

**Firm Culture and Governance (FCG)
Draft IESBA Viewpoints****Note to IESBA Members**

To facilitate the review of the draft IESBA viewpoints (Viewpoints), the FCG Project Team recommends that IESBA members review the Viewpoints in the following order:

- The five Viewpoints in Group A (Accountability across the firm, Rewards, Open discussion and challenge, Education and training, and Transparency); followed by
- The remaining three Viewpoints in Group B (Ethical leadership, Oversight and governance, and Provision of independent input), which are more overarching in nature.

Group A – Accountability Across the FirmPublic Interest Considerations

1. Accountability of all partners and staff across an accounting firm (“firm”) contributes to the firm’s ethical culture as it promotes individual and shared responsibility, making it clear that each individual’s ethical conduct matters and contributes to the ethical standing of the firm.

Individual and Shared Accountability

2. All partners and staff have an individual and shared responsibility for adhering to the IESBA’s [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (“the Code”) and upholding the firm’s ethical values from the moment they join the firm, regardless of their role and seniority.
3. Partners and staff demonstrate accountability to the Code and the firm’s ethical values by:
 - Being aware of and understanding the requirements and expectations of ethical behavior.
 - Committing to act in accordance with those ethical requirements and expectations.
 - Being transparent about their decisions and actions by being able to evidence and justify them.
 - Being answerable for their decisions and actions through accepting the consequences of falling short of the ethical requirements and expectations.

Embedding Accountability Mechanisms

4. In embedding accountability mechanisms that support personal accountability by partners and staff, a firm:
 - Promotes ongoing awareness of the Code and expectations of ethical behavior through continuous education and training programs.
 - Evaluates individual behavior against the firm’s ethics criteria through its performance evaluation mechanisms.
 - Enforces appropriate consequences for unethical behavior through clearly defined disincentive

measures, including specific sanctions.

5. The governance structures and mechanisms through which a firm monitors and reinforces accountability can vary depending on the firm's specific circumstances, including its size.

Group A – Rewards

Public Interest Considerations

1. Incentives and disincentives (“rewards”) for partners and staff that include an ethics component contribute to an accounting firm’s (“firm”) ethical culture and underscore the firm’s commitment to ethical values and the public interest.
2. Designing and implementing rewards that recognize and reinforce the expected ethical behavior signal to all partners and staff the importance of ethical values, and act as a motivating factor to achieve the expected ethical behavior.

Incentives Aligned with Ethical Behavior

3. Incentive mechanisms that take into account ethical behavior reinforce a firm’s expectations on all partners and staff to act in accordance with the firm’s ethical values and the public interest.
4. Therefore, it is important that a firm’s performance evaluation and rewards mechanisms include ethics-related criteria in addition to financial and other non-financial criteria, and that they are applied periodically in a clear, consistent, transparent and timely manner.
5. Performance evaluation and rewards mechanisms that balance expected ethical behavior and financial performance goals help encourage enduring ethical behavior and the long-term sustainability of a firm.
6. Rewarding ethical behavior by partners and staff that goes above and beyond expectations, whether through financial compensation, promotion or other incentives, encourages exemplary ethical behavior and contributes to the development of ethical leaders. In some circumstances, simple or informal incentives that are not based on monetary rewards, such as recognition of achievement, may be effective.
7. Incorporating the individual’s ethical performance into promotion decisions helps firms select individuals with the right ethical values and mindset to leadership positions.

Disincentive Mechanisms

8. Disincentive mechanisms that sanction behaviors of partners and staff that fail to meet the firm’s ethical expectations reinforce the importance of acting ethically and promote accountability.
9. Responding to unethical behavior in a timely, decisive, and fair manner demonstrates to internal and external stakeholders that senior leadership is prioritizing ethical behavior as a key performance measure. This will in turn build public trust in the firm.
10. The manner in which firms apply disincentive mechanisms will depend on factors such as the nature of the unethical behavior, including its potential consequences and frequency of occurrence, and roles of the offending partners or staff.

Group A – Open Discussion and Challenge

Public Interest Considerations

1. An environment of open discussion and challenge is essential to ethical decision-making and accountability within an accounting firm (“firm”). It encourages partners and staff to feel empowered to raise ethical concerns and seek guidance from others in the firm who might have dealt with similar matters, including ethical dilemmas.
2. Such an environment enables timely identification, consideration and mitigation of ethical issues, thus contributing to public trust in the firm.

Culture of Open Discussion and Challenge

3. A culture of open discussion and challenge involves the cultivation of a psychologically safe environment of mutual respect and trust for dialogue.
4. Encouraging and normalizing transparent conversations about ethics-related matters – acknowledging that mistakes are part of the learning process, and ethical dilemmas can be complex – is also foundational to an environment of open discussion and challenge.
5. In this environment, partners and staff understand how to engage in constructive dialogue and are encouraged to speak up on behalf of themselves and others, thereby strengthening the firm’s ethical resilience and responsiveness.
6. A culture of open discussion and challenge benefits from a firm’s policies and internal mechanisms on resolving differences of opinion. Such a culture also benefits from clear, accessible and confidential speak-up channels, including whistleblowing mechanisms.
7. Timely and consistent resolution of ethical issues raised reinforces the firm’s commitment to ethical behavior and demonstrates to partners and staff that their concerns are listened to and addressed.
8. Having shared expectations of what a culture of open discussion and challenge looks like is beneficial for network firms. With such expectations, all partners and staff across the network know that it is acceptable and feel encouraged to communicate openly and freely, regardless of cultural differences across jurisdictions.

Role and Expectations of Leadership

9. Leaders at all levels of the firm have critical roles in creating a psychologically safe environment where individuals feel comfortable and safe in voicing their perspectives and concerns.
10. Senior leaders cultivate such an environment when they consistently model the firm’s ethical values, engage authentically with partners and staff, and demonstrate alignment between personal conduct and the ethical values promoted by the firm.
11. Other leaders, such as engagement leaders and managers, through their regular interactions with partners and staff, can directly support and encourage ethical conversations as a part of day-to-day operations where open discussion and challenge is not only encouraged, but expected.

Group A – Education and Training

Public Interest Considerations

1. Continuous education and training play an important role in fostering an ethical culture in an accounting firm (“firm”) as they equip all partners and staff with the skills and judgment needed to navigate ethical dilemmas.
2. Continuous education and training that emphasize understanding the IESBA's [*International Code of Ethics for Professional Accountants \(including International Independence Standards\)*](#) (“the Code”) and the firm’s ethical values and its responsibility to act in the public interest promote the development of an ethical mindset.

An Ethical Mindset

3. The aim of education and training on ethics is not only to enhance knowledge of the Code and other relevant ethical standards, policies, rules and regulations, but also to develop an ethical mindset of partners and staff across all service lines that will bring ethical behaviors to top-of-mind.
4. Such education and training strengthen the ability to identify ethical issues and make judgments and decisions that uphold ethical values, taking into consideration the public interest.

Effective Education and Training

5. Education and training programs are effective in developing an ethical mindset in partners and staff when they are:
 - Taken as soon as individuals join the firm and on a continuous basis thereafter, thus reinforcing the foundational role of ethical values.
 - Mandatory, thus positioning decision-making on ethical matters as a core ability on par with technical competence.
 - Focused on not just gaining knowledge but also developing the judgment to identify ethical issues when performing professional activities or services.
 - Relevant and fit for purpose, taking into consideration the individual's background (professional accountant or non-professional accountant), role, seniority and service line.
 - Dynamic, by using practical, relatable and interactive scenarios that connect abstract principles to everyday ethical dilemmas as well as focus on grey areas.
 - Periodically updated to reflect advances in the Code and other relevant ethical standards, policies, rules and regulations, and address emerging ethical issues.
6. There are various ways for firms to deliver their education and training programs.
7. Firms with limited internal resources to develop their own ethics training programs may use external resources that suit their needs, such as materials developed by professional accountancy organizations, commercial organizations specializing in training, or academia.

Group A – Transparency

Public Interest Considerations

1. An accounting firm's ("firm") transparency about the ethics-related aspects of the firm's performance highlights its commitment to its ethical values, the public interest, and accountability to its clients, partners, staff, and other stakeholders.
2. Transparently reporting on the firm's ethical performance, internally and externally, contributes to an ethical firm culture and builds public trust in the firm.
3. It is important for a firm to communicate, subject to confidentiality restrictions, both internally to partners and staff and externally to its stakeholders in respect of policies or actions to drive ethical behavior or, in case of an ethical failure, how the firm has responded and taken corrective measures.

Internal Transparency

4. A firm's senior leadership being transparent to partners and staff about their decisions and actions to promote and uphold ethical values demonstrates the firm's commitment to ethical values and compliance with the IESBA's [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) ("the Code").
5. Sharing ethics-related learnings and experiences is also beneficial for firms within the same network, as it promotes consistency of approaches across the network and helps to reduce the risk of similar cases of unethical behavior occurring in other parts of the network.

External Transparency

6. A firm's public disclosures on its ethical commitments and performance, as well as the dissemination of that information in an appropriate format and through an appropriate channel, demonstrate the firm's commitment towards upholding the highest standards of ethical conduct.
7. Such external transparency will also contribute to building and strengthening public trust in the firm and signal a genuine commitment to ethics.

Group B – Ethical Leadership

Public Interest Considerations

1. The senior leadership of an accounting firm (“firm”) plays a pivotal role in driving and fostering a strong ethical culture within the firm.
2. Through their ethical leadership, a firm’s senior leadership demonstrate that they understand that they and the firm have an overarching responsibility to act in the public interest under the IESBA’s [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (“the Code”) in all of the firm’s professional services. This responsibility permeates the ethical culture of the firm and is fundamental to safeguarding public trust in, and the reputation of, the firm.

Ethical Leadership by a Firm’s Senior Leadership

3. Senior leadership that is ethics-driven are deeply committed to ensuring ethical conduct at every level of the firm and across all its professional services. They demonstrate this commitment when exercising their role as senior leaders.
4. They believe deeply in the firm’s ethical values and prioritize ethics above all other considerations, including commercial considerations, in all their decisions and actions.
5. Senior leadership have an ethical mindset with a strong knowledge and understanding of the Code. They take an uncompromising stance in abiding by the Code’s principles when making judgments and decisions, especially in difficult situations involving ethical conflicts or dilemmas.
6. In their oversight capacity, these leaders embed the firm’s ethical values in the firm’s overall business strategy. They ensure that the firm’s systems, policies, and procedures prioritize those values. They accept full accountability for maintaining a strong ethical culture within the firm at all times.
7. In maintaining a strong ethical culture, senior leadership understand the value of independent input in strategic and governance matters, and they seek such input as needed.
8. They recruit and promote individuals who demonstrate a deep commitment to the firm’s ethical values. They also reward those who exemplify a high standard of ethical behavior and hold partners and staff accountable for any unethical behavior.

Tone at the Top

9. Senior leadership that is ethics-driven set the tone at the top on ethical behavior at all levels within the firm by demonstrating their commitment to the firm’s ethical values through their decisions and actions. Their ethical behavior serves as a model for all partners and staff to follow.
10. The tone of senior leadership influences and impacts every aspect of the firm, including how ethics contributes to the strategic direction and overall governance of the firm.
11. They emphasize in their communication to all partners and staff the firm’s ethical expectations and the importance of adhering to the Code in all professional activities and services. They reflect these expectations in the firm’s performance evaluation and rewards mechanisms.
12. Senior leadership are transparent in their decision-making, demonstrating how they have prioritized ethics in their decisions and actions, for which they are fully accountable.

Group B – Oversight and Governance

Public Interest Considerations

1. Oversight and governance are foundational to cultivating a strong ethical culture within an accounting firm (“firm”).
2. Ethics-based oversight and governance reinforce ethical expectations across all of a firm’s professional services and the accountability of the firm’s senior leadership. Importantly, such oversight and governance help mitigate the risks of unethical behavior within the firm and ultimately safeguard the public interest.

Role of Oversight and Governance in Fostering an Ethical Culture

3. Oversight and governance are necessary to enable:
 - Ongoing monitoring of ethical behavior within the firm;
 - Evaluation of the effectiveness of systems, policies and processes in reinforcing ethical conduct at all levels within the firm;
 - Assessment of difficult situations involving ethical conflicts or dilemmas; and
 - Continual improvement of the firm’s ethical culture and performance.
4. Implementing effective oversight involves assigning responsibility for overseeing ethical conduct and culture within the firm to a trusted individual or group of individuals with the appropriate authority for decision-making on matters of ethical conduct, including situations involving the firm’s senior leadership. Whether such responsibility is assigned at an individual or collective level is a matter for the firm to determine.
5. Firm governance structures, including the organization of the senior leadership’s roles and responsibilities, accountability mechanisms, and decision-making processes, that embed ethical values are essential in building trust in a firm.
6. Good governance that is grounded in ethical values guides the firm’s senior leadership in making challenging ethical decisions that uphold those values with integrity and transparency. Such governance will also encourage ethical behavior across all levels of the firm, fostering a strong ethical culture.
7. The most appropriate governance mechanisms, systems and processes will depend on the firm’s specific circumstances, including its size.
8. For network firms, having a consistent approach to oversight and governance helps promote a shared understanding of expected ethical behavior across the whole network. In addition, regular dialogue about ethics-related matters within the network promotes shared learnings across the network.

Group B – Provision of Independent Input

Public Interest Considerations

1. Incorporating objective, impartial input from sources that are free from conflicts of interest (i.e., independent input) into the decision-making processes for strategic and governance matters provides opportunities to obtain different perspectives and challenge that help achieve a balanced outcome. This contributes to the ethical culture of an accounting firm (“firm”).
2. Independent input, from an ethical and public interest perspective, helps decisions reflect broader stakeholder considerations on ethical and public interest matters. This increases confidence and transparency in the firm’s ethical decision-making processes and its commitment to the public interest.

Obtaining Independent Input

3. There is no uniform approach to seeking independent input on strategic and governance matters.
4. A firm can obtain independent input from a variety of sources, such as independent non-executives (INEs), a committee of independent advisors to the firm, individuals with extensive business experience or regulatory expertise, professional accountancy organizations, other firms including within the network, or retired partners of the firm.
5. The most appropriate source may vary based on factors such as the size of the firm, whether the firm provides audit and assurance services or other engagements of a public interest nature, and the clients’ profile. For instance, firms that audit one or more public interest entities may consider appointing INEs as part of their governance structure.
6. It is important for firms to select the individual(s) or organization with the relevant skills, knowledge, experience and appropriate objectivity and independence (i.e. no conflicts of interest) to provide independent input.
7. A firm may obtain independent input on an ad hoc basis, or through a formal mechanism or role within its organizational structure. The decision will depend on factors such as the size and resources of the firm.
8. It is also acknowledged that not all situations will need or benefit from independent input. For purposes of consistency in approach and shared understanding among senior leadership, a firm may consider it appropriate to identify and describe the situations or matters on which independent input is sought.