional

## Singapore – PAOs

### Adoption of ISQM 1

Revised standards include provisions that address governance and culture

### Resource Constraints

Arising from inadequate resources, like limited time on engagements



### Leadership Influence

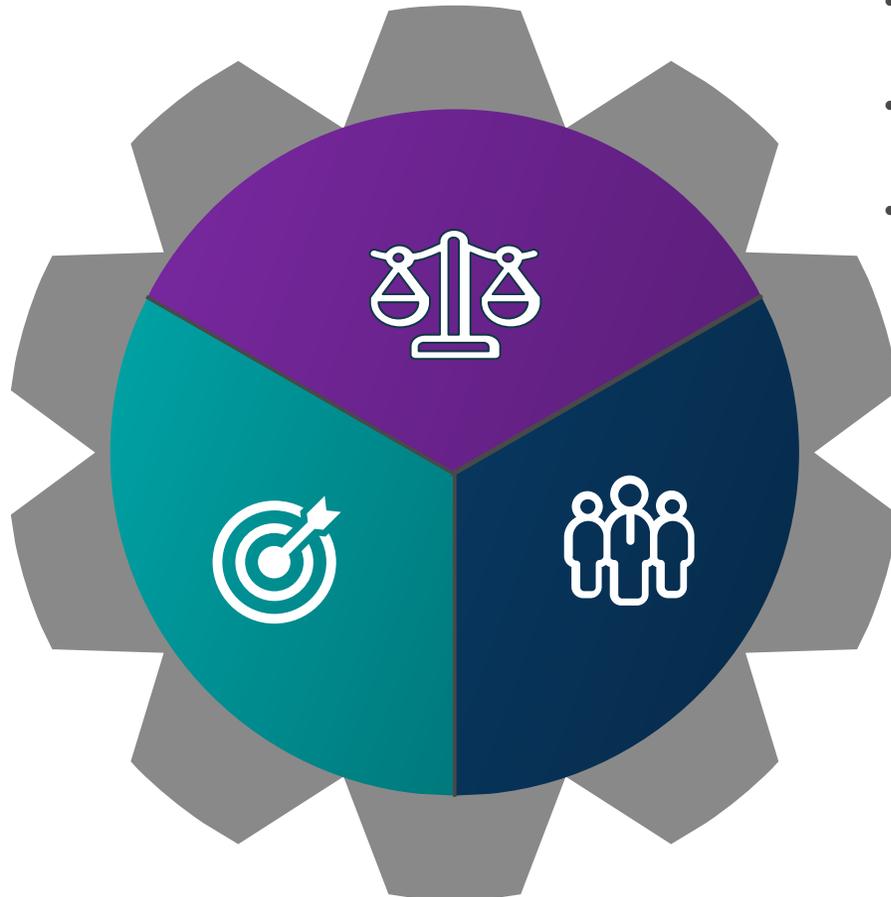
How leadership attitudes and directives translate into meaningful changes in behavior and mindset throughout the organization

# Outreaches: Jurisdictional

## Australia – Regulators



### Enforcement and Monitoring



### Rewards and Recognition

play a significant role in driving behavior within firms

- The Australian Commonwealth cannot directly regulate partnerships
- ASIC and self-regulation monitor and enforce, but ASIC has limited regulatory tools
- If a Big 4 firm is barred from audits, concerns exist about market concentration
- In 2023, the FRC reviewed PAO self-regulation and ASIC's role, focusing on the Big 4
- The Australian Treasury released two consultation papers on May 5 in response to the PwC tax scandal

### Leadership and Accountability

- Clarify global-local leadership accountability for cultural changes
- Hold global leaders and local partners accountable

# Outreaches: Jurisdictional

## Australia – Firms



### Differences between Consulting and Audit

Ethical considerations are more deeply embedded in the audit profession than consulting



### Firm Size

- Larger firms do not inherently have poorer cultures compared to smaller firms
- Smaller firms might find it challenging with changing their culture due to limited resources and tools

# Outreaches: Jurisdictional

## AUSTRALIAN SENATE HEARINGS



Ethics and Professional  
Accountability: Structural Challenges in  
the Audit, Assurance and Consultancy  
Industry – Parliament of Australia  
([aph.gov.au](http://aph.gov.au))

Inquiry into management and  
assurance of integrity by consulting  
services – Parliament of Australia  
([aph.gov.au](http://aph.gov.au))



# Outreaches: SSB's Stakeholder Advisory Council

## Private Equity and Investment Impact

Scope and Application  
of the Code  
- Definition of Client

Rewards and Recognition  
- Behavioral Insights

Regulatory Measures  
- Transparency and Disclosure



Role of the Profession  
and Public Interest

Firm Leadership,  
Governance and Oversight  
- culture formation

Audit and Consultancy  
Conflicts

Education

# Outreaches: National Standard Setters

## Australian Senate Inquiries

[Inquiry into management and assurance of integrity by consulting services](#)

[Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance, and Consultancy Industry](#)

Code  
Compliance and  
Training

Tension  
between  
Public Interest  
and Revenue

Regulatory and  
Enforcement Challenges



Understanding and  
Identifying the Issue

Firm Culture and  
Governance

Local Definition of  
“Firm”



Do IESBA members  
have any questions or  
comments?

# WG PRELIMINARY VIEWS: KEY THEMES



# WG PRELIMINARY VIEWS: KEY THEMES

## The Ecosystem



- PAs have a responsibility to act in the public interest and maintain public trust
- Leadership should emphasize the profession's public interest role and protect public trust
- Firms must balance revenue growth with their public interest responsibilities
- Commercial pressures should not compromise audit and service quality
- A profit-driven culture can lead to staff prioritizing personal or firm interests over others

# WG PRELIMINARY VIEWS: KEY THEMES

## The Ecosystem



- Emphasize leadership's role in fostering an ethical culture and aligning behavior with ethical commitments
- "Tone at the top" underscores leaders' responsibility in shaping ethical culture
- Leadership must exemplify ethical values, demonstrating them in actions and decisions
- Structured approaches to "walking the talk" help maintain high ethical standards and communicate firm values
- Leadership to promote transparency and accountability through communication, reporting, and addressing feedback
- Concerns exist about promoting senior leaders who prioritize revenue over ethical values
- Necessity of robust governance frameworks, advocating for independent board members and resilient structures to uphold ethical standards and withstand external pressures
- Diverse opinions exist regarding business models, with some suggesting that partnership models may lack certain responsibilities compared to public companies and limited liability partnerships may lack effective deterrence mechanisms

# WG PRELIMINARY VIEWS: KEY THEMES

## The Ecosystem



- Leaders accountable for maintaining ethical standards, implementing structures to address ethical lapses, and appointing ethics leaders
- Accountability mechanisms, such as performance reviews and compliance reporting, crucial for upholding ethical behavior
- Leaders to ensure transparency in reporting and accountability, including to global leadership and network firms
- Decisions should prioritize ethical values over short-term financial gains, with transparent reporting of incentives and performance metrics
- Performance management should promote behavior consistent with the firm's ethical standards
- Partners are assessed against quality and quantitative measures, with incentives aligned with ethical practices.

# WG PRELIMINARY VIEWS: KEY THEMES

## The Ecosystem



- The importance of aligning incentives with ethics to ensure integrity
- Aligning rewards and incentives with ethical practices is crucial for promoting ethical behavior
- Firms incorporate financial and non-financial indicators in performance management, affecting bonuses based on non-financial achievements
- Transparency in incentive structures promotes ethical behavior and aligns individual and organizational goals
- Private equity investments can introduce pressures conflicting with ethical practices, requiring careful management
- Addressing private equity's impact on incentives is essential for maintaining ethical standards.

# WG PRELIMINARY VIEWS: KEY THEMES

- Firms encouraged to implement transparent reporting mechanisms, providing stakeholders with clear views of operations and ethical performance
- Firms are encouraged to be transparent about ethical breaches and corrective actions, sharing information with all stakeholders, including employees and regulators
- Transparency reports should detail governance structures and decision-making processes to drive ethical behavior and accountability
- External transparency drives ethical behavior and enables stakeholders to hold firms accountable

**TRANSPARENCY**

## The Ecosystem



# WG PRELIMINARY VIEWS: KEY THEMES

- Emphasize the importance of ethics education in creating an ethical culture within firms
- Continuous education and training on ethics and quality management are essential for maintaining high professional standards
- Firm-wide ethical training ensures all staff, understand the importance of ethics and public interest responsibilities
- Continuous education is crucial for new staff unfamiliar with the firm's public interest role and ethical standards, especially non-PAs
- Training modules should include real-life scenarios to guide staff in complying with ethical standards



# WG PRELIMINARY VIEWS: KEY THEMES

- Emphasize the importance of a culture where employees can raise concerns without fear of retribution
- Encouraging and supporting employees to speak up is vital for maintaining ethical standards
- Effective whistleblowing systems should allow anonymous reporting of ethical concerns
- Prompt and appropriate addressing of reported issues is crucial



# WG PRELIMINARY VIEWS: KEY THEMES

- Ensuring firms act in the public interest and uphold high ethical standards requires collaboration beyond internal governance mechanisms
- Collaboration among firms, regulators, standard setters, TCWGs, users, and professional bodies is crucial for supporting ethical behavior and high-quality work
- Audit committees should not appoint auditors based solely on fees but demand high ethical standards
- Effective monitoring and enforcement by regulators are necessary to ensure firms' compliance with laws and ethical standards
- Significant consequences, like bans on participating in tenders, can have a more substantial impact than fines, as seen in the Wirecard scandal with EY in Germany.

## The Ecosystem





Do IESBA members have any questions or comments on the preliminary themes including suggestions for any new themes?

# OVERVIEW: ACADEMIC RESEARCH

## ACADEMIC REPORT BY DR. EVA TSAHURIDU

### WHAT IS CULTURE

- **Culture & Ethics:** DNA of a firm, influencing behavior
- **Ethical Culture:** Shared values and norms shaping decisions
- **Strong vs. Weak Cultures:** Homogeneity in behavior; ethical strength supports performance
- **Subcultures:** Different ethical norms within teams or departments

### KEY ELEMENTS OF, AND INFLUENCES, ON ETHICAL CULTURE:

- **Formal Systems:** Policies, codes, training
- **Informal Systems:** Leadership, peer behavior

\*Alignment of these systems is essential

- **Leadership's Role:** Sets the tone, embeds culture through actions and decisions

**IMPACT OF ETHICAL CULTURE ON ETHICAL BEHAVIOR:** Ethical culture drives ethical actions and decision-making





Do IESBA members  
have any questions or  
comments?

**UK Corporate  
Governance Code**

January 2024

**UK FRC AUDIT  
GOVERNANCE  
CODE  
And  
ISQM 1**

Final Pronouncement  
December 2020

*International Standard on Quality Management*

**International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)**

*Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

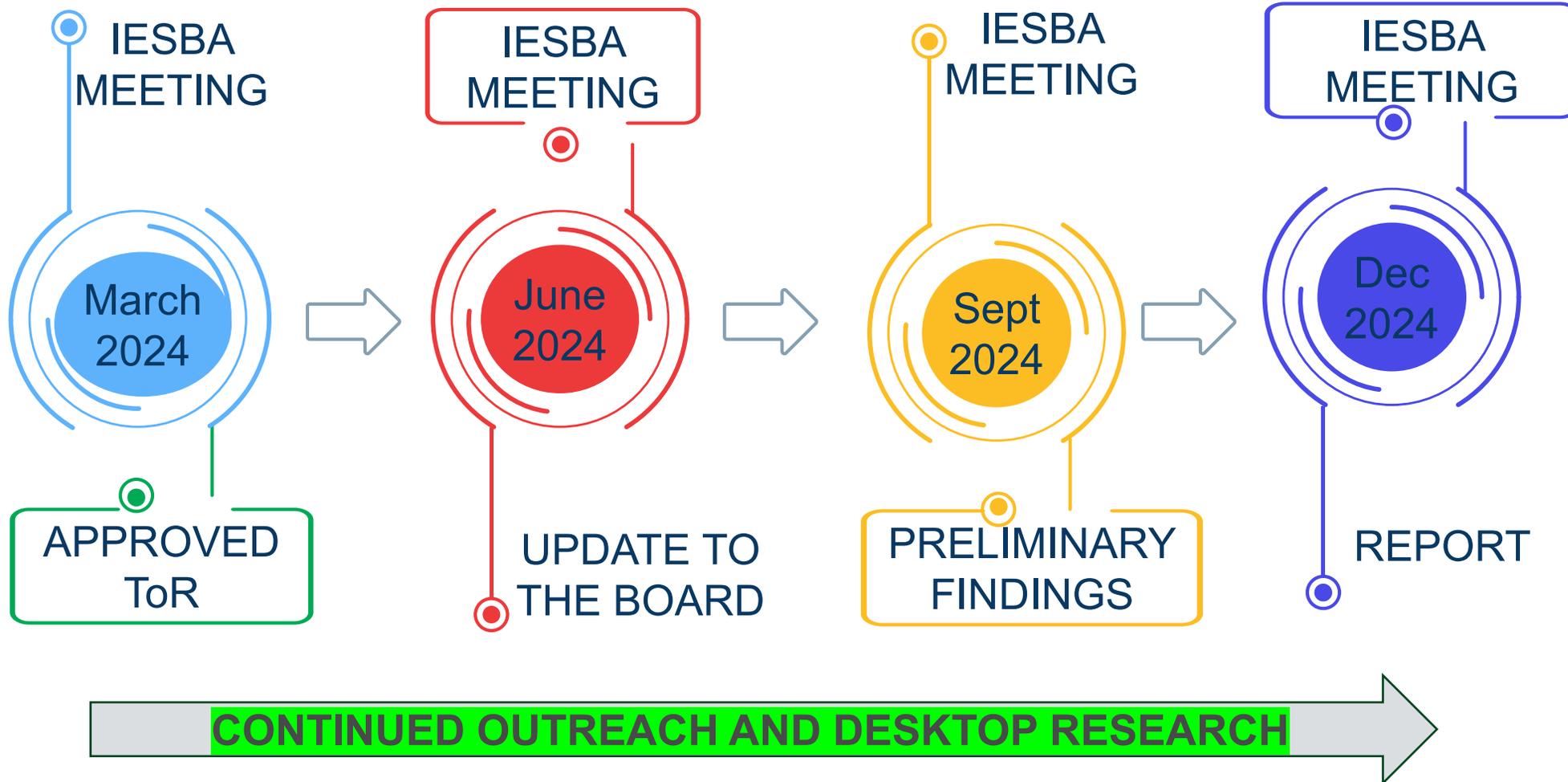
**IAASB**

Intern  
and Au  
Stand



Do IESBA members  
have any questions or  
comments?

# WAY FORWARD AND TIMELINE





*[www.ethicsboard.org](http://www.ethicsboard.org)*



[@Ethics Board](https://twitter.com/Ethics_Board)



[@IESBA](https://www.linkedin.com/company/iesba)



**YouTube** [@IESBA](https://www.youtube.com/channel/UC...)