

## PROJECT PROPOSAL

## PROFESSIONAL ACCOUNTANTS – SETTING EXPECTATIONS

**I. Subject**

1. The core values and behavioral characteristics expected of all professional accountants.

**II. Background and Relevant Developments**

2. Over the past few years, there have been continuing calls for the Standard Setting Boards<sup>1</sup> to enhance the way in which existing material in their standards addresses 'professional skepticism'. These comments were made in response to the IAASB's December 2015 Invitation to Comment, [\*Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits\*](#),<sup>2</sup> and certain IESBA Exposure Drafts.<sup>3</sup> Comments were also made by the International Forum of Independent Audit Regulators (IFIAR), the Public Interest Oversight Board (PIOB), the IFAC PAIB Committee, and a number of representatives of the IAASB and IESBA Consultative Advisory Groups (CAGs).
3. In response, the IESBA undertook a project to develop application material to relate the fundamental principles in the [\*International Code of Ethics for Professional Accountants \(including International Independence Standards\)\*](#) (the Code) to the concept of professional skepticism as defined and referred to in the IAASB's auditing and assurance standards. In December 2017, having completed that project, the IESBA established a Working Group to consider whether the Code should require all professional accountants to exercise 'professional skepticism' and, if so, how that objective should be achieved.
4. In considering the detailed comments of stakeholders, the Working Group concluded that 'professional skepticism' is a term used by stakeholders to encompass a variety of different behavioral characteristics and that it means different things to different people – particularly in relation to how it should apply to professional accountants who practice in areas other than audit and assurance.
5. In May 2018, the ESBA issued a [Consultation Paper](#) seeking views on:
  - (a) The behavioral characteristics comprised in professional skepticism;
  - (b) Whether all professional accountants should apply these behavioral characteristics; and
  - (c) Whether the Code should be further developed, and/or other actions outside the Code taken, to address behaviors associated with the exercise of appropriate professional skepticism.

---

<sup>1</sup> The International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB).

<sup>2</sup> The ITC (pages 11-15) provides further background regarding how the IAASB's standards address professional skepticism, factors influencing professional skepticism (with reference to relevant concepts in the standards of the IESBA and IAESB), the roles of individual auditors, firms and others, and related stakeholder calls for action.

<sup>3</sup> IESBA Exposure Drafts: [Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client](#), and [Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles](#).

6. As of August 25, 2018, IESBA has received about 60 responses to the Consultation Paper. Copies of those responses are available on the IESBA's [website](#).
7. To provide a multi-stakeholder forum at which the issues raised in the Consultation Paper could be discussed, the IESBA hosted a series of global roundtables – in Washington, DC, U.S.A. (June 11); Paris, France (June 15); Tokyo, Japan (July 12); and Melbourne, Australia (July 16).
8. About 150 senior-level delegates participated in these roundtable events. They represented a wide range of stakeholder groups, including investors, public sector representatives, preparers, those charged with governance, national standard setters, regional and international organizations, and representatives of the accountancy profession (both those in public practice and in business). Observers included regulators and audit oversight authorities, PIOB members and staff, the IESBA CAG Chair, and members of the IESBA CAG and the IAASB.
9. Each of the roundtables involved a short plenary session to introduce the topic and provide contextual information for each of the issues identified in the Consultation Paper. The plenary session was followed by a breakout session with participants assigned to two groups in which those issues were discussed. The participants reconvened after the breakout sessions to listen to a summary of the discussions in each group.
10. Information about each roundtable, including a list of roundtable participants, slides used for the plenary session, agenda materials discussed, and the list of participants for each breakout group is available on the IESBA [website](#).
11. Following analysis of the responses to the Consultation Paper with the benefit of the views expressed at the roundtables, it appears that 'professional skepticism' is a term loosely used to encapsulate the values and behavioral characteristics that are expected of all professional accountants. In the course of the roundtables, there was clear support for an approach that would involve developing the introduction to the Code to better explain those values and behaviors and to link that discussion with the fundamental principles and the conceptual framework. In addition, feedback to the Consultation Paper and at the roundtables indicated clear support for developing the Code to better recognize the role of bias, pressure and other impediments in influencing behavior and how to mitigate such threats.

### **III. Project Objective and Scope, and How the Project Serves the Public Interest**

#### **Project Objective**

12. The objective is to develop provisions in the Code that would better and more clearly set out the core values and behavioral characteristics expected of all professional accountants.

#### **Project Scope and Outline**

13. The project will involve the development of material for inclusion in Part 1 of the Code that:
  - (a) Describes the core values and behavioral characteristics expected of all professional accountants (Section 100);
  - (b) Explains the linkage between those values and behavioral characteristics and, in particular, the fundamental principles (Section 110) and the conceptual framework (Section 120); and
  - (c) Addresses bias, pressure and other impediments to compliance with the fundamental principles, together with appropriate supporting materials.

14. The project will also involve:
  - (a) Reviewing the other parts and sections of the Code to identify opportunities to emphasize and reinforce the core values and behavioral characteristics expected of professional accountants in business and in public practice;
  - (b) Exploring how and where best to describe the linkage between, on the one hand, the core values and behavioral characteristics set out in the Code, and on the other hand, the concept of professional skepticism as defined in the IAASB's standards; and
  - (c) Proposing ways in which the core values and behavioral characteristics might be promoted through education and training initiatives.

#### **How the Project Serves the Public Interest**

15. The public interest will be served by enabling professional accountants to better demonstrate the core values and behavioral characteristics expected of a professional accountant, thereby enabling them to meet public expectations in their various roles and fields of endeavor.

#### **Impact Analysis Considerations**

16. Should the provisions in the Code be enhanced as a result of this project, stakeholders, including employers, clients and the wider public, will benefit from professional accountants better demonstrating the core values and behavioral characteristics through their professional activities. The benefits may be manifested in a variety of ways, such as greater diligence, heightened awareness of bias and other impediments, improved ability to ask probing questions, and more thorough consideration of the relevance and sufficiency of information as a basis for informed decisions.
17. To the extent that demonstrating those core values and behavioral characteristics entails greater rigor in their work than is the case under the current provisions of the Code, professional accountants may face additional costs that will vary depending on the nature of their professional activities and particular circumstances.
18. Organizations that will need to adopt and implement the new provisions, including firms and IFAC member bodies, will incur costs associated with such adoption and implementation, including awareness raising and training initiatives.

#### **IV. Implications for any Specific Persons or Groups**

19. This project has implications for all professional accountants. However, it will be of particular relevance to:
  - (a) Professional accountants in practice undertaking engagements other than audit and assurance engagements; and
  - (b) Professional accountants in business.
20. There will also be implications for:
  - National standard setters that adopt the Code or use it as a basis for setting their ethics standards.

- Firms and IFAC member bodies that will need to adopt or implement the new or revised provisions.
- Regulators and audit oversight bodies that enforce compliance with the provisions of the Code.
- Academic institutions that teach accountancy courses and include an ethics component in their curricula.

#### **SMP/SME Considerations**

21. The project is unlikely to give rise to implications that are specific to small- and medium-sized practices and entities.

#### **Coordination with Others**

22. The project requires interactions with regulators, national standard setters, IFAC member bodies and the profession.
23. In addition, the project will require close coordination with the IAASB and IAESB to ensure that the material developed by the IESBA has the support of those Boards, and will be consistent with their standards and continuing projects. As appropriate, the established principles of IAASB-IESBA coordination will apply.

### **V. Development Process, Project Output and Project Timeline**

#### **Development Process**

24. The project will follow the IESBA's normal process for developing changes to the Code.
25. It is anticipated that frequent interactions will be required with stakeholders to ensure they are supportive of the approach being developed. This will be particularly important given that the project focuses on matters that go to the heart of what it means to be a professional accountant.

#### **Project Output**

26. The project will result in revisions being made to the Code – in particular to Sections 100, 110, and 120. The project may also result in other guidance and advisory material being developed for publication.

#### **Project Timetable**

27. Subject to IESBA approval of this project proposal, the project will commence immediately. The table below provides indicative timing for the project up until the Exposure Draft stage.

Indicative Timing	Milestone
September 2018	<ul style="list-style-type: none"><li>• IESBA CAG consideration of:<ul style="list-style-type: none"><li>○ Responses to the Consultation Paper and the views expressed at the roundtables.</li><li>○ Working Group assessments and proposals for the way forward</li><li>○ Project Proposal.</li></ul></li></ul>

Indicative Timing	Milestone
	<ul style="list-style-type: none"> <li>IESBA: As above, and approval of Project Proposal</li> </ul>
December 2018	IESBA discussion of draft revisions to Section 100, the Introduction to the Code.
March 2019	<ul style="list-style-type: none"> <li>Discussion of Task Force proposals with IESBA CAG</li> <li>IESBA discussion of draft revisions to Sections 110 and 120 and of material to address bias, pressure and other impediments to compliance with the fundamental principles</li> </ul>
June 2019	<ul style="list-style-type: none"> <li>Discussion with national standard setters</li> <li>IESBA: First read of Exposure Draft.</li> </ul>
September 2019	<ul style="list-style-type: none"> <li>Discussion of Task Force proposals with IESBA CAG</li> <li>Discussion of Task Force proposals with IESBA.</li> <li>IESBA approval of Exposure Draft</li> </ul>

## VI. Resources Required

28. A project Task Force comprising four individuals, including an IESBA member as Chair.
29. IESBA Staff will provide support to the project Task Force.

## VII. Relevant Sources of Information that Address the Matter being Proposed

30. Relevant sources of information include:
  - Codes of ethics and related education materials from jurisdictions around the world that discuss the core values and characteristics of professional accountants.
  - Academic and other literature addressing the topic of bias, pressure and other impediments to compliance with the fundamental principles.