

Firm Culture and Governance

Summary of Other Outreach in Q2 2025

Introduction

1. In Q2 2025, the Firm Culture and Governance (FCG) project team and IESBA representatives met with several stakeholders to discuss the [FCG project](#). The key takeaways of these meetings are provided below.

Forum of Firms (FoF) – March 31, 2025

2. IESBA representatives participated in a deep-dive session at the March 2025 FoF meeting in Amsterdam. The FoF welcomed the engagement with the IESBA. FoF leadership highlighted that the FoF endeavors to guide its voice in standard-setting towards ensuring that the IESBA's outputs are implementable and practicable. With regard to the FCG project, FoF leadership emphasized that the FoF can add value to the IESBA's considerations in terms of what is likely to work well or not in practice.
3. This session was held in the same format as the global roundtables where the FoF participants discussed, in breakout groups (two in-person and one virtual), the eight elements of a firm culture and governance framework (FCG elements) identified in the FCG project proposal.¹
4. The following paragraphs include the summary of key comments from the FoF participants during the deep-dive session. This summary was also presented to them at the end of the session.
5. On ethical leadership:
 - There was general recognition of the importance of the tone at the top (i.e., senior management individually and collectively) as well as the mood in the middle (i.e., middle management).
 - Leaders need to “walk the talk” and lead by example, e.g., in their messaging (e.g., about ethical values, ethics being a strategic priority, and zero tolerance for unethical behavior), actions and behaviors, including by humanizing actual experiences (e.g., via podcasts) and issuing a firm-wide code of conduct.
6. On oversight and governance:
 - Having one person responsible for the whole firm's ethical culture puts them in a difficult position and therefore collective responsibility (cross-functionally and with the senior leadership involved) is preferable.
 - On network firms, given the nature of the relationship between global and local firms, the global firm should not necessarily be accountable for local firms' actions.
 - Smaller firms have less resources and, therefore, the IESBA's solutions should be proportional and scalable to their realities.

¹ FoF participants considered questions 2, 4, 6, 8, 9, 11, 12, 13 and 14 of the [briefing note](#).

7. On the provision of independent input:
 - Although independent input is beneficial, any prescriptive requirements relating to such input would need to solve a problem because of the costs of such requirements. There was also a caution about the inefficiencies of importing general corporate governance principles because firms are generally partnerships and therefore have a different ownership structure compared to corporations.
 - There can be internal “independent” input, e.g., from within the network or retired partners.
 - There would be a limited availability of qualified individuals to provide independent input in case this were to become a requirement extended to all firms.
8. On accountability across the firm:
 - Collective accountability would be preferable to a single individual holding all accountability.
 - Internal transparency about what happened is important, as well as how the individuals involved are taking responsibility and the steps taken to respond to the matter.
9. On incentives and rewards:
 - Ethical behavior is the expected behavior and therefore rewarding it is not the correct approach. Instead, there can be penalties for ethical breaches.
 - Career promotion and advancement should be linked to criteria that promote ethical behavior and values.
 - The younger generation is attracted to firms that demonstrate high ethical values. In addition to goal-setting, involving younger personnel in a meaningful way early on in the ethics journey helps better foster a stronger ethical culture than resorting to whistle-blowing when coming across unethical behavior.
10. On open discussion and challenge:
 - Real-life cases and open discussions can make ethics dynamic and relatable.
 - Regular meetings between managers and junior staff make everyone feel included and at ease in raising ethical issues or concerns. Having leaders “walking the floor” can also be effective.
 - Sharing lessons from past mistakes, and being authentic in doing so, helps build trust and enables lessons to be learned.
 - It is important to create safe spaces where people feel comfortable speaking up without fear of retaliation.
11. On continuous education and training:
 - Real examples can help show how ethics applies in real situations.
 - Combining in-person and online training keeps people engaged.
 - Small group interactive discussions help with understanding of ethics considerations.
 - It is important to be attuned to how the younger generation learns and responds.

12. On transparency:
- It is difficult to have meaningful comparable information between firms.
 - It can be helpful for investors to know about a firm's ethical values but there is a fine line to walk as this can become a marketing tool.
 - Firms should be open about their ethical practices and how they follow IESBA standards.
 - Firms should not overly focus on small mistakes, as that can damage trust. It is important that firms highlight their improvements and their overall ethical culture. Firms should show how they handle challenges and learn from mistakes.
13. During the report-back, participants also questioned whether adding new provisions to the Code would be effective in terms of changing behaviors. They emphasized the relevance and usefulness of, and agility provided by, non-authoritative materials (NAM) over standard-setting.
14. During the meeting, a question was also raised as to whether the IESBA would bring together the outputs of its workstreams on FCG and private equity investments in accounting firms.

International Forum of Independent Audit Regulators (IFIAR) Standards Coordination Working Group (SCWG) – April 2, 2025

15. Key comments raised by SCWG members include:
- There was a question as to which stakeholders were advocating for an international standard on FCG. In this regard, it was noted that IFIAR's survey of firms had indicated a concern about standards overload.
 - The interconnectivities with ISQM 1² were highlighted as being important, given that ISQM 1 already addresses topics related to culture, such as incentives and training.
 - Firms are growing exhausted, especially after the significant efforts involved in implementing ISQM 1.
 - Culture and governance are critical. However, there was a question as to which tools the IESBA would be developing that would be needed and how such tools would interact with a firm's system of quality management.
 - There was some skepticism about the transparency element of the FCG framework.

Malaysia and Singapore Outreach

Securities Commission Malaysia (SCM) – April 29, 2025

16. As part of its work on culture and governance of audit firms (focused on the audit side), SCM developed a set of six key cultural traits that were assessed through direct engagement with firms:
- Audit Quality – Emphasis on leadership commitment and tone at the top.
 - Ethical Behavior – Integrity, ethical compliance, and consistent communication.

² 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*

- Compliance – Responsiveness to non-compliance.
 - Challenge – Encouraging critical thinking, skepticism, and a questioning mindset.
 - Consultation – Creating an environment where staff is supported to consult.
 - Trust – Effectiveness of whistleblowing processes and whether staff concerns are taken seriously.
17. The SCM assessed 12 firms (8 large and 4 smaller firms) against these six traits and the findings were published in SCM's 2021 and 2022 annual inspection reports. A key finding is that workload pressures are often a root cause of ethical issues. SCM representatives emphasized that when weaknesses in the audit quality culture emerge, they often precede enforcement cases. This suggests a strong correlation between internal culture and external outcomes.
18. Although the SCM's legal mandate applies to assurance services for public interest entities (PIEs), it has access to broader firm information if needed.
19. The SCM is considering whether an audit firm governance code, similar to that in the UK and Japan, is warranted in Malaysia.
20. There is a transparency report regime in Malaysia. SCM representatives noted that audit committees and investors find transparency reports useful. SCM acknowledges that transparency "drives behavior" but has not yet developed clear expectations around ethical disclosures in these reports.
21. SCM representatives expressed support for the IESBA's FCG project, particularly its "whole-of-firm" approach, noting that ISQM 1 focuses primarily on audit. The inclusion of standards addressing firm culture in the IESBA Code would strengthen the ethical framework and enforcement tools.
22. With respect to the question of how a global standard on FCG might be monitored and enforced locally, SCM representatives:
- Welcomed the concept and recognized the benefit of setting clear expectations.
 - Emphasized the need for local adaptability, given the diversity of firm structures (e.g., Big 4, mid-tier, and small firms).
 - Highlighted the need to address governance and self-regulation at the individual level, not just firm-wide.
 - Noted that it can monitor compliance with, and enforce, the standard if one were to be developed, and that it can facilitate revision of the relevant law if necessary.
23. In Malaysia, private equity investments in accounting firms remains limited but is increasing.

Association of Chartered Certified Accountants (ACCA) Small and Medium Practices (SMP) Representatives³ – April 30, 2025

24. IESBA Staff and Board advisors to the project team met with a group of SMP practitioners organized by the ACCA Asia-Pacific in Singapore.
25. The ACCA Asia Pacific representative noted ACCA's support for the project and that ACCA UK is also working on an FCG research project.

³ Participants represented firms ranging from small two-partner firms to global network firms.

26. Participants made the following comments on ethical leadership and oversight and governance:
- Participant firms do not have partners or leaders with a specific role in ethics.
 - Having a vision or mission statement is not sufficient. It is important to strategically build the DNA of a firm and to make sure all partners and staff share it. In this regard, one participant firm conducts a six-monthly review of staff which allows staff to keep being reminded of, and develop, the firm's DNA.
 - Assessment against a firm's core values is important when admitting and promoting new partners, but also when retaining new clients.
27. Participants made the following comments on the provision of independent input:
- Independent non-executives (INEs) are generally not suitable for SMPs. Alternative sources for independent input include professional accountancy organizations (PAOs), such as ACCA and the Institute of Singapore Chartered Accountants (ISCA), academic partners, and academics.
 - The managing partner and the ethics partner should not have any client portfolio so they can provide objective input.
28. Participants made the following comments on incentives and rewards:
- One participant mentioned ethics as a top priority and therefore it is not possible to reward everyone for acting ethically; however, a penalty system works. A zero-tolerance policy where staff is removed for unethical behavior was shared as an example. In this regard, it was mentioned that Singapore is a "fines city" and therefore penalty systems and disincentive mechanisms within a firm tend to work well.
29. Participants made the following comments on continuous education and training:
- Ethics is not necessarily a stimulating subject and therefore case studies and videos are useful training tools. Participants also mentioned the importance of having a discussion after watching a video.
 - Firms use resources provided by PAOs such as ACCA and ISCA.
 - Training across the whole firm can be challenging as not all staff have an accountancy background.

Accounting and Corporate Regulatory Authority (ACRA) – April 30, 2025

30. Key comments raised by ACRA representatives include:
- ACRA believes there is a direct correlation between firm culture and audit quality and is supportive of the project.
 - It was highlighted that the IESBA needs to be mindful of the smaller firm environment in jurisdictions such as Singapore, and that the FCG framework should be principles-based. Also, there was support for the development of NAM.
 - ACRA has no immediate plans to develop an audit firm governance code.

- ACRA did not raise concerns regarding the enforcement of a new standard if one were to be developed by the IESBA under the FCG project, noting that it will have a strong role in monitoring and enforcement along with ISCA.
- ACRA is continuing to raise awareness of the importance of audit quality. Firms submit datasets on audit quality focusing on ISQM 1 on a six-monthly basis. Implementation of ISQM 1 has not been an issue for larger firms that are part of a global network but is an ongoing process for many of the 700 SMPs in Singapore.
- Private equity investments in accounting firms are not new in Singapore, but not yet a major trend.

Corporate Governance Experts and Investor – April 30, 2025

31. Participants made the following comments on ethical leadership and oversight and governance:
- Leadership and their personal values (tone at the top) play an important role in shaping the firm's values but culture needs to be infused across the whole organization.
 - The ownership structure of a firm influences its culture because it is linked to the time horizon of the investment. Family-owned companies tend to have a greater focus on values because they have a longer-term view.
 - The board or chief executive officer should have ultimate responsibility over ethics, although there is value in having a dedicated function or person.
32. Participants made the following comments on the provision of independent input:
- Obtaining independent input depends on how open leadership is to it.
 - Independent input is valuable but not necessarily through INEs. INEs might not be the best option for firms.
 - Due to costs, independent input for smaller firms needs to go beyond ethics matters.
33. Participants made the following comments on incentives and rewards:
- Financial incentives should not be the key driver for accountants, especially for those in leadership positions. The public interest dimension of the accountancy profession (i.e., pride in the job) is itself an important reward.
34. Participants made the following comments on other corporate governance principles:
- Firms can be role models for corporate governance because of their public interest role.
 - General corporate governance codes might not be appropriate for a firm context.
 - The whole ecosystem needs to work together.
 - Professionalism and competencies are two focus areas.
35. Additional comments raised by participants include:
- Culture is a difficult concept to define, and it is hard to codify.
 - The Singapore Stock Exchange (SGX) is conducting a comparative review of corporate governance codes and assessing whether it should include more on culture.

- Whilst noting the advantages of private equity investments, participants also recognized the financial drive of private equity and the pressure this may place on firm partners.

Jurisdictional Standard Setters (JSS) – May 7, 2025

36. While recognizing the importance of the topic, participants also made the following comments:

- Regarding the recent highly publicized exam-cheating cases in some firms in a number of jurisdictions around the world, it is fair to recognize that there was an expectations gap between what firm leadership believed was in place in terms of monitoring, and what the younger generation on staff actually did.
- In the present context of newer work-from-home practices, there is a question as to how firm leadership can instill the right behaviors when personnel are not present to observe them.
- The project is welcome and strikes to the core of what needs to be done. The IESBA is the appropriate body to take this project forward. However, there is a question as to who would enforce an FCG framework, as “comply or explain” does not work well as an approach.
- There was a question as to whether the project is within the IESBA's remit. There was a view that firm culture and governance is essentially about establishing systems and processes, and governance is closer to regulation, whereas the IESBA's role is to develop ethics standards addressing individual behavior. However, it was clarified that the project is focused on the cultural aspect of governance and not all aspects of governance. It was also highlighted that the Code already addresses firm responsibilities at a principles level in Part 4A, and that it is up to individual firms to implement the appropriate systems and processes to comply with those principles. Accordingly, developing such an FCG framework would be well within the IESBA's remit.
- It was noted that an FCG framework is ultimately intended to drive ethical behavior. The framework is focused on establishing a set of principles, with firms given the flexibility and room to implement it in ways that would be best suited to their circumstances. In addition, it should be “light” and appeal to common sense such that firms and other stakeholders see value in implementing it.
- There was a view that enforcing an FCG standard would be challenging and that local bodies would be best placed to develop systems and processes addressing FCG, taking into account local market specificities and scalability considerations.
- There was a view that the existing Code provisions on firm culture and governance are sufficient and that the IESBA should focus instead on developing guidance to implement those provisions.
- Embarking on a journey on ethical culture takes time and it is unclear whether a standard will enable firms to reach the intended destination. Perhaps providing them with guidance outside the Code will better assist them on this journey.
- The key issue is how to influence individuals to do the right thing. The idea of an FCG framework is to help them think through ethical dilemmas or challenges, thereby assisting them in living and demonstrating the ethical values.

IFAC's Small and Medium Practices Advisory Group (SMP AG) – May 12, 2025

37. Participants made the following comments:

- Ethical behavior is crucial for SMPs as it is closely tied to their reputation in a local context.
- There was a view that the project is more directed towards larger firms (e.g., the concept of leadership is unclear in the context of SMPs).
- There was a concern about the burden a standard on FCG might place on SMPs. There was also a comment that SMPs are not responsible for recent major ethical failures.
- There was some doubt as to whether a new FCG standard would be able to “move the needle” in terms of change. It was felt that the provisions in the extant Code are sufficient and that more could be done in terms of enforcing the existing standards. Some participants were explicitly against the development of a standard, with many preferring the IESBA to develop NAM or other supporting materials instead.
- There was a question as to whether the project is within the IESBA's remit as it seems to focus on firms' structure and governance processes. There was also a concern that an FCG standard might make the audit profession less attractive.
- There was some perception of overlap of the project with ISQM 1, with which SMPs already have to comply.