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**Analysis of Public Interest Responsiveness of  
“Revisions to the Code to Promote the Role and Mindset Expected of  
Professional Accountants”  
September 2020**

**I. Background information on the revisions to the Code to promote the Role and Mindset Expected of Professional Accountants**

The objective of the *revisions to the Code to promote the Role and Mindset expected of Professional Accountants* (R&M revisions to the Code) is to ensure that the Code promotes the role, mindset and behavioral characteristics expected of all professional accountants (PAs) when performing their professional activities.

The project started as a response to enhance professional skepticism in the standards (a tripartite working group, including IAASB, IESBA and IAESB representatives was formed back in 2017). The IESBA then initiated a short-term project aimed at enhancing the reference to professional skepticism and professional judgment in the application material of the Code of Ethics, finalized and embedded in the restructured Code (April 2018).

A second step was to consider whether professional skepticism had to be further expanded to all Professional Accountants (both PAPPs and PAIBs). For that purpose, the IESBA published a consultation paper (May 2018) and organized global roundtables to get input from stakeholders (June-July 2018). The outcome of both types of consultations defined the scope of the Role & Mindset project, which was approved in September 2018. Due to the resistance from many stakeholders and from the IAASB to use the term “professional skepticism” for all Professional Accountants, the IESBA decided to rename the project and not to use the professional skepticism concept, deemed to be applied only by auditors.

The R&M project introduces the following main changes to the Code of Ethics:

- new application material for PAs to meet their responsibility to act in the public interest;
- revised text on Fundamental Principles: Integrity (reference to “strength of character to act appropriately”), Objectivity (reference to Technology), Professional Behavior (reference to responsibility to act in the public interest), Professional Competence and Due Care (reference to Technology);
- requirement to exercise Professional Judgment and having an “inquiring mind” (expected of all PA’s) when applying the conceptual framework, while “Professional Skepticism” is reserved to auditors;

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- new application material on Bias, and Organizational culture, as well as section for “Firm culture” (with a reference to ISQM 1).

## II. Timeline of R&M: Due Process

The timeline of the due process held for the R&M revisions to the Code is shown in the diagram below:



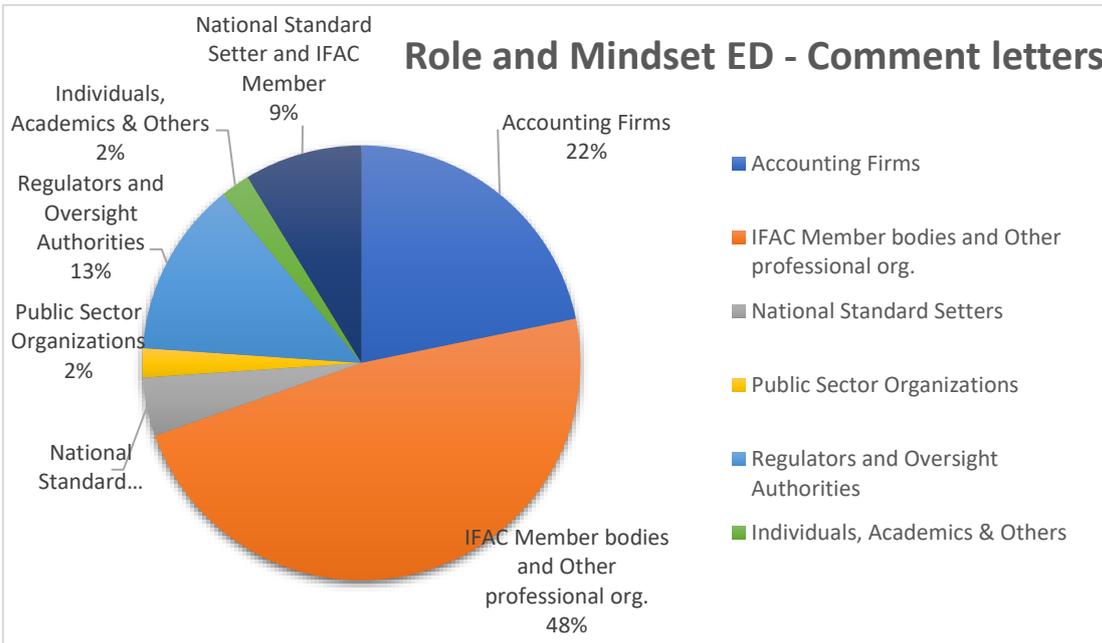
The R&M revisions to the Code were approved by the votes of 16 out of 16 IESBA members present at the meeting. No re-exposure was required.

The IESBA established an effective implementation date of December 31, 2021.

## III. Comments Submitted to the ED

46 respondents submitted their comments to the ED, as depicted in the graphic below.

Among the regulators and oversight bodies, one MG member responded to the consultation (BCBS), and three IFIAR member (Abu Dhabi Accountability Authority, UK FRC and IRBA).



A sample of 12<sup>1</sup> comment letters was reviewed as part of this analysis.

Overall, respondents supported the revisions in the Exposure Draft (ED). However, they expressed concerns or provided suggestions on the following points:

*Act in the public interest*

- Suggest clarifying that compliance with the Code does not mean that PA’s necessarily discharge their responsibility to act in the public interest in full.
- Additional awareness needs to be raised, from IESBA or at jurisdictional level. The concept of acting in the “public interest” is a critical and foundational issue in recognizing the role of PAs.
- Recommend consideration of how words and concepts in section 100 (e.g. “ethical behaviors”, “standard of behavior” and “professional behavior”) are used in the Code to ensure consistency, avoid confusion and provide clarity.
- Concerned on the lack of clarity created by the inclusion of the undefined concept of the public interest.
- It would be useful to clarify in publications such as the Basis for Conclusion or case studies the relevance of public interest to PA’s, in particular PAIBs being employed by SMEs or PAPPs who audit SMEs.

<sup>1</sup> The sample of comment letters reviewed for this analysis includes: Abu Dhabi Accountability Authority, Association of Chartered Certified Accountants (ACCA), Basel Committee on Banking Supervision, Deloitte Touche Tohmatsu Limited, Federación Argentina de Consejos Profesionales de Ciencias Económicas (Argentina), Grant Thornton International Limited, Hong Kong Institute of Certified Public Accountants, Independent Regulatory Board for Auditors (IRBA) of South Africa, Institute of Chartered Accountants of England and Wales (ICAEW), Institute of Chartered Accountants of India, Institute of Chartered Accountants of Nigeria, UK Financial Reporting Council.

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- There may be circumstances in the professional practice in which the interest of the client or employer contrasts with the public interest and that the accountant must apply the principles of the Code.
- Upholding the public interest is the duty of the accountancy profession and a PA contributes to that, but a PA cannot solely be responsible for safeguarding the public interest on behalf of the profession.
- Concerned that the proposed requirement for PA's to act in the public interest could be read as implying a separate individual duty – in essence a sixth fundamental principle.

*Determination to act appropriately*

- Section 111 should be strengthened to require accountants to always act appropriately when confronting dilemmas or difficult situations, rather than just having the "determination" to act appropriately.

*Having an inquiring mind*

- More emphasis should be made on the need for accountants to be satisfied with the integrity, relevance and sufficiency of information.
- There is an overlap between the concepts of Inquiring mind and Professional skepticism. This should be clarified in para. A120.5.A5.
- Auditors may find it difficult to differentiate between an inquiring mind, as per the Code, and a questioning mind, as a requirement when exercising professional skepticism. Consider including IAASB's definition of professional skepticism in the Code.
- Concerns on how can PA's demonstrate that they have complied with the requirement of having an "inquiring mind".
- The concept of an "inquiring mind" could be interpreted as skepticism in other words.

*Bias and organizational culture*

- Clarify proposals around organizational culture and "effective application" of the IESBA Code (paragraph 120.13.A1). Recommend that the revised Code should clearly explain that its requirements apply regardless of the organizational culture within which the PA operates.
- Suggest adding: authority bias, information bias, outcome bias, self-serving bias, status quo bias, and story bias.
- PA's should not only be "aware of the risk of bias", but should also avoid conscious bias and seek to avoid unconscious bias. The list of examples should be described as "possible" bias.
- If list of bias retained, we suggest providing the descriptions of some relevant biases without the "labels".
- Whistleblowing should be addressed in the application material, in addition to the role of leadership.

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- Consideration should be given to the case where PA's cannot influence the organization's internal culture.
- Application material should be expanded to direct PA's to seek to promote an appropriate ethical culture within their organization.
- For audit, review and other assurance firms, replace the reference to ISQM1 (which may not be adopted in all jurisdictions).

#### *Technology*

- Clarify how PA's can maintain understanding of technology related developments.
- It would be helpful to include a definition of technology, to understand that it includes innovation, artificial intelligence and innovations, data and analytics.

#### *Enforceability, SMPs*

- Encourage considering how the actions, characteristics and behaviors of PA's can be clearly and unambiguously evidenced.
- SMPs may require additional guidance on practicality of the amendments, as they are "abstract in nature".
- It will be difficult to find evidence of the application of an inquiring mind.
- We encourage IESBA to develop application examples and illustration, particularly documentation guidance to guide accountants on how to demonstrate their decision making.

Those comments were reflected in the Issues Paper and discussed at the IESBA meetings. The Basis for Conclusions describes the comments submitted by respondents and the way the IESBA addressed them. The IESBA either accepted these comments or provided arguments/its rationale for rejecting them.

#### **IV. Public Interest issues raised by the PIOB and Outstanding Items**

During the development of the standard, the PIOB raised public interest issues. Initially, the PIOB recommended the IESBA to apply professional skepticism to all professional accountants. However, given the change of scope and the outcome of public consultations, the PIOB adapted its recommendations.

The most up to date list at the time the standard was approved by the IESBA, including the way the SSB addressed them, is as follows:

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<b>ROLE AND MINDSET EXPECTED OF PAs</b>	
<b>PIOB Recommendation</b>	<b>Description and IESBA's Response</b>
<p><b>Applicability of a minimum level of Professional Skepticism or other suitable term</b></p> <p>PIOB supports the idea that all PA's should apply a minimum level of PS (or other suitable term, such as "critical mindset").</p> <p>The PIOB encourages the IESBA to not weaken the requirements regarding responsibility of PAs to act in the public interest.</p>	<p>The PIOB welcomed the current proposals in the ED, including: applicability of professional judgment to all PAs; requirement to exercise professional judgment "with an inquiring mind"; application material on the threat of "automation bias" and on the importance of firm "culture" with a reference to ISQM1.</p> <p>Also, in the final text approved, IESBA retained the reference to the importance of the PAs to "behave in a manner consistent with the profession's responsibility to act in the public interest".</p>

The Basis for Conclusions considers the PIOB's public interest issues raised and the decisions taken by the IESBA to address them.

There are no outstanding public interest issues to be followed up on R&M revisions to the Code submitted for PIOB approval.

## **V. IESBA CAG**

The CAG was involved along the process of the R&M revisions to the Code. CAG representatives provided their comments and supported the decisions of the IESBA. The CAG received reports-back on the disposition of its comments.

In his report to the PIOB, Gaylen Hansen, states that he is comfortable to advise the PIOB that, in his opinion, due process relating to the IESBA's interaction with the CAG in the overall process of the R&M revisions to the Code has been followed.

## **VI. Public Interest Responsiveness of the R&M revisions to the Code**

The PIOB evaluates and measures the responsiveness of the R&M revisions to the Code to the public interest by assuring that due process is effectively followed and that the qualitative aspects are achieved by the R&M revisions to the Code.

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Those elements, identified in the Public Interest Framework (PIF) drafted by the PIOB in January 2018, jointly with the elements in the 2020 MG reform document<sup>2</sup>, have been analyzed as shown in the following table.

Qualitative Characteristic	Achieved?	Description
Consistency	Yes	The R&M revisions to the Code developed into a project responding to emerging issues identified by the Professional Skepticism Working Group, through discussions with IAASB and IAESB representatives, public consultation and global roundtables. The R&M revisions to the Code are consistent with the priorities established in the IESBA 2019-2023 Strategy and Work Plan.
Scope	Yes	The R&M revisions to the Code achieve greater clarity on requirements and guidance on expected behaviour of all PAs, as established in the scope of the project.
Coherence	Yes	The R&M revisions to the Code are related to other standards, which have been considered, including coordination and confirmation with IAASB (e.g. use of term Professional skepticism restricted only for auditors).
Scalability (New) <sup>3</sup>	N/A	Not relevant. The R&M revisions to the Code are applicable to all PAs.
Timeliness	Yes	The R&M revisions to the Code took less than 2 years to complete from project approval.
Relevance (New) <sup>3</sup>	Yes	The R&M revisions to the Code developed into a project responding to emerging issues identified by the Professional Skepticism Working Group, through discussions with IAASB and IAESB representatives, public consultation and global roundtables.
Completeness	Yes	The R&M revisions to the Code reflect results of consultation with different

<sup>2</sup> MG recommendations *Strengthening the International Audit and Ethics Standard-Setting System*, published July 14, 2020

<sup>3</sup> New qualitative characteristics included in the PIF in the 2020 MG recommendations document that were not part of the 2018 PIF drafted by PIOB.

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<b>Qualitative Characteristic</b>	<b>Achieved?</b>	<b>Description</b>
		stakeholders and thorough risk assessment to address conflicting views.
Comprehensiveness	Yes	The R&M revisions to the Code achieve greater clarity on requirements and guidance on the expected behaviour of all PAs, including their responsibility to act in the PI and having an inquiring mind, adding more comprehensive guidance on the importance of being aware of one's bias and organization culture, and the impact of technology on compliance with the Code.
Clarity and Conciseness	Yes	The R&M revisions to the Code achieve greater clarity on professional behaviours expected from all PAs.
Implementability, consistent application and globally operable (New) <sup>3</sup>	Yes	The R&M revisions to the Code have considered differences that may exist in the interpretation of certain terms in different jurisdictions/languages/cultures and addressed them to ensure consistent application of the Code globally.
Enforceability	Yes, subject to implementation	The R&M revisions to the Code establish clear responsibilities and professional behavior expected of all PAs. Enforceability can be assessed at a later stage, once the R&M revisions to the Code are implemented.

## VII. Conclusions

The PIOB is requested to approve that, in the R&M revisions to the Code, due process was effectively followed and with proper regard for the public interest.

According to the analysis conducted, the R&M revisions to the Code followed due process:

- ✓ The R&M revisions to the Code approved by the IESBA is the result of a public consultation process and discussions at IESBA, IESBA CAG meetings, and interaction with the PIOB.
- ✓ Comments raised by respondents to the ED and by the PIOB were reported to the Board and to the CAG and documented in the issues papers used

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during the Board discussions. These papers and the Basis for Conclusions explain the rationale of disposition by the IESBA of the comments received.

- ✓ The IESBA CAG Chair has favorably reported to the PIOB that due process has been followed in the interaction with the CAG in the R&M revisions to the Code.

Based on this analysis the staff recommends the PIOB Board to approve the R&M revisions to the Code.

### **Documents submitted by the IESBA and IESBA CAG Chair to the PIOB**

The IESBA provided the PIOB with the following documents to support the request for PIOB approval of the R&M revisions to the Code:

- The R&M revisions to the Code final documents, as approved by the IESBA;
- The Basis for Conclusion document;
- A due process sign-off document;
- The due process checklists;
- Draft minutes of the IESBA meeting in June 2020 (approval of the R&M revisions to the Code)

In addition, the IESBA CAG Chair has provided his written report.

These documents, as well as the key documentation discussed at IESBA and IESBA CAG meetings (ED, comment letters, issues papers, minutes of meetings) have been reviewed as part of this analysis.