

Briefing Note

Prepared by the Staff of the International Ethics Standards Board for Accountants® (IESBA®)



**Firm Culture and Governance
Project**

Global Roundtables

FEBRUARY 2025

Briefing Note for the Participants in the Roundtables
IESBA Meeting (March 2025)

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I. INTRODUCTION

Background

1. Accounting firms play a vital role in maintaining public trust and integrity in financial and non-financial reporting, assurance and other activities of their clients. Beyond regulatory compliance, the ethical culture and governance of firms influence decision-making at all levels, shaping how they operate and are perceived by clients, regulators, and the public. A strong ethical foundation enhances a firm's reputation, reinforces the profession's public interest role, and builds public trust in, and contributes to the well-functioning of, capital markets across jurisdictions.
2. In recent years, there have been a number of high-profile cases of unethical behavior by or within accounting firms in several jurisdictions. Some of those cases resulted in major sanctions, multi-million-dollar penalties, and adverse publicity that have damaged the reputations of the firms involved and eroded public trust in the profession.
3. These cases have led to concerns that ethical failures within accounting firms, including global firms that play an important role in the jurisdictions where they operate, could impact the regular functioning of capital markets, tax and anti-financial corruption systems, and economies more broadly.
4. In response to these issues, the IESBA released a public [statement](#) in July 2023 emphasizing the critical importance of ethical behavior for all professional accountants and reminding them of their ethical obligations under the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code). These obligations include upholding the fundamental principles and complying with the specific requirements of the Code, enabling accountants to meet their responsibility to act in the public interest.
5. Stakeholders have indicated to the IESBA that the persistence of such unethical behavior in firms raises the broader issue of accounting firm culture and governance and how this might impact the ethical behavior of professional accountants and their compliance with the Code.
6. The IESBA also recognizes efforts by accounting firms to strengthen their ethical culture by enhancing governance structures, ensuring leadership accountability, and aligning incentives with ethical behavior, anticipating that firms see value in having some tools developed to support such efforts and enhance their effectiveness.
7. In light of these developments, the IESBA agreed to address firm culture and governance (FCG) as a strategic priority under its [2024-2027 Strategy and Work Plan](#). In March 2024, the IESBA established the FCG Working Group to:
 - Gather an understanding of culture and governance and their impact on compliance with ethics and independence requirements in accounting firms and, where applicable, their networks;
 - Review the extant provisions on organizational and firm culture in the Code and consider whether the Code should be further strengthened to reinforce a robust culture of ethical behavior within firms;

- Raise awareness of the issues relating to, and the importance of, governance and ethical culture within accounting firms through outreach activities; and
 - Develop a report and recommendations to the IESBA.
8. To understand the issues and identify the key themes, the FCG Working Group conducted extensive outreach with relevant stakeholders to obtain insights into, raise awareness about, and exchange views on the topic of firm culture and governance.
 9. In December 2024, the IESBA accepted the FCG Working Group's [Final Report](#) and recommendations and approved a new standard-setting project on the topic.

The FCG Working Group's Final Report

10. The FCG Working Group's Final Report, including its findings and recommendations, was released in January 2025.
11. From input received by the FCG Working Group, a strong ethical culture – supported by ethical leadership and a governance framework at a firm-wide level that prioritizes and incentivizes ethical values – mitigates the risk of unethical behavior, empowers a firm to operate as an ethical firm, enhances its reputation, reinforces the profession's public interest role, and builds public trust.
12. The FCG Working Group has further found that such an ethical culture will only become embedded in an accounting firm if the firm has:
 - **Leaders who prioritize ethical values and behavior** as the foundation of an ethical culture and who, by their conduct, exemplify that culture, and
 - **A strong culture and governance framework** that provides transparent procedures, oversight, and clear accountability to ensure that ethical standards and policies are implemented and complied with across the whole firm.
13. With regards to having a strong firmwide culture and governance framework, the FCG Working Group has identified the following key elements:
 - Oversight and governance;
 - The provision of independent input;
 - Accountability across the firm;
 - Incentives and rewards that align with ethical behavior;
 - A culture of open discussion and challenge;
 - Transparency about the firm's ethical performance;
 - Continuous education and training.
14. For details on the FCG Working Group's findings, please refer to Section IV of its Final Report.

Firm Culture and Governance Project

15. In [December 2024](#), the IESBA approved a [project proposal](#) with the objective to:

Develop a culture and governance framework that promotes, supports and reinforces a high standard of ethical behavior by a firm's leadership, other partners, and staff across all of the firm's services, thereby helping the firm develop a reputation as a highly ethical firm, mitigate the risks of unethical behavior and strengthen public trust and confidence in all of its services.
16. The new standard will address the key elements of a culture and governance framework identified from the FCG Working Group's findings, as highlighted in the firm culture and governance project proposal. The new standard will also be:
 - Principles-based, recognizing that there is no one-size-fits-all model.
 - Applicable to the whole firm covering its leadership, other partners and staff across all service lines.
 - Scalable to fit different sizes of firms, from small practices to large firms with global networks.
17. The firm culture and governance project also includes a complementary workstream to develop non-authoritative materials (NAMs), such as white papers and thought pieces, to complement the development of the new standard. The main purposes of the NAMs are to highlight the importance of ethical culture within accounting firms and to support the project's standard-setting work of developing a firm culture and governance framework.
18. The IESBA will coordinate closely with the International Auditing and Assurance Standards Board (IAASB) to ensure that the firm culture and governance framework aligns, and is interoperable, with the IAASB's ISQM 1.¹
19. For more information about the firm culture and governance project, please visit its [webpage](#).

IESBA's Global Roundtables

20. The IESBA agreed to hold a series of global roundtables as part of its public consultation process to inform the development of the new standard and NAMs. The IESBA will hold the following four in-person and two virtual roundtables:
 - March 13, 2025, New York City, USA
 - March 20, 2025, Melbourne, Australia
 - March 24, 2025, Brussels, Belgium
 - April 2, 2025, virtual roundtable for the Africa region
 - April 3, 2025, virtual roundtable for the Latin America region
 - April 28, 2025, Kuala Lumpur, Malaysia

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

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21. The IESBA will engage with a broad range of stakeholders including accounting firms, professional accountancy organizations, regulators and oversight bodies, national standard setters, investors, the corporate governance community, those charged with governance, and academics.
22. During these roundtables, the IESBA will seek perspectives and insights from participants regarding the role and impact of the key elements that would constitute a culture and governance framework to be included in the Code.

II. QUESTIONS FOR ROUNDTABLE PARTICIPANTS

23. Participants in the in-person roundtables will be asked to exchange views on questions 1 to 14 below during the two breakout sessions.
24. The virtual roundtables will have a shorter duration and include only one breakout session. Therefore, participants in the virtual roundtables will be asked to exchange views only on questions 2, 4, 6, 8, 9, 11, 12 and 14 below.

Ethical leadership

Paragraph 50 of the IESBA FCG Working Group's Final Report states:

“Leadership plays a crucial role in shaping and sustaining an ethical culture within a firm, aligning behavior with its ethical values and commitments, and setting the tone at the top for the whole firm.”

1. In your experience, what are the qualities and skills of an ethical leader?
2. What can senior leadership do to (a) demonstrate their commitment to ethics and the public interest, and (b) create and foster an ethical culture?
3. How can senior leadership ensure and demonstrate that their decisions, strategies, and key policies reflect ethical values and are adopted and implemented across the firm and, where applicable, the network?

Oversight and governance

Paragraph 56 of the IESBA FCG Working Group's Final Report states:

“The senior leadership of a firm bears the ultimate responsibility for upholding the firm's ethical values and standards and being accountable for the firm's ethical performance.”

4. What are some best practices for allocating responsibility for an accounting firm's (or organization's) ethical culture and performance, including monitoring, evaluation, and improvement within a firm's (or organization's) governance structure?

Among other aspects, please explain how the practice might differ depending on specific circumstances or factors.

The provision of independent input

Paragraph 60 of the IESBA FCG Working Group's Final Report states:

“The provision of independent input to a firm from advisors, a committee of advisors or Independent Non-Executives (INEs), contributes to the effectiveness of a firm's governance framework in promoting ethical values and culture.”

5. Under what circumstances should an accounting firm consider obtaining independent input?
6. What are some best practices for accounting firms (or organizations) in terms of obtaining independent input? When is it preferable to obtain that input from within vs outside the firm (or organization)? Are there any particularities that should be considered for smaller firms (or organizations)?
7. What role could independent non-executives or equivalent persons play within an accounting firm's (or organization's) governance structure to ensure executive decisions embed ethical values? How can their responsibilities be exercised?

Accountability across the firm

Paragraph 64 of the IESBA FCG Working Group's Final Report states:

"Accountability should extend to all partners and staff within a firm, not just its leadership. All individuals, from senior partners to entry-level staff, share responsibility for maintaining ethical standards and upholding the firm's values."

8. What mechanisms have you seen work to ensure there is accountability throughout an accounting firm (or organization) in terms of adherence to ethical standards and early detection and internal reporting of potential ethics issues?

Incentives and rewards that align with ethical behavior

Paragraphs 68 and 70 of the IESBA FCG Working Group's Final Report state:

"By aligning incentives with ethical behavior, firms can create an environment where the firm's personnel are driven to act ethically."

"Firms must also establish strong disincentive structures for unethical behavior with clear penalties or negative consequences."

9. What incentives or reward mechanisms have you seen be effective in accounting firms (or organizations) in driving ethical behavior?
10. What disincentive mechanisms for unethical behavior have you seen in accounting firms (or organizations) that are particularly effective, besides disciplinary action and penalties?

Culture of open discussion and challenge

Paragraph 73 of the IESBA FCG Working Group's Final Report states:

"(...) a healthy culture of open discussion and challenge also goes beyond traditional whistleblowing programs or speak-up mechanisms to voice concerns about ethical or other behavioral issues. Firms

must also cultivate an environment where consultation, critical thinking and challenging the status quo are encouraged and valued."

11. In your experience, what are some examples of a culture that encourages open discussion and exchange of ideas, including on ethical issues? What mechanisms have helped establish, encourage and maintain an effective culture of open discussion and exchange?

Among other aspects, please cover examples that prevent or address reluctance to speak up and consult, challenge, or exchange ideas.

Continuous education and training

Paragraph 78 of the IESBA FCG Working Group's Final Report states:

"Robust education and training on a continuous basis are required to ensure that employees continue to be aware of and adhere to ethical standards. Employees need to be trained not just to understand ethical rules but also to develop the necessary judgment to identify ethical issues in their professional activities."

12. How can accounting firms (or organizations) ensure that education and training programs go beyond gaining knowledge of ethical standards and bring ethics to the forefront of making judgments and guiding decisions?

Transparency about an accounting firm's ethical performance

Paragraph 74 of the IESBA FCG Working Group's Final Report states:

"A firm's commitment to its ethical values and leadership accountability is evidenced by its transparency about the ethics-related aspects of the firm's performance."

13. What information about an accounting firm would stakeholders (such as clients, investors, and regulators) be interested in or should be receiving to inform them about the firm's ethical values, behavior and accountability? Are the considerations as applicable to smaller firms as larger firms?

Final thoughts

14. Are there any other strategies or mechanisms not covered in the previous questions you have seen being effective in keeping ethical considerations top of mind and part of daily decision-making, and therefore contributing to an ethics-driven organizational culture?

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