

July 14, 2011

Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
277 Wellington Street West
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Dear Sir or Madam

We appreciate this opportunity to comment on the Exposure Draft of the Proposed Redrafted International Education Standard 4, Professional Values, Ethics and Attitudes. We fully support the objectives of the IAESB's project to improve the clarity of its Standards, of which this Exposure Draft is a part, and we commend the IAESB in the work they have done on IES4 to date.

Comments on Exposure Draft:

Before responding to the specific questions raised in the Explanatory Memorandum to the Exposure Draft, we have some overall comments on the redrafted standard which we set out below.

Overall Comments

We noted in our comments letter on the Exposure Draft to IES 7 that we had some concerns about the quality and consistency of that Exposure Draft. We are therefore pleased to see that the IAESB has been able to learn from the process of that first exposure, and that this is reflected in an improvement in the overall quality of the drafting of the IES 4 Exposure Draft when compared with the IES 7 ED. We have, however, identified a number of places where we believe clarity could be improved, and have noted these in the section *Specific drafting points* below. We also encourage the Board to continue to reflect on what can be learned as the project to improve the clarity of the education standards proceeds, and to consider how the Framework and the Drafting Conventions may need to evolve as that process continues.

In our comment letter to IES 7 we expressed concern about the use of the phrase 'prescribes good practice' in the first paragraph of the Scope section in positioning the requirements of the IES for IFAC member bodies. We are, therefore, pleased to see improved, stronger language in the corresponding first paragraph of IES 4, no mention of 'good practice' and encourage the Board to continue to adopt this approach for the revisions of other standards.

The Explanatory Memorandum to the IES 4 Exposure Draft includes a section which describes the 'Learning Outcome Approach' that has been applied in the proposed IES 4, and the intention to apply this

approach also to *IES 2: Content of a Professional Accounting Education Program*. We are supportive of this approach in principle and of how it has been applied in the proposed IES 4. We look forward to seeing how this is consistently applied in IES 2, as this standard covers a much greater range of topics than the specific focus of IES 4. We are also interested to see whether this same approach is taken to *IES 3: Professional Skills and General Education*. We believe that these three standards (IESs 2, 3 and 4), together form the basis for accounting education programs, and it will be important to look across all three standards together in order to comment effectively on the new 'Learning Outcome Approach'. We therefore strongly recommend to the Board that they consider re-exposing IES 4, alongside IES 2 and IES 3 when those standards are released for exposure.

We note also that the 'Learning Outcome Approach' is not explained or defined, either in the proposed IES 4 itself, or by way of any addition to the IAESB Glossary, nor is it a concept that is discussed in the IAESB Framework. We recommend that the IAESB consider what explanatory material is required on this important concept and where it should be located (IAESB Framework, Glossary, or in the Standard itself). Such material should explain the 'Learning Outcome Approach' and clarify how it relates to the development and demonstration of competence which is discussed in some detail in the Framework.

The proposed IES 4 addresses 'professional values, ethics and attitudes', and is consistent in using this terminology with the extant standard. In addition 'professional values, ethics and attitudes' appear in the IAESB Glossary as a composite term with a single definition. Whilst we recognize this consistency of approach and that there is a close relationship between values, attitudes and ethics, we do have concerns, as we believe it results in a lack of clarity about the meaning of the term 'ethics'. For example Paragraph 1 of the standard states that IES 4 'prescribes the professional values, ethics and attitudes to be acquired by professional accountants' – we do not believe that ethics are acquired, rather that individuals develop the capability to apply ethical principles or standards and draw on their professional values and attitudes in doing so. The end result is that a professional accountant exhibits ethical behavior – not that they have 'acquired ethics'. Therefore, we recommend that the Board reconsiders the way references to ethics are made throughout the standard, and suggest replacing the blanket term 'professional values, ethics and attitudes' with language such as 'professional values and attitudes, which enable professional accountants to apply ethical principles and standards appropriately' or 'professional values, ethical principles and attitudes'. Such a change would need to be reflected throughout the Standard and the Explanatory Material. We also recommend separate definitions of the concepts currently captured in the composite definition of 'professional values, ethics and attitudes', and note that the ethical principles set out in the IESBA Code of Ethics would be an obvious source to draw on for the definition of terms related to ethics.

Specific Questions

With respect to the specific questions outlined in the Explanatory Memorandum to the Exposure Draft our comments are as follows:

Question 1: Is the proposed requirement for reflective activity in relation to ethics education appropriate?

We believe that reflective activity is an important part of learning and development generally, and would encourage the inclusion of such activity in many areas of learning undertaken by professional accountants, not just professional values, ethics and attitudes. However we believe that the current requirement in IES 4 should be revisited as it may have unintended consequences – particularly in relation to the documentation of reflective activity.

The IAESB Glossary of Terms identifies 'learning and development' as including practical experience. We expect that the richest learning on ethical issues will come from the aspiring

professional accountant's practical experience. However we do not believe it would be desirable or appropriate to require a written record of an aspiring professional accountant's interpretation of the lessons learned from an ethical dilemma encountered in the workplace – the individual may not be in possession of all the facts and circumstances, and will still be developing their understanding of how to approach and resolve ethical issues. The impact of recording conclusions formed by individuals in such circumstances could have wider risk management, legal, or regulatory consequences which we do not believe is the intent of the Standard.

If it is the intention of the Board that documentation of reflective activity be limited to structured learning activities taking place outside the workplace then this should be made explicit in the requirement.

We also note that the definition of 'reflective activity' exposed alongside the proposed IES 4 is unhelpful and should be revisited – please see *Specific drafting points* below.

Question 2: Does this requirement raise implementation issues?

In addition to the issues raised in our answer to Question 1 above we note that the Explanatory material provides very limited guidance on reflective activity, and does not address questions including:

- what would constitute sufficient reflective activity?
- how an IFAC member body would track and monitor that reflective activity is taking place?
- what the consequences of not documenting reflective activity might be?

Question 3: Is the objective to be achieved by a member body, stated in the proposed revised IES 4, appropriate?

Yes, we believe the objective is appropriate in principle, but see *Specific drafting points* below for specific feedback on the drafting of the objective.

Question 4: Have the criteria identified by the IAESB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in implementation by member bodies?

Yes, we believe the criteria for requirements have been applied consistently and appropriately.

Question 5: Are there any terms within the proposed IES 4 which require further clarification? If so, please explain the nature of the deficiencies.

Yes – we believe the following terms should either be explained in more detail in the standard or included in the IAESB Glossary:

- Professional values
- Ethics
- Attitudes (or Professional attitudes)
- Ethical concepts (Para 9)
- Theories (Para 9) – and see *Specific drafting points* below
- Social responsibilities (Paras 9 and 10)

- Framework approach (Para 10)
- Learning outcomes (A12 and A13)
- Reflective record (A17)
- Personal development portfolio (A17)
- Critical incident diary (A17)

Other matters

- *Effective date* – the proposed timeframe for the effective date is appropriate assuming the standard is issued at the same time as IES 2 and IES 3.

Specific drafting points

In addition to our responses to the specific questions posed in the Explanatory Memorandum, we also provide a number of specific comments on the exposure draft together with suggestions for changes to enhance the clarity of the final standard.

We note that the approach to providing paragraph references between the main body of the standard and the Explanatory material differs from the proposed IES 7. IES 7 was easier to follow because it used subheadings together with paragraph references to provide clear linkage between the two parts of the document – we recommend that this approach is also taken for the proposed IES 4.

Paragraph	Existing Wording	Comments/Suggestions for change
1	<p><i>Footnote:</i></p> <p>² <i>The term “learning and development” is used by the IAESB to incorporate all the different processes, activities, and outcomes contributing to the achievement of competence.</i></p>	<p><i>The description in the footnote for ‘learning and development’ is different the definition of this term in the IAESB Glossary. If a footnote is necessary to explain a term that is already in the Glossary we recommend consistency.</i></p>
1	<p><i>1. This International Education Standard (IES) prescribes the professional values, ethics, and attitudes to be acquired by professional accountants through learning and development during professional accounting education undertaken as part of Initial Professional Development (IPD).</i></p>	<p>See commentary above under ‘Overall comments’</p> <p><i>This International Education Standard (IES) prescribes the professional values, ethical principles, and attitudes to be developed by professional accountants through learning and development during professional accounting education undertaken as part of Initial Professional Development (IPD).</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
3	<p><i>Learning and development continue throughout the career of a professional accountant; and aspects of this IES are also relevant to Continuing Professional Development (CPD). Professional values, ethics, and attitudes achieved during IPD continue to develop as the career of the professional accountant changes, giving exposure to a wide range of ethical issues.</i></p>	<p>Reworded to enhance clarity of the second sentence, and to recognise that it is not just ethical situations which shape professional values and attitudes.</p> <p><i>Learning and development continue throughout the career of a professional accountant; and aspects of this IES are also relevant to Continuing Professional Development (CPD). Professional values, ethical principles, and attitudes developed during IPD continue to develop throughout the career of the professional accountant. As their career changes, professional accountants are provided with exposure to a wide range of issues in which they can apply and develop their professional values, ethical principles and attitudes.</i></p>
6	<p><i>The objective of a member body is to prepare aspiring professional accountants for demonstrating the professional values, ethics, and attitudes required to perform the work roles of a professional accountant. This lays the foundation for the ongoing development and application of professional values, ethics, and attitudes throughout the professional accountant's career.</i></p>	<p>We recommend deletion of the second sentence – this is not actually setting out an objective of the standard, but providing context which is already set out in paragraph 3. The language is duplicative of the first sentence. We also recommend some changes to the first sentence for clarity.</p> <p><i>The objective of a member body is to equip aspiring professional accountants with the professional values, ethical principles, and attitudes required to perform the role of a professional accountant.</i></p>
9	<p><i>The coverage of professional values, ethics, and attitudes in the learning and development activities of the aspiring professional accountant shall be based on an understanding of (a) ethical concepts, (b) theories, and (c) the five fundamental principles of the IESBA Code, which foster a commitment to:</i></p>	<p>We recommend that the explanatory material provides more guidance on what ethical theories and concepts should be addressed.</p> <p>We have recommended some changes for clarity:</p> <p><i>The coverage of professional values, ethics, and attitudes in the learning and development activities of the aspiring professional accountant shall be based on an understanding of (a) ethical concepts, (b) ethical theories, and (c) the five fundamental principles of the IESBA Code (refer to paragraph 4), which foster a commitment to:</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
10	<ul style="list-style-type: none"> • <i>compare concepts of objectivity, professional skepticism, accountability, and public expectations;</i> • <i>compare the consequences of unethical behavior to the individual, to the profession, and to society at large;</i> 	<p>We don't believe that the concepts presented in each bullet are necessarily comparable concepts, and so suggest a more appropriate learning outcome would be to 'describe' the concepts.</p> <ul style="list-style-type: none"> • <i>describe concepts of objectivity, professional skepticism, accountability, and public expectations;</i> • <i>describe the consequences of unethical behavior to the individual, to the profession, and to society at large;</i>
10	<ul style="list-style-type: none"> • <i>apply the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior to ethical dilemmas and their resolution; and</i> 	<p>The ethical principles are not applied to the resolution of a dilemma, but in order to determine an appropriate resolution.</p> <ul style="list-style-type: none"> • <i>apply the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior to ethical dilemmas and determine an appropriate resolution; and</i>
11	<p><i>IFAC member bodies shall design learning and development for aspiring professional accountants to include reflective activity that is formalized and documented in relation to lessons learned from ethical dilemmas.</i></p>	<p>Reworded to enhance clarity (but see overall concerns about documentation of reflective activity above).</p> <p><i>IFAC member bodies shall design learning and development for aspiring professional accountants which includes formalized and documented reflective activity to identify lessons learned from ethical dilemmas.</i></p>
12	<p><i>IFAC member bodies shall establish appropriate assessment processes that measure the competence of professional accountants in relation to professional values, ethics, and attitudes.</i></p>	<p>Reworded to enhance clarity.</p> <p><i>IFAC member bodies shall establish appropriate assessment processes that measure the competence of professional accountants in applying professional values, ethical principles, and attitudes.</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
A6	<p><i>Professional values, ethics, and attitudes apply to everything that professional accountants do. Having a knowledge and understanding of ethical concepts and theories can help the aspiring professional accountant to recognize and address ethical dilemmas.</i></p>	<p>We believe it is important that the aspiring professional accountant not just has the knowledge, but practices application.</p> <p><i>Professional values, ethics, and attitudes apply to everything that professional accountants do. Having knowledge of ethical concepts and theories and the opportunity to practice their application in a non-workplace setting can help the aspiring professional accountant to recognize and appropriately address ethical dilemmas that they encounter.</i></p>
A7	<p><i>In fostering a commitment to the public interest, it is important that aspiring professional accountants understand that professional accountants contribute to confidence and trust in the capital markets. Learning and development may address (a) particular ethical issues likely to be faced by all professional accountants, and also (b) those ethical issues more likely to be encountered by professional accountants in the workplace.</i></p>	<p>We believe it is important that learning and development also addresses how to achieve appropriate responses to ethical issues.</p> <p><i>In fostering a commitment to the public interest, it is important that aspiring professional accountants understand that professional accountants contribute to confidence and trust in the capital markets. Learning and development may address (a) particular ethical issues likely to be faced by all professional accountants, (b) those ethical issues more likely to be encountered by professional accountants in the workplace and (c) key considerations in the development of appropriate responses to such ethical issues.</i></p>
A8	<p><i>...and (b) developing and instilling an appropriate environment for ethical behavior.</i></p>	<p>An environment cannot be instilled.</p> <p><i>...and (b) developing and maintaining an appropriate environment for ethical behavior.</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
A10	<p><i>The emphasis on ethical principles may be achieved by encouraging aspiring professional accountants (a) to identify any apparent ethical implications and conflicts in their work, (b) to form preliminary views on such occurrences, and (c) to discuss them with their supervisors.</i></p>	<p>We believe it is important to consider the wider work environment when identifying ethical issues, and to discuss resolutions to ethical issues with supervisors.</p> <p><i>The emphasis on ethical principles may be achieved by encouraging aspiring professional accountants (a) to identify any apparent ethical implications and conflicts in their work or work environment, (b) to form preliminary views on such occurrences, and (c) to discuss them, including an appropriate resolution, with their supervisors.</i></p>
A11	<p><i>Those responsible for the design and supervision of practical experience programs are encouraged to recognize that ethical problems and potential dilemmas for the aspiring professional accountant may occur within the period of practical experience. Where there is doubt about the ethical aspects of a course of action or situation, guidance may be given to aspiring professional accountants about the need to consult employers, mentors, supervisors within their work environment or an IFAC member body, whichever is appropriate.</i></p>	<p>Reworded to refer ‘ethical issues’ rather than problems to be consistent with elsewhere in the standard. Also we feel that in such situations the idea that ‘guidance may be given’ is too weak.</p> <p><i>Those responsible for the design and supervision of practical experience programs are encouraged to recognize that ethical issues and potential dilemmas for the aspiring professional accountant may occur within the period of practical experience and, where there is doubt about the appropriate resolution of an ethical issue, to provide guidance to aspiring professional accountants about the need to consult employers, mentors, supervisors within their work environment or an IFAC member body, whichever is appropriate.</i></p>
A12	<p><i>The learning outcomes establish both the content and the depth of knowledge, understanding, and application required for each specified area. IFAC member bodies, educators, and other stakeholders are encouraged to identify the most appropriate approach to learning and development for professional values, ethics, and attitudes, taking into consideration the national and cultural environment and objectives.</i></p>	<p>This paragraph makes reference to ‘the learning outcomes’ which presumably refers to the list of bullet points in the requirement at paragraph 10, but this link is not explicit and should be made clear.</p> <p>Also it is not clear what the ‘objectives’ are that are referred to at the end of the paragraph – are these the same as the learning outcomes?</p>

Paragraph	Existing Wording	Comments/Suggestions for change
A 13	<i>In determining the approach to each of the learning outcomes, some aspects of classroom-based education may be replaced by practical experience.</i>	<p>Reworded to reflect the fact that structured learning activities are wider than classroom activities, and that the key is achieving the right mix.</p> <p><i>In determining the approach to achieving the learning outcomes, the mixture of learning methods may include a combination of structured learning programs and practical experience.</i></p>
A14	<i>IFAC member bodies, educators, and other stakeholders are encouraged to use participative approaches that can enhance the learning of professional values, ethics, and attitudes.</i>	<p>Reworded to change 'learning' to 'development'.</p> <p><i>IFAC member bodies, educators, and other stakeholders are encouraged to use participative approaches that can enhance the development of professional values, ethical principles, and attitudes.</i></p>
A20	<i>Differing measurement approaches to assessment can be employed by IFAC member bodies, educators, and other stakeholders. In determining the most appropriate forms of assessment, IFAC member bodies, educators, and other stakeholders are advised to consider an appropriate mix based on input, output, and process measures.</i>	<p>This paragraph would be enhanced if it provided some examples of measurement approaches.</p>
IAESB Glossary of Terms	<p><i>Reflective activity</i></p> <p><i>The practice of documenting experiences relating to lessons learned from ethical dilemmas and considering what approach may be taken in the future in similar circumstances can be used by professional accountants at all stages of their careers.</i></p>	<p>We do not believe that reflective activity by definition includes documenting, it can take many forms. If it does include documenting then the requirement in paragraph 10 is redundant. We also do not believe that the definition of reflective activity should restrict practice to situations of ethical dilemmas.</p> <p>The definition has not been phrased as a definition, but is instead a statement about when reflective activity can be used.</p> <p><i>Reflective activity</i></p> <p><i>The practice of reflecting on an experience to identify lessons that can be learned and approaches that can be taken in the future in similar circumstances.</i></p>

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen on +45 36103781.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, stylized initial "J".

Jens L Simonsen
Managing Director
Global Audit Services
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