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Meeting Date: July 17 to 19, 2006

PROPOSED PRACTICE STATEMENT FOR THE EDUCATION OF PROFESSIONAL ACCOUNTANTS (IEG 10)

APPROACHES TO DEVELOPING AND MAINTAINING PROFESSIONAL VALUES, ETHICS, AND ATTITUDES

REQUEST FOR COMMENTS

In XXXX 2006, the International Accounting Education Standards Board (IAESB) approved this exposure draft of a proposed Practice Statement (IEG) for publication. After comments are reviewed, this IEG may be modified before it is issued in final form.

Comments, preferably in e-mail or paper copy form, should be submitted in time to be received by 1 December 2006. All comments will be considered a matter for the public record. Comments should be addressed to:

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Email responses should be sent to: Edcomments@ifac.org

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*Prepared by: Ethics Education TF (June 2006)*
Purpose and Scope of this Practice Statement

1. Practice Statements for the Education of Professional Accountants (IEG) assist IFAC member bodies in the implementation of generally accepted “good practice” in the education and development of professional accountants by providing advice or guidance on how to achieve “good practice” or current “best practice”.

2. This IEG provides recommendations for developing and maintaining professional values, ethics and attitudes.

3. International Education Standard (IES) 4, *Professional Values, Ethics and Attitudes*, requires IFAC member bodies to devote a portion of the pre-qualification education program for professional accountants to developing professional values, ethics, and attitudes. This IEG provides guidance to IFAC member bodies on how to achieve good practice in developing professional values, ethics and attitudes in accordance with IES 4.

4. Professional values, ethics and attitudes cannot easily be learned or assessed only through traditional means such as lectures or examinations. This IEG therefore recommends a variety of approaches to the development of these values, ethics and attitudes. It also recommends a number of methods for the delivery of ethics education, stressing the importance of workplace learning and assessment in particular.

5. This IEG also recommends how member bodies may ensure professional accountants continue to develop professional values, ethics, and attitudes throughout their careers through continuing professional development (CPD).

6. The International Accounting Education Standards Board (IAESB) recognizes (a) the wide diversity of culture, language, and educational, legal, and social systems in the countries of the member bodies, (b) the variety of functions performed by accountants in different countries, and (c) that member bodies are at different stages in developing their ethics education programs. This IEG therefore sets out principles of good practice for ethics education, and recommends two flexible approaches through which IFAC member bodies may implement good practice.

7. Some member bodies may already have addressed a number or all of the issues considered in this IEG. Other member bodies may have yet to consider such issues. It is suggested that all member bodies assess their compliance with IES 4 in the light of the recommendations contained in this IEG.

Definitions

9. The following terms used in this IEG are defined in the *Framework to International Education Standards*:

- **Assessment**: all forms of tests of professional competence, whether in writing or otherwise, including examinations, carried out at any time throughout the learning process.

- **Competence**: being able to perform a work role to a defined standard, with reference to real working environments.

- **Continuing professional development (CPD)**: learning activities for developing and maintaining the capabilities of professional accountants* to perform competently within their professional environments.

- **Education**: a systematic process aimed at developing knowledge, skills and other capabilities within individuals. It includes training*.

- **Post-qualification**: the period after qualification* as an individual member of an IFAC member body.

- **Pre-qualification**: the period before qualification* as an individual member of an IFAC member body.

- **Professional accountant**: a person who is a member of an IFAC member body.

- **Professional values, ethics and attitudes** are the professional behavior 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 behavior.

- **Qualification**: qualification as a professional accountant* means, at a given point in time, an individual is considered to have met, and continues to meet, the requirements for recognition as a professional accountant.*

- **Student**: an individual following a course of study, including a trainee*. In the context of professional education, a student is an individual undertaking a course or a program of study deemed necessary for the education of professional accountants, whether general or professional in nature.

- **Trainee**: an individual undertaking pre-qualification* work experience and training* within the work place.

- **Training**: pre- and post-qualification educational activities, within the context of the workplace, aimed at bringing a student* or professional accountant* to an agreed level of professional competence*.

10. This IEG introduces the following new term:

- **Ethics education**: all education and development that enhances and maintains professional values, ethics, and attitudes.
Background

11. The actions of accountants impact on others. Professional values, ethics and attitudes that identify professional accountants as members of a profession involve a commitment to enhancing the interests of the community. This is generally referred to as ‘serving the public interest’. The public relies on the ethical integrity of the profession and its members, to ensure that professional responsibilities are upheld and the public interest is safeguarded.

12. The Ethics Education Framework (EEF) recommended by this IEG is aligned with the IFAC Code Of Ethics For Professional Accountants (Code of Ethics). This establishes ethical requirements for all professional accountants, and sets out five fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

13. Professional accountants may encounter situations that threaten compliance with the fundamental principles of professional ethics. Many threats to compliance with these principles fall into the five categories outlined in the Code of Ethics: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats.

14. The Code of Ethics also sets out a number of safeguards that may eliminate or reduce such threats to an acceptable level. These include: (a) safeguards created by the profession, legislation or regulation; and (b) safeguards in the work environment. The former include, but are not restricted to: educational, training and experience requirements for entry into the profession; and continuing professional development requirements. This IEG, by recommending principles of good practice for pre- and post-qualification ethics education, can help member bodies create such safeguards.

15. Ethical decision-making requires choosing from a number of alternatives, each with its own consequences for stakeholders. It is in the public interest that professional accountants approach ethical decision-making with an understanding of and ability to apply the fundamental principles set out in the Code of Ethics.

16. This requires the development of professional values, ethics, and attitudes through IFAC member bodies’ education programs. These values, ethics and attitudes are formed and developed during and after qualification as a professional accountant. The aim of ethics education programs is to enhance professional accountants’ ethical decision-making and behavior.

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1 IFAC Code of Ethics for Professional Accountants, 100.4.
2 IFAC Code of Ethics for Professional Accountants, 100.10
3 IFAC Code of Ethics for Professional Accountants, 100.11
4 IFAC Code of Ethics for Professional Accountants, 100.12
SECTION 1: DEVELOPING ETHICAL COMPETENCE

The Ethics Education Framework

17. This IEG recommends a flexible, competency based Ethics Education Framework (EEF), outlined in Figure 1 below. The EEF identifies four stages on a learning continuum, based on the four objectives of ethics education, staged in the order of knowledge, sensitivity, judgement and behaviour. Each objective applies to a particular level of advancement in the development of professional values, ethics and attitudes.

Figure 1: The IFAC Ethics Education Framework (EEF)

<table>
<thead>
<tr>
<th>Stage</th>
<th>Learning Outcome</th>
<th>Competence Required</th>
<th>Focus of Program Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 4: Ethical behavior (Professional Accountants)</td>
<td>Maintaining an ongoing commitment to ethical behavior.</td>
<td>An understanding of organizational and situational contexts and the application of ethical knowledge, sensitivity and judgement into ethical behaviour.</td>
<td>Factors affecting ethical decision-making and ethical behavior.</td>
</tr>
<tr>
<td>Stage 3: Improving ethical judgment (Students and Professional Accountants)</td>
<td>Improving professional judgment by sharpening ethical decision-making skills.</td>
<td>Ability to make ethical judgements and decisions based on an understanding and application of ethics knowledge and ethical sensitivity.</td>
<td>Application of ethical theories, social responsibilities, codes of professional conduct and other ethical decision models.</td>
</tr>
<tr>
<td>Stage 1: Enhancing ethics knowledge (Students)</td>
<td>Enhancing the knowledge of (i) relevant standards and (ii) expectations of ethical and professional conduct.</td>
<td>Knowledge of traditional ethical concepts and theories, and of those relating to the professional accountant’s work.</td>
<td>Traditional theories of ethics, virtues, and morals.</td>
</tr>
</tbody>
</table>

18. The EEF recognizes that ethics education is a lifelong commitment that begins early in a pre-qualification program, and continues throughout a professional accountant’s career. It establishes a four-stage learning continuum, with learning outcomes and a description of competence required prescribed for each stage. The four stages of the EEF are described in more detail in paragraphs 20 to 31 below.
19. The EEF also contains eight essential subject areas, based on the topics prescribed by IES 4 which are to be included in all pre-qualification education programs. These subject areas are described in more detail in paragraphs 35 to 38, and in Table 1 below. In addition, suggested knowledge content to support each subject area is provided, for illustrative purposes only, in Appendix 1.

**Stage 1: Enhancing Ethics Knowledge**

20. Students need to develop an understanding of relevant ethical and professional standards relating to the accounting profession. Knowledge of general ethical principles, and of the fundamental principles of professional ethics outlined in the IFAC Code of Ethics is required for the development of ethical decision-making and behavior in a professional context.

21. Stage 1 of the EEF teaches fundamental knowledge on matters concerning professional values, ethics, and attitudes. It focuses on developing an understanding of:

   (a) the environment that influences decisions, including:
       (i) relevant standards and codes, and
       (ii) expectations of ethical and professional conduct

   (b) the fundamental theories and principles of:
       (i) ethics,
       (ii) virtues, and
       (iii) individual ethical development

22. Competence in this area will be demonstrated by a knowledge of traditional ethical concepts and theories, and of those relating to the professional accountant’s work.

**Stage 2: Developing Ethical Sensitivity**

23. Students need to develop ethical sensitivity, which is the (a) ability to recognize an ethical threat or issue, (b) awareness of alternative courses of action leading to an ethical solution, and (c) knowledge of the effects of each alternative course of action on stakeholders.

24. Stage 2 applies the knowledge of basic ethical principles introduced in Stage 1 to the relevant functional disciplines (e.g. auditing, taxation, financial control) of accounting. At this stage, it is recommended that ethics education programs focus on developing a sense of professional responsibility with ethical sensitivity and an appreciation of ethical threats.

25. Competence in this area will be demonstrated by sensitivity to ethical issues and threats identified in the functional disciplines of accounting.
Stage 3: Improving Ethical Judgment

26. Core ethical values are the foundation of professional judgment. Making choices consistent with the fundamental principles set out in the IFAC Code of Ethics requires ethics knowledge and ethical sensitivity.

27. Stage 3 is an application stage, where students and professional accountants learn how to integrate and apply ethics knowledge and ethical sensitivity to form reasoned and well-informed decisions. This stage is designed to assist individuals in applying a well-founded process for making ethical decisions. At Stage 3, it is recommended that ethics education programs focus on improving professional judgment by sharpening ethical decision-making skills.

28. Competence in this area will be demonstrated by the ability to make ethical judgements and decisions based on an understanding and application of ethics knowledge and ethical sensitivity.

Stage 4: Maintaining an Ongoing Commitment to Ethical Behavior

29. Professional accountants need to be technically proficient, and be able to deal with ethical threats. They need to be able to choose a course of action consistent with the fundamental principles set out in the Code of Ethics. These are ongoing commitments, which professional accountants must adhere to throughout their careers.

30. At Stage 4, it is recommended that ethics education programs focus on developing and reinforcing a lifelong commitment to ethical behavior in a professional context through Continuing Professional Development.

31. Competence will be demonstrated by an understanding of organizational and situational contexts and the application of ethical knowledge, sensitivity and judgment into ethical behaviour in accordance with the Code of Ethics.
SECTION 2: APPROACHES TO IMPLEMENTING THE ETHICS EDUCATION FRAMEWORK

Flexible Approaches to Implementing the EEF

32. This IEG recommends two approaches to implementing the EEF: the “IES 4 Topic Approach”, and the “Stage-by-Stage Approach”. Member bodies may choose to follow one approach, or to mix elements of both, as appropriate for their local circumstances.

33. Both approaches stress the importance of integrating ethics education into pre-qualification accounting education programs, and the importance of revisiting and reinforcing knowledge and capabilities learned through CPD. Both approaches also emphasize the role of workplace learning and assessment in the development of professional values, ethics and attitudes. These are covered in detail in Section 3 of this IEG.

34. Whichever approach is adopted, member bodies and educators may wish to consider requiring students to take at least one module in ethics education to help them grasp the importance and complexity of analysing and resolving ethical problems.

The IES 4 Topic Approach

35. As described in paragraph 19 above, IES 4 prescribes a number of topics to be included in all pre-qualification education programs. These have been aligned with eight essential subject areas contained in the EEF, as demonstrated in Table 1 below.

Table 1: The IES 4 Topic Approach

<table>
<thead>
<tr>
<th>IES 4 Topics</th>
<th>EEF Subject Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature of ethics</td>
<td>A framework approach</td>
</tr>
<tr>
<td>Differences between detailed rules-based and principles-based approaches to ethics, their advantages and drawbacks;</td>
<td>Concepts and values</td>
</tr>
<tr>
<td>Compliance with the fundamental ethical principles of integrity, objectivity, commitment to professional competence and due care, and confidentiality</td>
<td>The environment - corporate, professional, and regulatory</td>
</tr>
<tr>
<td>Professional behavior and compliance with technical standards</td>
<td>Professional ethics</td>
</tr>
<tr>
<td>Concepts of independence, skepticism, accountability, and public expectations</td>
<td></td>
</tr>
<tr>
<td>Ethics and law, including the relationship between laws, regulations, and the public interest</td>
<td></td>
</tr>
<tr>
<td>Ethics and the individual professional accountant: whistle blowing, conflicts of interest, and ethical dilemmas and their resolution</td>
<td>Decision-making</td>
</tr>
<tr>
<td>Consequences of unethical behavior to the individual, the profession, and society at large</td>
<td>Ethical threats and safeguards</td>
</tr>
<tr>
<td>Ethics and the profession: social responsibility</td>
<td>Corporate governance</td>
</tr>
<tr>
<td>Ethics in relation to business and good governance</td>
<td>Social and environmental issues</td>
</tr>
</tbody>
</table>
36. The IES 4 Topic Approach implements the first three stages of the EEF subject by subject in relevant parts of the pre-qualification program. Each subject can be learned progressively following the first three stages of the EEF learning continuum described in paragraphs 20 to 28 above. Stage 4 of the EEF is primarily post-qualification (CPD), which is dealt with in paragraphs 29 to 31 above, and in paragraphs 47 to 49 below.

37. The IAESB recognizes that the detailed content of member bodies’ ethics education programs will reflect their national and cultural environment and education system. Member bodies may incorporate the EEF subject areas in any sequence as required in their pre- or post-qualification programs. Each subject area is expanded upon in Appendix 1, which gives examples of suggested content for each subject that member bodies may wish to include in their ethics education programs.

38. As the four stages of ethics education (ethics knowledge, ethical sensitivity, ethical judgement and ethical behavior) build on one another it is very unlikely that the benefits of ethics education will be fully realized unless professional accountants have covered all four stages at some point in their education.

The Stage-by-Stage Approach

39. The Stage-by-Stage Approach incorporates (a) the first three stages of the EEF in pre-qualification education programs, and (b) the fourth stage in both pre- and post-qualification education programs. Table 2 below illustrates this approach.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Attribute</th>
<th>Learning Outcome</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Ethical behavior</td>
<td>Maintaining an ongoing commitment to ethical behavior.</td>
<td>Part of practical experience, continuous professional development and continuous ethical training</td>
</tr>
<tr>
<td>3</td>
<td>Ethical judgement</td>
<td>Improving professional judgment by sharpening ethical decision-making skills.</td>
<td>A separate assessed final course or module in ethics</td>
</tr>
<tr>
<td>2</td>
<td>Ethical sensitivity</td>
<td>Developing a sense of professional responsibility with ethical sensitivity and an appreciation of ethical threats.</td>
<td>Integration of ethical issues across existing subject matter, such as financial accounting, managerial accounting, auditing, and taxation</td>
</tr>
<tr>
<td>1</td>
<td>Ethics knowledge</td>
<td>Enhancing the knowledge of (i) relevant standards and (ii) expectations of ethical and professional conduct.</td>
<td>Separate required course or module in ethics early in the program</td>
</tr>
</tbody>
</table>

40. This approach begins by introducing ethics early in the pre-qualification program (Stage 1), followed by ethical discussion in the existing accounting modules or courses (Stage 2), and culminating in a final module/course that ties together previous ethics material (Stage 3).
41. The nature of ethics education means that post-qualification programs need to revisit and reinforce the knowledge and capabilities learned and acquired in pre-qualifying programs. It is recommended that ethics education therefore continue through CPD, in order to reinforce ethical behavior.

Stage 1 - Enhancing Ethics Knowledge
42. It is recommended that students be exposed to at least one well-organized, reasonably substantive module in ethics education at this stage, to grasp the importance and complexity of analysing and solving ethical problems.

43. Positioning ethics education early in a broad-based program is critical. This: (a) conveys the importance of ethics, (b) shapes a positive attitude toward learning ethics, and (c) ensures that students understand and can apply ethical principles, including the fundamental principles set out in the IFAC Code of Ethics.

Stage 2 - Developing Ethical Sensitivity
44. Ethical issues and threats may arise in all functional areas of professional responsibility. It is important to discuss ethical issues arising naturally from these areas, and it is recommended that ethics is therefore addressed throughout the program of accounting education.

Stage 3 - Improving Ethical Judgment
45. It is recommended that students take a separate, assessed, finishing module/course in ethics. This is a valuable component of a broad-based pre-qualification program. It provides an opportunity to focus on certain aspects of ethics, bringing a greater depth of understanding to concepts taught in earlier stages. Ethics learned in a finishing module/course combines, integrates, and gives meaning and purpose to professional values, ethics, and attitudes in the workplace. It seeks to equip students with the ethical sensitivity and insight required of professional accountants.

Stage 4 – Maintaining an Ongoing Commitment to Ethical Behavior
46. Students and professional accountants develop and demonstrate ethical behaviour throughout pre- and post-qualification ethics education programs. It is recommended that member bodies put systems in place to ensure that (a) students demonstrate a commitment to ongoing ethical behavior during their period of practical experience, and (b) professional accountants continue to develop and reflect on their ethical behavior through CPD.
Continuing Professional Development

47. Ethics education is a lifelong process. Continually changing public expectations result in changes in ethical standards. Ethics education through CPD is therefore necessary for continued development of ethical decision-making and an ongoing commitment to ethical behaviour. Ethics education in CPD focuses on assisting individuals to make better ethical choices at critical junctures, and to reinforce and advance ethical concepts introduced in pre-qualifying education programs.

48. The transitory nature of ethics education means that post-qualifying programs need to revisit and reinforce the knowledge and capabilities learned and acquired in pre-qualifying programs. Ethics education therefore continues through CPD at Stage 4 of the EEF.

49. Member bodies may wish to require a portion of continuing ethics education for professional accountants as part of their CPD program.

Additional Subject Areas

50. Whether member bodies adopt the IES 4 Topic Approach, the Stage-by-Stage Approach, or a combination, they may also consider introducing additional subject areas, as appropriate, to expose students and professional accountants to ethical issues in particular settings that reflect real world problems. These could include:

- Ethics within small and medium-sized enterprises (SMEs);
- Cultural diversity and sensitivity;
- International business practice, culture, and ethics.

Additional subject areas may be introduced at any stage of the EEF, as appropriate for the local environment.
SECTION 3: DELIVERY AND ASSESSMENT OF ETHICS EDUCATION

Objectives of Delivery and Assessment of Ethics Education

51. Different models are used for the delivery and assessment of ethics education. These will combine elements of workplace learning and formal education. In all cases, it is recommended that member bodies establish clear objectives for ethics education that focus on (a) increasing ethical sensitivity, (b) fostering a commitment to professional responsibility, and (c) developing ethical decision-making skills.

52. It is recommended that professional accountants and students training to become professional accountants be exposed to exercises in ethical awareness and ethical decision-making. These contribute to the development of ethical sensitivity and judgment. It is also recommended that member bodies ensure pre- and post-qualification education programs contain practical examples of ethical threats and issues to reinforce theoretical knowledge.

53. Students develop knowledge of fundamental ethical principles during pre-qualification education programs. They learn how to apply fundamental principles in real-life situations through work experience, both pre- and post-qualification, through observing their colleagues and experiencing organizational practices and cultural norms.

Workplace Learning

54. This section highlights good practice in ethics education in the workplace. Learning ethics in the workplace is as important as learning ethics during formal educational programs. Employers and member bodies need to work together to promote ethical behaviour, and develop professional values, ethics, and attitudes, both in pre-qualification and post-qualification education.

Ethical Leadership

55. The ability to demonstrate ethical judgment and behavior in a professional context comes from observing the actions of ethical leaders and role models, usually within the same organization. Newly qualified professional accountants learn and modify ethical attitudes as they internalize values of the organization demonstrated by their superiors and colleagues. Ethical leadership in an organization sets the standard for all those working in that organization, and will have a strong influence on the ethical behaviour of newly qualified professional accountants. A newly recruited professional operating in an ethical climate will develop a respect for ethical behavior that will help overcome any weaknesses in ethical training.

56. Professional accountants in leadership roles need to ensure that they liaise with students and junior professional accountants on the responsibilities and ethical issues professional accountants face in the workplace. Member bodies may consider facilitating such sessions, especially where students work without direct supervision by professional accountants.
Supervised Practical Experience

57. During pre-qualification programs, trainees undertake a period of supervised practical experience under the guidance of a Mentor. Relationships with Mentors help trainees in many ways, including the development of the skills required of professional accountants, and the development of ethical sensitivity and judgment through relationships with supervisors acting as role models.

58. It is recommended that member bodies encourage supervisors to provide feedback on trainees’ ethical judgment and behavior, in addition to feedback on their technical performance.

Performance Review and Appraisal

59. Professional accountants often work in environments where regular performance reviews and appraisals are held. It is recommended that member bodies encourage professional accountants to ask for feedback on their ethical judgment and behavior as part of such a review. Where professional accountants are responsible for conducting performance reviews and appraisals for others, member bodies need to encourage them to include feedback on ethical judgment and behavior.

Formal Education

60. A number of formal education practices are advocated in the ethics education literature. These may include:

- Lectures
- Ethics discussions
- Small-group and collaborative learning
- Case studies based on ethical threats and challenges
- Role-play
- Guest speakers and practitioner participation
- E-learning

Further guidance on the above is included in Appendix 3.

Assessment Methods

61. Member bodies need to ensure that assessment of ethics education programs establishes that students and professional accountants have developed ethical sensitivity and judgment to an appropriate level.

62. Assessment methods may be broadly divided into two types. Summative assessment provides information about the level of a student’s performance at certain points in the learning process, usually at the end of a course of study. This may be more appropriate for assessing knowledge of ethical theories and concepts. Formative assessment is ongoing, providing both teachers and learners with information about current progress in order to support future learning. This may be more appropriate for assessing the development of ethical sensitivity and judgment.
63. Assessment of ethics education programs may be accomplished through formal assessment, assessment in the workplace, or through self-assessment. In most cases, member bodies will combine these approaches.

Formal assessment

64. Formal assessment can test standards for attaining the fundamental knowledge of ethical principles and the ability to critically evaluate ethical situations. Traditional examination structures may be perceived as ineffective in assessing whether objectives set in teaching ethics have been met, but there are a number of additional means by which formal assessment may be carried out:

- Creating databanks of simple case studies requiring completion of a quiz, which are published in professional magazines/journals, and requiring individuals to complete on-line tests;
- A log-book system requiring individuals to provide journals and notes on particular public domain cases;
- Objective testing of ethical aspects of the pre-qualification programs; and
- Using case study group assignments and workshops to assess individuals’ competence in ethical analysis and decision-making.

Workplace assessment

65. As outlined in paragraphs 53-58 above, learning ethics in the workplace is as important as learning ethics during formal educational programs. Means for assessing ethics education in the workplace include:

- Monitoring students’ ethical sensitivity and judgment via supervised practical work experience;
- Performance reviews and appraisals; and
- Using on-line forums to broaden ethical discussion about real issues that face professionals in the workplace.

Self-assessment

66. Member bodies are not recommended to rely solely on self-assessment in assessing ethical sensitivity, judgment and decision-making. Self-assessment may often form an important part of a supervised practical work experience and performance review/appraisal system, however. Member bodies may also wish to consider developing tools that enable students and professional accountants to compare their response to ethical issues and threats with their peers.
67. Member bodies, academics, and employers are encouraged to try a range of assessment techniques to better test individuals’ abilities to consider and resolve real ethical issues. *IES 6 – Assessment of Professional Capabilities and Competence* prescribes the requirements for a final assessment of professional capabilities and competence. Further guidance regarding assessment methods can be found in *IEP 3, Assessment Methods*. 
Appendix 1: Ethics Education Framework Subject Areas

<table>
<thead>
<tr>
<th>SUBJECT AREA</th>
<th>STAGE 1 COMPETENCE REQUIRED</th>
<th>STAGE 2 COMPETENCE REQUIRED</th>
<th>STAGE 3 COMPETENCE REQUIRED</th>
<th>STAGE 4 COMPETENCE REQUIRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) A Framework Approach</td>
<td>Knowledge of traditional ethical concepts and theories, and of those relating to the professional accountant’s work.</td>
<td>Sensitivity to ethical issues and threats in the functional disciplines of accounting.</td>
<td>Ability to make ethical judgements and decisions based on an understanding and application of ethics knowledge and ethical sensitivity.</td>
<td>An understanding of organizational and situational contexts and the application of ethical knowledge, sensitivity and judgement into an ongoing commitment to ethical behavior.</td>
</tr>
<tr>
<td>(ii) Concepts and Values</td>
<td>Commonly used theories and principles (e.g., Utilitarianism and Deontology)</td>
<td>The theories of moral development</td>
<td>Virtue ethics theory and values-based education</td>
<td>Behavior and influences of stakeholders</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUBJECT AREA</th>
<th>SUGGESTED CONTENT AT STAGE 1</th>
<th>SUGGESTED CONTENT AT STAGE 2</th>
<th>SUGGESTED CONTENT AT STAGE 3</th>
<th>SUGGESTED CONTENT AT STAGE 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) A Framework Approach</td>
<td>Nature of ethics</td>
<td>Ethics and the profession</td>
<td>Interests of stakeholders and conflicts</td>
<td>Professional conduct and the public interest</td>
</tr>
<tr>
<td></td>
<td>The ethics framework for accountants</td>
<td>Accountants and their stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rules-based and principles-based approaches</td>
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<td>The foundations of a profession</td>
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<tr>
<td>(ii) Concepts and Values</td>
<td>Commonly used theories and principles (e.g., Utilitarianism and Deontology)</td>
<td>Ethics and culture</td>
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<td></td>
<td>Theories of moral development</td>
<td>Professional values, ethics and attitudes and the code of conduct for accountants</td>
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<td></td>
<td>Virtue ethics theory and values-based education</td>
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<td>SUBJECT AREA</td>
<td>SUGGESTED CONTENT AT STAGE 1</td>
<td>SUGGESTED CONTENT AT STAGE 2</td>
<td>SUGGESTED CONTENT AT STAGE 3</td>
<td>SUGGESTED CONTENT AT STAGE 4</td>
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</tr>
</tbody>
</table>
| (iii) The environment – corporate, professional and regulatory | • The corporation and its interests  
• The accountant and the stakeholders  
• Professional responsibilities | • The accounting profession and public expectations  
• Professional and legal requirements in financial reporting and auditing  
• The concept of accountability  
• The regulatory environment  
• The legal framework for businesses and accountants  
• The role of accountants in the globalization context  
• The impact of legal and other reforms (e.g. the Sarbanes-Oxley Act 2002 and equivalents). | • Investigative reports and professionalism  
• Developments in the profession to enhance professional values, ethics, and attitudes, including codifications and education initiatives | • Learning with and managing professional responsibilities through case studies |

Prepared by: Ethics Education TF (June 2006)
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| (iv) Professional ethics |                               | • Compliance with fundamental ethical principles  
• Codes of ethics, including corporate codes and underlying rationale  
• Technical and ethical standards  
• Independence, professional skepticism, accountability and the public interest | • Self-regulation and oversight functions  
• Quality and peer reviews  
• Case analyses of professional issues | • Current developments in professional ethics and conduct  
• Case analyses of professional issues |
| (v) Decision making     |                               | • Ethical decision-making models                                                                 |                                                                                                                                                                                                                           |                                                                                                                                                                                                 |
| (vi) Ethical threats and safeguards | • Definition and scope of ethics threats and issues in accounting and related areas  
• Introduction of safeguards at professional and firm levels | • Conflicts of interest in corporate and professional environments  
• Different types of ethics threats and ethical issues | • Specific ethics threats and safeguards in accounting, e.g., earnings management situations  
• Ethics threats in auditing and assurance services e.g., threats and safeguards to independence and integrity  
• Ethics threats in other financial services and safeguards  
• Whistle-blowing cases and solutions | • A discussion of current controversial ethical issues relevant to the profession  
• Analyses of threats and safeguards |
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<td>• The nature, significance and scope of enterprise governance and threats to effective governance</td>
<td>• Corporate and other social responsibilities</td>
<td>• Governance - good practice and issues</td>
<td>Benchmarking governance cases in practice</td>
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<td>• Theoretical framework including agency problems</td>
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<td>• Regulatory framework for corporate and enterprise governance</td>
<td>• Global developments in enterprise and corporate governance</td>
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<td>(viii) Social and environmental issues</td>
<td>• The scope, background and concept of corporate social responsibility</td>
<td>• Measurement and accountabilities in social and environmental reporting</td>
<td>• Regulatory framework</td>
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<td>• The accountant and society including agency problems</td>
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<td>• Developments in social and environmental frameworks</td>
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<td>• Social and environmental accounting and issues</td>
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Appendix 2: Ethics Education Framework Subject Areas – Guidance Notes

1. The paragraphs below provide additional guidance for member bodies seeking to implement the 8 essential subject areas contained in the EEF in their ethics education programs. This additional guidance is applicable for member bodies adopting the Topic Approach, the Stage-by-Stage Approach, or a combination of both approaches.

(i) A Framework Approach - An ethics framework for accounting and finance professionals

2. This subject area provides an understanding of the impact that relationships and interests of different stakeholders have on the work of the accountant. The ethics framework shows (a) the relationship between individual ethics and workplace ethics, and (b) the influences of other factors on the professional values, ethics and attitudes of professional accountants. Professional accountants and accounting students are provided with a structure upon which ethics knowledge, ethical sensitivity, judgement, and behavior are based. This subject area applies to all stages.

3. Ethics is defined within the EEF. At Stage 1 for example, ethics can be defined simply as how professional accountants ought to behave. At higher stages, ethics is studied in the context of its relationship with society and the profession. Ultimately, ethics needs to be appreciated as (a) the evaluation and application of a process of reasoning that takes into consideration all relevant factors and principles, including the fundamental principles set out in the IFAC Code of Ethics, and (b) a commitment to choosing actions that are ethically sound, and that are in accordance with the fundamental principles. It is recommended that this subject area be included in all stages.

(ii) Concepts and Values - Concepts, theories, principles and values

4. Students need to be conversant with the basic tenets of ethical theories, and their strengths and weaknesses. These theories are then used to identify and analyze ethical issues in specific situations. Theories of ethics enable students to reason more clearly when confronted with problems involving threats to the fundamental principles set out in the IFAC Code of Ethics. Providing students with case studies or examples of ethical threats to resolve without theoretical tools will not help them analyze and make ethical judgments about ethical issues.

5. Although individuals may learn the language of ethics, and can justify proposed actions, this falls short of instilling ethical behavior. Value-based ethics education focuses upon the growth of ethical judgment and behavior, emphasizing character development and the belief that appropriate ethical behavior will follow from deeply held practices and values. In value-based education, the justified expectations of society with regard to the functioning and professional behavior of the professional accountant form the basis for education of professional ethics. Professional values can be identified from the IFAC Code of Ethics, from other relevant codes of professional conduct, and from accounting and auditing standards.
(iii) The Environment - Corporate, professional, and regulatory environment

6. This subject area considers the different stakeholders and their influences on the corporate and professional environment. It can be presented in different degrees of detail at different stages. It is recommended that the regulatory environment be introduced at Stage 2 and elaborated on at higher stages.

7. Teaching of the regulatory environment will be based on each member body’s legal and financial regime. Moreover, as accounting is increasingly globalized, knowledge of International Standards on Auditing, International Financial Reporting Standards and legal reforms (for example, the Sarbanes-Oxley Act in the US) is of fundamental importance in understanding global influences on accountants. It is also recommended that this subject area be included for qualified professional accountants as continuing professional development, i.e. Stage 4.

(iv) Professional Ethics - Professional ethics, guidance and self-regulation

8. This subject area discusses in detail the applicable professional standards and what is expected of professional accountant in complying with those standards, beginning at Stage 2.

9. Professional ethics guidelines must be fully understood by professional accountants, which requires that they be discussed and debated during pre- and post-qualification programs, not simply read. In particular, the IFAC Code of Ethics needs to be fully understood. This subject area provides the basis for developing professional attitudes. Professional accountants need also to be aware of the differences between ethical pronouncements in different countries.

10. Studying the sociology of professions enables individuals to better understand the role of professions, and the role learners play as professional accountants. At Stage 2, students need to be able to appreciate the differences between the rules-based approach and principles-based approach to ethical decisions.

(v) Ethical Decision-making - Tools for ethical decision-making

11. This subject area provides a systematic approach to analyzing and managing ethical threats. Models of ethical decision-making are introduced. It is recommended that these be learned after appreciating the different factors that may influence an professional accountant’s role, including (a) the corporate and professional environment, (b) regulatory frameworks, and (c) professional ethical standards. A number of commonly adopted ethical decision-making models are described in the Ethics Education Toolkit accompanying this IEG. Students and professional accountants need to appreciate that these models are tools only. They are designed to provide examples of a systematic process for evaluating an ethical threat or risk, where there is a threat to the fundamental principles of the IFAC Code of Ethics, so that all relevant factors and principles are considered. This subject area can be introduced towards the end of Stage 2.

12. The level of an individual’s ethical awareness and development may determine how that individual thinks about ethical threats and risks, but knowledge of this level is not sufficient to explain or predict ethical behavior. Additional individual variables (e.g.,
ego strength, field independence and locus of control) and situational variables (e.g., job context and organizational culture and characteristics of the work) also affect responses to ethical dilemmas. If ethical behavior reflects both individual and situational influences, then the subject of ethics education in post-qualifying programs needs to centre on situational ethics. This broadly includes:

- Why do people behave badly?
- Factors affecting ethical decision-making
- The effects of group pressure on ethical decision-making

(vi) Ethical threats and safeguards

13. Ethical threats exist when the fundamental principles set out in the IFAC Code of Ethics are threatened. The IFAC Code of Ethics offers a framework of ethical threats and safeguards. In ethics education, students must develop the ability to identify ethical threats and appreciate the importance of establishing safeguards, either within their reporting systems or through the support of their professional body. The subject area can be included in all stages.

(vii) Corporate governance

14. Ethics is fundamental to corporate governance and good corporate practice. Professional accountants need, where appropriate, to understand the criteria for effectively assessing and enhancing corporate governance.

(viii) Social and environmental issues

15. The professional accountant can play an important role in enhancing corporate social responsibility. This subject area includes the latest developments in social and environmental issues that relate to the professional accountant’s work, and develops the skills the accountant needs to practice social responsibility.

Other subject areas

16. Other subject area may be introduced in Stage 2, or in Stages 3 and 4, to expose professional accountants to ethical issues in particular settings that reflect real world problems. Examples of these topics are:

- Ethics within small and medium-sized enterprises (SMEs)
- International business practice, culture, and ethics

17. Professional accountants may not be fully sensitized to international and cultural differences. They therefore need to understand the trends of globalization and cultural diversity to cope effectively with the pressures of the global market. Professional accountants must be conscious of the practices of other cultures, and develop a greater understanding and sensitivity of the cultural factors underlying differences.
Appendix 3: Formal Education Practices

A number of formal education practices are advocated in the ethics education literature, and are presented below for the guidance of member bodies.

Lectures
1. The conventional lecture method is a long-standing method of instruction that emphasizes the transfer of knowledge, rather than the process of learning. The lecture method may be a suitable method for introducing and describing basic ethical theories and concepts.

Ethics discussions
2. Students and professional accountants are more likely to develop ethical judgment and behavior through exposure to and discussion of ethical issues with others, especially those holding alternative viewpoints. This helps individuals to (a) become familiar with important concepts, (b) gain practice in using the language of ethics, and (c) develop ethical sensitivity and judgment.

Small-group and collaborative learning
3. Small-group learning, which develops skills in leadership, decision-making, trust-building, communication, and conflict management, is an effective method for exposing students to examples of ethical threats. Interaction with other students and/or professional accountants in peer-led ethical discussions promotes greater learning than can be achieved individually.

Case studies and examples of ethical threats
4. The case study method effectively develops ethical awareness and analytical skills. Advantages of case studies include (a) the development of critical thinking and reflective learning skills, and (b) the integration of technical skills and knowledge with ethical decision-making frameworks. Case studies involve students and/or professional accountants in real-life events, and provide insight into what it feels like to experience such problems. By reviewing past events, individuals can identify predicaments previously faced by other professional accountants, and learn how they were resolved.

5. By learning to analyze case studies and examples of ethical threats, individuals realize that problems and ethical dilemmas do have solutions. In the case of complex ethical situations it is unlikely that there will be only one “right” answer. While analysis may not give a single “right” answer to a problem or dilemma, it may lead to one or more answers that are more consistent with fundamental principles.

Role-play
6. Role-play brings issues to life and engages students and professional accountants in learning. Role-play may be combined with the use of case studies and ethical dilemmas to immerse learners in real-life situations. Methods that fully engage learners are more likely to foster ethical sensitivity, judgment and behaviour.
Guest speakers and practitioner participation

7. Inviting senior professionals to the classroom to share their personal experiences is a valuable method of communicating ethical sensitivity, judgment and behavior in accounting, and of demonstrating ethical leadership.

E-learning

8. E-learning combines computer technology and communication software to provide courses to learners. E-learning packages may combine some, or all of the delivery methods outlined above, and shares the same advantages and disadvantages. E-learning is a particularly effective delivery mechanism for individuals in remote locations, where it can engage them in learning about ethics through case study analysis and on-line discussion which might otherwise be difficult to achieve.
Appendix 4: Ethics Education Research Report and Toolkit

In 2004, the IAESB commissioned a major research project in the area of ethics education. A research team, led by Professor Philomena Leung, was commissioned to develop guidance for IFAC member bodies and accounting educators, with the aim of encouraging both to adopt a range of appropriate approaches to developing professional values and ethics in educating and training programs for professional accountants.

This Practice Statement is drawn from their research report entitled: *Approaches to the development and maintenance of professional values, ethics and attitudes in accounting education*. The report was published as an Information Paper (IEP 4) in August, 2006, and is available via the IFAC website.

In addition to the research report, the research team developed the *Ethics Education Framework – Toolkit*, which provides a range of practical resources useful for implementing the guidance provided in this Practice Statement, and meeting the obligations prescribed in IES 4. The Toolkit contains a range of case studies and supporting notes, PowerPoint presentations, video clips and other teaching materials of practical use to member bodies and accounting educators. The Toolkit is provided on CD-ROM, and may be ordered from: publications@ifac.org.