

# Professional Oversight Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN

Telephone: 020 7492 2341 Fax: 020 7492 2359

[www.frc.org.uk/pob](http://www.frc.org.uk/pob)

Technical Manager  
International Accounting Educational Standards Board  
IFAC  
277 Wellington Street West  
Toronto,  
Ontario M5V 3H2  
Canada

18 July 2011

Dear Sir,

## **IES 4, Professional Values, Ethics and Attitudes**

The Professional Oversight Board (POB) is an operating body of the UK Financial Reporting Council. The POB provides independent oversight of the regulation of the auditing, accountancy and actuarial professions by their respective professional bodies. It has statutory responsibilities delegated to it by the Secretary of State for authorising professional accountancy bodies to act as supervisory bodies and/or to offer the recognised professional qualification for audit. In 2005 we published a report 'Review of Training and Education in the Accountancy Profession' and draw on that work in this response.

The POB welcomes the IAESB's project to clarify the International Education Standards (IESs) and the opportunity to comment on the exposure draft of IES4. Overall we found the proposed revisions to result in a modestly improved standard but believe more needs to be done in this important area before IES4 is satisfactory and meets the public interest test. We have the following specific observations:

### **Subject Matter**

The title of IES4 is 'Professional Values, Ethics and Attitudes', however the standard needs to provide a clearer explanation as to what is covered by these words and thereby provide improved focus for member body training. Without a clear explanation of what the desired professional values, ethics and attitudes are it is

hard to see that international consistency in education standards can be achieved or that internationally accountants will aspire to the same standard of behaviour. Paragraph A2 makes a cross reference to the definition in the IAESB Glossary of Terms but this definition is of limited value in defining the subject matter<sup>1</sup>. More useful information is provided by the Explanation in the Glossary which states:

*‘Professional values, ethics and attitudes include a commitment to technical competence, ethical behaviour (e.g. independence, objectivity, confidentiality and integrity), professional manner (e.g. due care, timeliness, courteousness, respect, responsibility and reliability), pursuit of excellence (e.g. commitment to continual improvement and life-long learning) and social responsibility (e.g. awareness and consideration of the public interest).*

We are unclear what the status of an Explanation in a Glossary is and believe that this material should be imported directly into, and given emphasis, in IES4. We also believe that there would be merit in adding further clarity to the Explanation by:

- Considering whether ‘e.g.’ has been correctly used. Use of ‘for example’ could imply that these values and attitudes are optional; we do not believe that this should be the case.
- Considering whether further guidance can be provided, perhaps in conjunction with the International Ethical Standards Board for Accountants, on what these essential values and attributes are. While the IESBA Code contains some material on ethical behaviour (i.e. independence, objectivity, confidentiality and integrity) there is a general lack of explanatory material in IFAC standards and guidance on the other values and attitudes.

Explanatory material is also needed on the factors underling judgement and scepticism. While these topics are relevant to all accountants they are especially pertinent for auditors. We believe that IFAC is missing an opportunity to reinforce the qualities the public expects of auditors and therefore risks undermining confidence further. We would strongly encourage you to incorporate material on these topics within IES4 with additional material in a revised version of IES8 .

### **Learning outcome approach**

The POB notes that the IAESB is redrafting the IESs to be based on learning outcomes as opposed to an input-based approach. This will be an effective approach provided that the outcomes are clear, measurable and are set at the right level.

---

<sup>1</sup> The Glossary of terms states ‘ The professional behaviour and characteristics that identify professional accountants as members of a profession. They include the principles of conduct (i.e. ethical principles) generally associated with and considered essential in defining the distinctive characteristics of professional behaviour’.

However, we do not believe that the desired outputs that are specified in paragraph 10 of the IES4 exposure draft meet these criteria.

We note that the list in paragraph 10 is substantially the same as in paragraph 16 of the extant standard save for the addition of introductory 'command' verbs (i.e. explain, compare or apply). The list contains a mixture of ideas and concepts and would benefit from focus and rationalisation. We are also disappointed with the limited nature of the 'command' verbs used. In our view there is a need to be much more ambitious about the training outcomes the standard is seeking to achieve and, in particular, to give much more emphasis to accountants aspiring to act in accordance with the highest values, ethics and attitudes. There is an opportunity to combine a review of the outcomes with the Explanation in the Glossary referred to above and to use the notion of aiming to achieve 'commitment' through training programmes and other means.

More specifically:

- We are also uncertain whether the words 'developing the ability' in the lead in to paragraph 10 is necessary. Using the first bullet point in the ED as an example, the desired outcome should be that accountants should be 'able to explain the nature of ethics' rather than 'develop the ability to explain the nature of ethics', and
- We suggest that the list of outcomes should include 'assess critically arguments and data'

### **Learning techniques**

One of the conclusions in our paper 'Review of Training and Education in the Accountancy Profession' was that accountancy bodies should facilitate arrangements by which, on an on-going basis, selected experience of the accounting firms in dealing with ethical issues and fraud can be shared with other firms and, as appropriate, with the wider profession for use in CPD.

We are pleased that paragraph A14 refers to case studies but believe that more emphasis could be given to the valuable role that professional bodies can play in this area. Case studies are widely recognised as a valuable way of assisting learning about areas such as ethics in a 'classroom' environment but understandable concerns about confidentiality can present an obstacle to sharing of 'real-life' experience. However by working through accountancy bodies it should be possible to anonymise information and therefore help the members of the profession learn from mistakes and successes. This can be especially helpful if the case studies lead to a preferred solution rather than just encouraging a discussion of differing views.

Even with greater use of case studies, we believe there are limitations as to what can be achieved by traditional classroom training in the area of values, ethics and attributes. While classroom training can provide useful background information, it is unlikely to result in achieving the level of commitment to applying the standards in practice. This relates more to the culture in the accountant's employer and to the influence of more experienced personnel, sometimes through a formal mentoring programme. While mentoring is mentioned in paragraph A11 we would like to see more emphasis given to the importance of this technique in IES4 in encouraging team members to develop the right attitudes both during the learning phase and thereafter.

### **Measuring competence**

We note a new requirement in paragraph 12 that IFAC member bodies shall establish appropriate assessment processes that measure the competence of professional accountants in relation to professional values, ethics and attitudes. We welcome this addition but recognise some of the practical difficulties in doing this throughout the accountant's career. Paragraph A19 is very limited, we believe there is a need for more guidance in this area both in order to ensure that professional bodies adhere fully to the spirit of this important requirement and to provide them with practical guidance on how to do so.

We also believe that there should be a requirement for member bodies to monitor the environment in which aspiring accountants are receiving their practical training ie those described in A11 as responsible for the design and supervision of practical experience programs.

### **Local societal norms**

We note the reference to respecting local societal norms in paragraph 9. We think this may be an area that IAESB may wish to provide guidance. It would be unfortunate if this reference was interpreted as meaning local societal norms could override accountants' commitment to adhere to the highest values, ethics and attitudes to which the accountancy profession aspires.

### **Theories**

We are unsure what is meant by the reference to 'theories' in paragraphs 9 and A6.

### **Status**

We believe that the subject matter covered by IES4 is of great importance and the standard properly recognises that effective training as an accountant needs to combine theoretical and practical aspects and that it is necessary to integrate classroom learning and practical experience. However it is of note that IESs only apply to IFAC member bodies and do not apply directly to audit firms. While paragraph 2 of the ED states that IESs will be 'helpful' to other stakeholders the POB believes that, for the IESs to be effective, they should also directly apply to audit

firms. We recognise that this may require a change to IFACs Statements of Membership Obligations (SMOs) and would encourage early discussion of this important issue within IFAC.

We hope this comments are of assistance. Please contact me if you need further explanation of the views expressed.

Yours faithfully



**Paul George**

Director of POB and Auditing

DDI: 020 7492 2340

Email: [P.George@frc-pob.org.uk](mailto:P.George@frc-pob.org.uk)