

**Exposure Draft**  
**July 2019**  
*Comments due: October 31, 2019*

*International Ethics Standards Board  
for Accountants®*

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# Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants

**IESBA**

International  
Ethics Standards  
Board for Accountants®



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## About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

This Exposure Draft (ED) was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **October 31, 2019**.

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Senior Technical Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

**PROPOSED REVISIONS TO THE CODE TO PROMOTE THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS**

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# EXPLANATORY MEMORANDUM

## I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the Code to promote the role, mindset and behavioral characteristics expected of professional accountants.
2. The IESBA approved these proposed changes for exposure at its June 2019 meeting.

## II. Background

### From Professional Skepticism to Role and Mindset

3. The concept of professional skepticism is most prominently dealt with in auditing and assurance standards. In this regard, the International Auditing and Assurance Standards Board's (IAASB's) International Standard on Auditing (ISA) 200 defines professional skepticism as "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."<sup>1</sup>
4. The term "professional skepticism" has also been referred to in the Code and in the International Education Standards (IESs) for a number of years.<sup>2</sup> Consistent with the use of the term in the ISAs, the Code has historically referred to professional skepticism in the context of audit, review and other assurance engagements only.
5. Over the past few years, however, there have been calls for the Standard-setting Boards<sup>3</sup> to enhance the way in which existing material in their standards addresses 'professional skepticism'. In response to these calls and recommendations from a tripartite Professional Skepticism Working Group (PSWG) established by the IESBA, IAASB and IAESB, the IESBA undertook a [short-term professional skepticism project](#) in 2017.
6. As part of this short-term project, the IESBA developed application material to (a) supplement the few references to professional skepticism in the Code by explaining how compliance with the fundamental principles supports the exercise of professional skepticism, and (b) illustrate this linkage in the context of an audit of financial statements. In addition, the IESBA developed new application material relating to the exercise of professional judgment (see further discussion in Section III). This new material is contained in the [revised and restructured Code](#), which was issued by IESBA in April 2018 and became effective in June 2019.
7. Having completed the short-term project, the IESBA agreed to consider whether the Code should require all professional accountants to exercise 'professional skepticism' and, if so, how that objective

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<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(l)

<sup>2</sup> The IESs were developed by the former International Accounting Education Standards Board (IAESB). On August 3, 2018, the International Federation of Accountants (IFAC) [announced](#) that it was transitioning the IAESB to a new model based on a comprehensive and integrated approach to international accountancy education. The new model will have a broader mandate than the IAESB, including a focus on future skills for professional accountants to remain relevant in an environment of rapid change. The new model became effective July 1, 2019 and will be overseen by IFAC rather than the Public Interest Oversight Board (PIOB). In this document, reference to the IAESB includes its successor body.

<sup>3</sup> The IAASB, IESBA, and IAESB

should be achieved. This topic was included as a pre-commitment in the IESBA's [Proposed 2019-2023 Strategy and Work Plan](#)<sup>4</sup> (Proposed SWP) consultation paper issued in April 2018.

8. In May 2018, the IESBA issued a Consultation Paper, [Professional Skepticism – Meeting Public Expectations](#) (the Consultation Paper or CP). Amongst other matters, the CP sought views on:
  - The mindset and behavioral characteristics expected of all professional accountants;
  - Whether the term 'professional skepticism', or other alternative terms, should be used to describe such mindset and characteristics; and
  - Whether the Code should be further developed, and/or other actions outside the Code taken, to promote such mindset and behaviors.
9. The IESBA received comments from over 60 respondents. The issues raised in the CP were also discussed at [four global roundtables](#) attended by approximately 150 senior-level delegates between June and July 2018.
10. The responses to the CP and the views expressed at the roundtables showed clear support for the following:
  - The proposition that the mindset and behavioral characteristics set out in the CP should be expected of all professional accountants when performing professional activities.
  - Although the term 'professional skepticism' had been loosely used by some stakeholders to encapsulate that mindset and behavioral characteristics, there was a strong view that that term should be reserved for use only in an audit and assurance context and as defined in the auditing and assurance standards issued by the IAASB.
  - Section 100<sup>5</sup> of the Code should be developed to better explain the mindset and behaviors expected of professional accountants, and to link that material with the fundamental principles and the conceptual framework.
  - The Code should be developed to better recognize the role of bias, pressure and other impediments in influencing behavior and how to mitigate the threats they create.

### **Role and Mindset Project**

11. Having considered the responses to the CP and views from the global roundtables, the IESBA approved a project proposal, "Promoting the Role and Mindset Expected of Professional Accountants" (Role and Mindset Project), at its September 2018 meeting.
12. Amongst other matters, the scope of the project includes:
  - Consideration of revisions to Part 1 of the Code to:
    - Describe the role, mindset and behavioral characteristics expected of all professional accountants when performing their professional activities (Section 100).

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<sup>4</sup> The [IESBA Strategy and Work Plan 2019-2023](#) was released in April 2019.

<sup>5</sup> Part 1, *Complying with the Code, Fundamental Principles and Conceptual Framework*, Section 100, *Complying with the Code*

- Explain the linkage between the role, mindset and behavioral characteristics expected of professional accountants on the one hand, and, on the other hand, the fundamental principles (Section 110<sup>6</sup>) and the conceptual framework (Section 120<sup>7</sup>).
- Address threats to compliance with the fundamental principles arising from bias, pressure and other impediments, together with appropriate supporting material.
- A review of other Parts of the Code to identify opportunities to emphasize and reinforce the mindset and behavioral characteristics expected of professional accountants in business and in public practice.
- Development of material to explain the linkage between the mindset and behavioral characteristics set out in the Code and expected of all professional accountants and the concept of professional skepticism as defined in the IAASB's standards.

### **Coordination with the Other Standard-setting Boards**

13. In developing the proposed revisions, the IESBA has sought and obtained input on its proposals from IAASB and IAESB representatives, in order to ensure the relevant terms and concepts in the ISAs and the IESs and those proposed in this ED are appropriately aligned, having regard to the differing remits of the Boards.

## **III. Significant Matters**

### **Highlight of Proposals**

14. The proposed revisions set out in this ED, amongst other matters:
- Highlight the wide-ranging role of the accountancy profession in society and the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest.
  - Include enhancements to the fundamental principles of objectivity and professional behavior.
  - Strengthen the fundamental principle of integrity to include the determination to act appropriately in difficult situations.
  - Include some enhancements that reflect the impact of technology.
  - Require all professional accountants to have an inquiring mind when applying the conceptual framework.
  - Highlight the importance of being aware of bias and having the right organizational culture.

### **Introductory Material to Section 100**

#### *Role of Professional Accountants*

15. The proposals include new application material to highlight the wide-ranging role of professional accountants in society as a result of the skills and values they bring to their work (see paragraph 100.1 A2). These skills and values are what ultimately underpins the public trust in the profession.

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<sup>6</sup> Section 110, *The Fundamental Principles*

<sup>7</sup> Section 120, *The Conceptual Framework*

16. The IESBA considered the suggestion of various global roundtable participants to include an overarching statement of purpose at the beginning of the Code, either in the form of a mission statement or professional oath. The IESBA concluded that the Code is not the appropriate place to promote such a mission statement or oath. It would be more appropriate, for instance, for IFAC to require or encourage the promulgation of a mission statement for professional accountants and how it should be promoted as part of the obligations or other policies it establishes for its member bodies.

*Acting in the Public Interest*

17. The proposed revisions to Section 100 explain that compliance with the fundamental principles and application of the conceptual framework lie at the heart of compliance with the Code and play an important role in enabling professional accountants to meet their responsibility to act in the public interest (see paragraphs 100.1 A1 and 100.2 A1).
18. The IESBA recognizes that compliance with the Code does not mean that professional accountants necessarily discharge their responsibility to act in the public interest in full and that it does not have the authority, legal or otherwise, to give such an assurance. Both the IESBA and the IESBA Consultative Advisory Group (CAG) also rejected the proposition that compliance with the Code provides prima facie evidence, or a rebuttable assumption, that a professional accountant has acted in the public interest.

*Upholding Ethical Values*

19. The IESBA agreed with the IESBA CAG Representatives that the Code will not be completely “up-to-date” at any given point in time or be able to fully address the changing expectations of the public. Accordingly, the IESBA believes that for professional accountants to display the ethical behavior expected of them, they need to comply not only with the letter of the Code but also its spirit.
20. To make this clear, the IESBA proposes to revise Section 100 by adding in paragraph 100.1 A1 the following: “Compliance with the Code... involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code.”

*Adoption of the Code*

21. The proposed revisions clarify the pathways through which the Code is adopted internationally, i.e., it is not only adopted or used by IFAC member bodies as a basis for their codes of ethics, but also may be used or adopted by national standard setters and by firms in developing their ethics policies (see paragraph 100.1 A3).

*Location of the Proposals*

22. When developing the proposed revisions to Section 100, the IESBA considered where the new material should be located. One option was to place the proposed material before Part 1 as a stand-alone section titled “Introduction to the Code.” The IESBA also considered incorporating the material into the Guide to the Code.
23. Upon deliberation, the IESBA determined that the proposed material would have greater effect if it were incorporated into Section 100 instead of being placed into a new stand-alone section or incorporated into the Guide to the Code.



## Fundamental Principles

### *Enhancing the Descriptions of Objectivity and Professional Behavior*

24. The IESBA proposes a revision to the description of "objectivity" in paragraph 110.1 A1 (b)<sup>8</sup> as it considers that the description would be enhanced if it were expressed more positively.
25. In developing this revision, the IESBA rejected the suggestion that conflicts of interests and undue influence are sources of bias and that they should not be identified, independently, as factors that compromise professional accountants' exercise of professional judgment.
26. The IESBA is also proposing to strengthen the fundamental principle of "professional behavior" in paragraph 110.1 A1 (e) by including a requirement that professional accountants behave in a manner that is consistent with the profession's responsibility to act in the public interest.
27. This proposed revision is intended to reinforce the relationship between compliance with the fundamental principles and a professional accountant's responsibility to act in the public interest. To emphasize the importance of professional accountants being proactive in acting in the public interest, the proposed new requirement has been inserted ahead of the two existing requirements in paragraph 110.1 A1 (e), i.e., to avoid any conduct that might discredit the profession and to comply with relevant laws and regulations.

### *Adding Determination to Act Appropriately to Integrity*

28. The IESBA proposes to add new application material in Subsection 111<sup>9</sup> relating to the fundamental principle of "integrity" that emphasizes the importance of having the determination to act appropriately when confronting dilemmas or difficult situations (see paragraph 111.1 A2).
29. In developing the concept, the IESBA considered the term "moral courage" used by the Institute of Chartered Accountants of Scotland (ICAS) in its Code of Ethics.<sup>10</sup> Paragraph 100.5 of the ICAS Code states that the courage to act morally is an underpinning qualitative characteristic required of a professional accountant. The IESBA was concerned that the term "moral" in an international code of ethics could be construed inconsistently in different jurisdictions and cultures. The IESBA also considered the use of the term "resolve" – in the sense of "having the firm determination to do something" – but concluded that such a term may cause translation issues.
30. The IESBA considered inserting this application material under Section 120<sup>11</sup> as an enabler to the application of the conceptual framework. However, it concluded that the proposed text is better placed as application material under Subsection 111 because the concept is closely aligned with acting with integrity.

### *Impact of Technology*

31. In the course of developing its proposed SWP, the IESBA noted that unprecedented transformations are taking place in accounting, assurance and finance as a result of recent technology developments. In light of these changes, the IESBA established a Technology Working Group in 2018 to investigate

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<sup>8</sup> Section 110, *The Fundamental Principles*

<sup>9</sup> Subsection 111, *Integrity*

<sup>10</sup> ICAS Code of Ethics, Part A, *General Application of the Code*, Section 100, *Introduction and Fundamental Principles*, paragraph 100.5

<sup>11</sup> Section 120, *The Conceptual Framework*

how developments such as artificial intelligence and big data might impact the ethical behavior of professional accountants, how the Code might address these issues and whether further enhancements to the Code might be necessary.

32. Whilst the Technology Working Group is not due to present its Phase 1 final report and recommendations for the Board's consideration until December 2019, the IESBA considered that it should not defer including appropriate reminders in Part 1 of the Code of the potential impact of technology on compliance with the Code.
33. To this end, the IESBA is proposing a revision to the description of "objectivity" in paragraph 110.1 A1 (b) to highlight the risks of technology impairing a professional accountant's objectivity. In this regard, the IESBA is of the view that such impact is more likely to be caused by undue reliance on, rather than the undue influence of, technology.
34. The IESBA considered whether to support this addition with application material including examples involving technology. However, the IESBA concluded that it would be premature to consider application material of this nature when the Technology Working Group's ongoing information gathering and analysis of issues have yet to be completed. Nevertheless, the IESBA has included "automation bias" in its proposed list of examples of bias under Section 120 of the Code (see below). This type of bias captures the tendency to rely on machine output irrespective of contradictory evidence.
35. The IESBA is also proposing to add "technology-related developments" to paragraph 113.1 A2<sup>12</sup> to highlight the importance of maintaining an awareness and understanding of technology-related developments when complying with the fundamental principle of "professional competence and due care". This revision recognizes that having the right skill sets will be a key factor in securing the relevance and future of the profession, irrespective of whether such skills and knowledge are required by law or relevant professional standards. It also acknowledges the view of many stakeholders who believe that professional accountants need to upskill themselves on understanding how technologies work and to keep this knowledge current in the face of ongoing technological advances.

## **Application of the Conceptual Framework**

### *The Description and Location of Professional Judgment*

36. As noted above, the IESBA undertook a short-term project in 2017 in response to the PSWG's recommendation that the Code provide guidance to professional accountants undertaking audit, review and other assurance engagements explaining how compliance with the fundamental principles supports the exercise of professional skepticism in the context of such engagements.
37. As part of this short-term project, the IESBA considered the views of stakeholders who questioned whether relevant information underpinning ethical decisions was being assessed with sufficient rigor. In response to such views, the IESBA developed application material providing additional guidance to the requirement for professional accountants to exercise professional judgment in paragraph R120.5. Such application material (paragraphs 120.5 A1 to 120.5 A3 of the Code) described, amongst other matters, the relationship between the exercise of professional judgment and applying the conceptual framework.

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<sup>12</sup> Subsection 113, *Professional Competence and Due Care*

38. In developing that application material, the IESBA considered the definition of professional judgment in the IAASB standards<sup>13</sup> when determining the appropriate description of professional judgment for inclusion in the Code. In considering this matter, the IESBA took into account that the Code's description needs to be appropriate for application to all professional accountants, irrespective of the nature of the professional activities being undertaken, and that it needs to be aligned with the description of professional competence and due care. It is relevant to note that the IAESB has recently proposed adoption of the IESBA's description of professional judgement and its inclusion in the IES's glossary of terms in its Exposure Draft, [International Education Standards, 2, 3, 4, and 8 – Information and Communications Technologies and Professional Skepticism](#).
39. In considering the proposed revisions to Part 1 of the Code under the current project, the IESBA explored repositioning paragraphs 120.5 A1 and 120.5 A2 of the Code to Section 100 in order to give a clear signal that the exercise of professional judgment is required both for the application of the conceptual framework and to achieve compliance with the fundamental principles and other requirements in the Code. However, the IESBA concluded that the current application material relating to professional judgment should be retained in Section 120 given its centrality to the application of the conceptual framework.
40. In light of the importance of the concept, the IESBA concluded that a description of professional judgment should be included in the glossary to the Code. In finalizing the description, the IESBA rejected a suggestion that the description of professional judgment in the Code should be more closely aligned with the ISAs' definition of the term for the reasons set out in paragraph 38 above.

#### *Having an Inquiring Mind*

41. In 2018, as highlighted above, views expressed in response to the CP and at the global roundtables indicated broad support from stakeholders for the proposition that all professional accountants should have a mindset that encapsulates behavioral characteristics such as the ability to:
- Obtain and understand information relevant for making reliable judgments based on facts and circumstances known to them.
  - Make informed challenges of views developed by others.
  - Be sensitive to the integrity of information, including the source of the information and the appropriateness of its presentation.
  - Withhold judgment pending thoughtful consideration of all known and relevant available information.
42. Further, although often used to summarize such mindset and characteristics, there was general agreement that the term 'professional skepticism' should be reserved for use only in an audit or assurance context.
43. In light of these views, the current project proposal included the development of material (a) to promote the need for professional accountants to be inquisitive and curious about the information available in the course of undertaking professional activities, and (b) to conduct the necessary assessment or investigation of the integrity, relevance and sufficiency of that information in order to reach an informed decision.

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<sup>13</sup> See ISA 200, paragraphs 13(k), 16 and A23–A27. The IAASB's standards define *professional judgment* as "the application of relevant training, knowledge and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement."

44. In the process of developing proposed revisions to the Code, the IESBA took into account the following:
- The existing material in Section 120 already captures some of the behavioral characteristics expected of professional accountants.
  - The need for scalability as the type and level of investigation and assessment necessary may vary depending on the type of professional activities being undertaken and the related facts and circumstances.
  - Any proposed concept and the terms used should not cause confusion with the use of the term “professional skepticism” in the context of audit, review and assurance engagements.
  - Whether the proposed concept should form part of exercising professional judgement.
45. Following consultation with IAASB and IAESB representatives and after careful consideration, the IESBA is proposing to revise paragraph R120.5 of the Code to include a new element that professional accountants should “have an inquiring mind” when applying the conceptual framework.
46. The IESBA preferred the word “mind” to “mindset” as the former denotes a way of thinking whereas the latter relates to a set of attitudes. The IESBA had also considered terms such as “critical thinking,” “critical mind” and “questioning mind” but rejected such terms due to concerns that they might be equated with professional skepticism, given the overlap with the definition of that term in IAASB standards.
47. The current proposals also include new application material that:
- Explains “having an inquiring mind” as (i) being open and alert for situations and information (or the lack thereof) that might require further investigation, and (ii) considering whether there is a need to critically evaluate the information obtained. The need for, extent and nature of, any investigation, including critical evaluation, will depend on the nature, scope and outputs of the professional activity being undertaken (see 120.5 A3).
  - Clarifies that the relevant information for further investigation or critical evaluation is the information already obtained (see 120.5 A3 (b) and 120.5 A4, last bullet) to avoid the perception that a professional accountant must consider any information available to the accountant or any other persons.
  - Highlights the difference in scope between the concepts of “having an inquiring mind” and “exercising professional skepticism” (see 120.5 A5).

#### *Awareness of Bias*

48. Although bias is already cited as a factor that may impact objectivity in Section 110, the IESBA concluded that it is important to heighten awareness of the risks arising from bias in Section 120. The IESBA therefore proposes to highlight in paragraph 120.12 A1 that awareness of one’s bias will reduce its risk and impact, particularly on the exercise of professional judgment, and therefore contribute towards effective application of the conceptual framework.
49. To complement this addition, the IESBA is proposing to include an illustrative list of common forms of bias in the Code. The IESBA also considered whether to include the terms commonly used to describe the types of bias, and whether other terms such as “anchor” would cause translation difficulties. It concluded that, on balance, the use of these terms would be helpful for users in understanding the concepts.

50. In developing the proposed application material, the IESBA took into consideration proposed material on bias in the IAASB's recent ED, [International Standard on Auditing 220 \(Revised\), Quality Management for an Audit of Financial Statement](#) (ISA 220 ED). Similar to the IESBA's view and approach, the ISA 220 ED also explains that bias may affect an audit engagement team's professional judgment and includes a list of examples of bias. The IESBA will continue to liaise with the IAASB to ensure there is appropriate alignment with the IAASB's final approved text relating to bias.
51. The IESBA considered placing the application material on bias in Section 110 to highlight that bias is a potential threat to compliance with each of the fundamental principles. However, given the significance of bias when exercising judgment, the IESBA has determined that it would be more appropriate to include the proposed text in Section 120.

#### *Importance of Organizational Culture*

52. The IESBA is of the view that the internal culture of an employer, be it a firm or another organization, can significantly impact whether professional accountants comply with the Code and act ethically. Such a view is consistent with views expressed by the IESBA CAG.
53. These views are reinforced by the IAASB's Exposure Draft (ED), [International Standard on Quality Management 1. Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (ISQM 1 ED)<sup>14</sup>, which proposes requirements and application material highlighting the importance of a firm's culture in influencing the behavior of its personnel.
54. The IESBA proposes to highlight the importance of a positive internal organizational culture to the effective application of the conceptual framework by introducing new application material (paragraphs 120.13 A1 and 120.13 A2). In addition, the IESBA proposes to emphasize that such a culture is most effective when demonstrated by the organizations and their leaders acting ethically both internally and when dealing with third parties.
55. The proposed material also includes a new paragraph that references proposed ISQM 1 (paragraph 120.14 A1 under a new subheading "Firm Culture"). The IESBA is of the view that this cross-reference is helpful to reinforce the importance of firm culture towards compliance of the Code by professional accountants in public practice. It also helps to explain the connectivity between the Code and the ISAs.

#### **Consequential Changes**

56. Upon review of the Code, the IESBA determined that only a few consequential changes in Sections 200 and 220 are necessary.
57. In reaching this conclusion, the IESBA has taken into consideration that:

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<sup>14</sup> The ISQM 1 ED deals with a firm's responsibilities to design, implement and operate a system of quality management. The ED forms part of a package of proposed quality management standards on which the IAASB has sought public comment. The ISQM 1 ED sets out a system of quality management that addresses eight integrated components, one of which being "Governance and Leadership." Under this component, a firm is required to establish a number of quality objectives, including the firm's culture that "promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm and emphasizing the responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management."

- The focus of the project is on Part 1 of the Code as the concepts relating to the role, mindset and behavioral characteristics apply to all professional accountants when undertaking professional activities.
- Reference to the requirement to apply the conceptual framework is already included in every Section of the Code.
- Changes or additions to the Code should only be made if the substance is not covered adequately or at all in the revised and restructured Code, as that Code only became effective in June 2019.

**IV. Analysis of Overall Impact of the Proposed Changes**

58. The IESBA believes that the proposals serve as an important reminder to professional accountants of the significance of their roles in society and the importance of compliance with the Code towards fulfilling their responsibility to act in the public interest. The proposals also strengthen the fundamental principles and enhance the application of the conceptual framework through the introduction of new concepts such as the importance of having an inquiring mind.
59. Given the nature and extent of the proposed enhancements to the Code which are about stimulating the appropriate thought processes and behaviors, the IESBA does not believe that the proposals are of a level of complexity that would entail significant compliance costs for individual professional accountants and firms. However, to the extent that applying the revised provisions gives rise to a need for further action, there may be costs associated with such further action. Whether there will be additional costs, and the nature and significance of those costs, will depend on the particular circumstances. For example, there may be no additional costs in relation to maintaining a continuing awareness and an understanding of technology-related developments for purposes of maintaining professional competence if maintaining such awareness and understanding is already part of continuing professional development requirements for a professional accountant to remain a member of a professional accountancy organization. On the other hand, standing one’s ground or challenging others in appropriate circumstances, or pursuing further investigation by applying an inquiring mind in a given situation might entail a degree of effort proportionate to the circumstances.
60. As with any changes to the Code, firms can expect implementation costs associated with awareness and training initiatives, and maintenance costs in updating their internal policies and methodologies.

**V. Project Timetable and Effective Date**

61. The following timetable is planned for this project:

October 31, 2019	Closing date for comments to the ED
December 2019	Highlights of significant comments to the IESBA
March 2020	<ul style="list-style-type: none"> <li>• Discussion of significant issues arising on exposure with the IESBA CAG</li> <li>• Full IESBA review of comments and first read of revised proposals</li> </ul>
June 2020	IESBA approval of final pronouncement

62. The IESBA will determine an appropriate effective date for the revisions to the Code when it approves the final pronouncement. The IESBA has committed in its final SWP that any changes to the [revised](#)

[and restructured Code](#) will not become effective before June 15, 2020 unless there is an urgent need to respond to new or unforeseen circumstances.

## VI. Guide for Respondents

63. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

#### *Role and Values of Professional Accountants*

1. Do you support the proposals in Section 100 that explain the role and values of professional accountants as well as the relationship between compliance with the Code and professional accountants acting in the public interest? Are there other relevant matters that should be highlighted in these paragraphs?

#### *Determination to Act Appropriately*

2. Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?

#### *Professional Behavior*

3. Do you support the proposal to require a professional accountant to behave in a manner that is consistent with the profession's responsibility to act in the public interest in paragraphs 110.1 A1 (e) and R115.1?

#### *Impact of Technology*

4. Notwithstanding that the IESBA has a separate Working Group that is exploring the implications of developments in technology, are there any additional matters relating to the impact of technology beyond the proposals in paragraphs 110.1 A1(b)(iii), 113.1 A2 and 120.12 A2 that you consider should be addressed *specifically* as part of the Role and Mindset project?

#### *Inquiring Mind*

5. Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?

#### *Bias*

6. Do you support the approach to addressing bias? If so, do you agree with the list of examples of bias set out in paragraph 120.12 A2? Should any examples be omitted or new ones added?

#### *Organizational Culture*

7. Are there any other aspects about organizational culture in addition to the role of leadership that you consider should be addressed in the proposals?

**Request for General Comments**

64. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.



# EXPOSURE DRAFT: PROPOSED REVISIONS TO THE CODE TO PROMOTE THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

The IESBA's proposals are in gray below. The proposed revisions (in track changes) include changes to Sections 100, 110, 120, 200, 220 as well as the Glossary.

## PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

### SECTION 100

#### COMPLYING WITH THE CODE

##### General Introduction

100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants. Compliance with the Code enables accountants to meet their responsibility to act in the public interest and involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code. In acting in the public interest, Aa professional accountant's responsibility is not exclusively to satisfy the ~~needs~~ preferences or requirements of an individual client or employing organization when performing professional activities. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

100.1 A2 Businesses, governments and other organizations involve professional accountants in a broad range of matters. Accountants understand and acknowledge that these organizations do so because they recognize the skills and values that the accountants bring to the professional activities they undertake through:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables professional accountants to provide advice or other output that is fit for the purpose for which it was provided, and which might be relied upon by intended users of such output.

100.1 A3 The Code sets out high quality ethics standards for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in their jurisdictions and by firms in developing their ethics policies.

## **Fundamental Principles and Conceptual Framework**

**100.2 A1** The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants in meeting their responsibility to act in the public interest.

**100.2 A2** The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence.

**100.2 A3** The remainder of the Code applies the fundamental principles and the conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

## **Requirements and Application Material**

**100.23 A1** The requirements in the Code, designated with the letter “R”, impose obligations.

**100.23 A2** Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

**R100.34** A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

**100.34 A1** The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

**100.34 A2** A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

## **Breaches of the Code**

**R100.45** Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its

impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.45 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

## SECTION 110

### THE FUNDAMENTAL PRINCIPLES

#### General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – ~~not to compromise~~ exercise professional or business judgments without being compromised by ~~because of~~:
  - (i) ~~b~~ Bias;
  - (ii) ~~e~~ Conflict of interest; or (iii) ~~u~~ Undue influence of others, or undue reliance on, individuals, organizations, technology or other factors.
- (c) Professional Competence and Due Care – to:
  - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to:
  - (i) Behave in a manner that is consistent with the profession's responsibility to act in the public interest;
  - (ii) ~~a~~ Avoid any conduct that the professional accountant knows or should know might discredit the profession; and
  - (iii) ~~e~~ Comply with relevant laws and regulations ~~and~~.

**R110.2** A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply ~~to assist~~ in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.

- Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## SUBSECTION 111 – INTEGRITY

**R111.1** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity implies fair dealing and truthfulness.

**111.1 A2** Integrity also includes having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example:

- Standing one's ground when facing pressure to do otherwise during the course of performing professional activities; or
- Challenging others as and when appropriate, even when doing so creates potential adverse personal or organizational consequences.

**R111.2** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

- Contains a materially false or misleading statement;
- Contains statements or information provided recklessly; or
- Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

**R111.3** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

## SUBSECTION 112 – OBJECTIVITY

**R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant ~~not to compromise~~ exercise professional or business judgment ~~without being compromised by~~ because of:

- ~~b~~ Bias;
- ~~e~~ Conflict of interest; or
- ~~u~~ Undue influence of others, or undue reliance on, individuals, organizations, technology or other factors.

**R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

**SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE**

- R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:
- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (b) Act diligently and in accordance with applicable technical and professional standards.
- 113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.
- 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional ~~and~~, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.
- 113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.
- R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

**SUBSECTION 114 – CONFIDENTIALITY**

- R114.1** A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:
- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
  - (b) Maintain confidentiality of information within the firm or employing organization;
  - (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
  - (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
  - (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
  - (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and

- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
- (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
- (i) To comply with the quality review of a professional body;
  - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
  - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

**R114.2** A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

**SUBSECTION 115 – PROFESSIONAL BEHAVIOR**

**R115.1** A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

- (a) Behave in a manner that is consistent with the profession's responsibility to act in the public interest;
- (b) avoid any conduct that the accountant knows or should know might discredit the profession; and
- (c) Comply with relevant laws and regulations and.

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

**R115.2** When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- (b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.



## SECTION 120

### THE CONCEPTUAL FRAMEWORK

#### Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

#### Requirements and Application Material

##### General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
  - (b) Part 3 – *Professional Accountants in Public Practice*; and
  - (c) *International Independence Standards*, as follows:
    - (i) Part 4A – *Independence for Audit and Review Engagements*; and
    - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.
- R120.4** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

**R120.5** When applying the conceptual framework, the professional accountant shall:

- (a) Exercise professional judgment;
- (b) Have an inquiring mind~~Remain alert for new information and to changes in facts and circumstances~~; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A64.

~~Exercise of Professional Judgment~~

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.

~~120.5 A2 In relation to undertaking professional activities, the exercise of p~~Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. ~~In making this determination, the accountant might consider matters such as whether:~~

- ~~• The accountant's expertise and experience are sufficient to reach a conclusion.~~
- ~~• There is a need to consult with others with relevant expertise or experience.~~
- ~~• The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.~~

~~Inquiring Mind~~

120.5 A~~32~~ An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. ~~Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment. Obtaining this understanding entails having an inquiring mind, which means:~~

- ~~(a) Being open and alert for situations and information (or the lack thereof) that might require further investigation; and~~
- ~~(b) Considering whether there is a need to critically evaluate the information obtained, having regard to the nature, scope and outputs of the professional activity being undertaken.~~

120.5 A~~43~~ ~~In exercising professional judgment to obtain this understanding~~~~In determining if further investigation is necessary~~, the professional accountant might consider, among other matters, whether:

- ~~• New information has emerged or whether there have been changes in facts and circumstances.~~
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- ~~• The accountant's expertise and experience are sufficient to reach a conclusion.~~
- ~~• There is a need to consult with others with relevant expertise or experience.~~
- The information provides a reasonable basis on which to reach a conclusion.
- ~~• The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.~~
- There might be other reasonable conclusions that could be reached from the **available** information **obtained**.

120.5 A5 When undertaking any professional activities, paragraph R120.5 requires all professional accountants to have an inquiring mind when applying the conceptual framework. Additionally, accountants performing audits, reviews and other assurance engagements are required to exercise professional skepticism as described in paragraphs 120.16 A1 and 120.16 A2.

### *Reasonable and Informed Third Party*

**120.5 A64** The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

### **Identifying Threats**

**R120.6** The professional accountant shall identify threats to compliance with the fundamental principles.

**120.6 A1** An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

**120.6 A2** Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

**120.6 A3** Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;
- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made by the accountant, or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;

- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

### **Evaluating Threats**

**R120.7** When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

#### *Acceptable Level*

120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

#### *Factors Relevant in Evaluating the Level of Threats*

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

#### *Consideration of New Information or Changes in Facts and Circumstances*

**R120.9** If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

### Addressing Threats

**R120.10** If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

### *Actions to Eliminate Threats*

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

### *Safeguards*

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

### *Consideration of Significant Judgments Made and Overall Conclusions Reached*

**R120.11** The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

### **Other Considerations when Applying the Conceptual Framework**

#### Bias

120.12 A1 Being aware of the risk of bias, whether conscious or unconscious, is important to the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.

- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is considered to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 The impact of bias might be mitigated by involving others or seeking advice from experts to provide additional input or appropriate challenge as part of the evaluation process.

Organizational Culture

120.13 A1 The effective application of the conceptual framework is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of an organization.

120.13 A2 The promotion of that ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles hold themselves and others accountable for demonstrating the ethical values of the organization;
- (b) Appropriate education and training programs, management processes, and performance evaluation criteria that promote that ethical culture are in place; and
- (c) Ethical values are adhered to in dealings with third parties.

**Considerations for Audits, Reviews ~~and~~, Other Assurance and Related Services Engagements**

Firm Culture

120.14 A1 For professional accountants in public practice, [proposed] ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

## Independence

120.152 A1 Professional accountants in public practice are required by *International Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an audit or assurance team member’s integrity, objectivity or professional skepticism has been compromised.

120.152 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

## Professional Skepticism

120.163 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.163 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
  - ~~(a)~~ — Being straightforward and honest when raising concerns about a position taken by a client ~~and~~
  - ~~(b)~~ — Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances ~~;~~
  - Having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example, standing one's ground when facing pressure to do otherwise or challenging others as and when appropriate,

even when doing so creates potential adverse consequences to the firm or individual accountant.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- Objectivity requires the professional accountant ~~not to compromise~~ exercise professional or business judgment without being compromised by ~~because of~~:

(a) ~~b~~ Bias;

(b) ~~e~~ Conflict of interest, or

(c) ~~u~~ Undue influence of others, or reliance on, individuals, organizations, technology or other factors.

For example, the accountant complies with the principle of objectivity by:

- Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
- Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- Professional competence and due care requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:

- Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
- Designing and performing appropriate audit procedures; and
- Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.



## PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

### SECTION 200

#### APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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#### Requirements and Application Material

##### General

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200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management process and performance evaluation criteria that promote that ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

##### Identifying Threats

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**SECTION 220****PREPARATION AND PRESENTATION OF INFORMATION**

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**Requirements and Application Material****General**

...

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

**R220.4** When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
  - (i) Represent the facts accurately and completely in all material respects;
  - (ii) Describe clearly the true nature of business transactions or activities; and
  - (iii) Classify and record information in a timely and proper manner; ~~and~~
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately; ~~:-~~
- (e) Avoid undue reliance on individuals, organizations or technology; and
- (f) Be aware of the risk of bias.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

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**Relying on the Work of Others**

**R220.7** A professional accountant who intends to rely on the work of others ~~s~~ individuals, either internal or external to the employing organization, or other organizations shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

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## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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Professional activity      An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional judgment      *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.*

Professional services      Professional activities performed for clients.

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Public interest entity      (a)      A listed entity; or  
                                          (b)      An entity:  
                                          (i)      Defined by regulation or legislation as a public interest entity; or  
                                          (ii)     For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

*Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.*

Reasonable and informed third party      *The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.*

Reasonable and informed third party test

*These terms are described in paragraph R120.5 A64.*

Related entity              An entity that has any of the following relationships with the client:  
                                          (a)      An entity that has direct or indirect control over the client if the client is material to such entity;  
                                          (b)      An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;

- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

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