

**Promoting the Role and Mindset Expected of Professional Accountants  
Proposed Text**

(Mark-up from March 13 Version)

**Note to IESBA Meeting Participants**

The proposed text sets out the Task Force's proposals about how the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the "revised and restructured Code" or the "Code") should be revised to:

- (a) Expand on the material in Sections 100, 110 and 120 of the Code; and
- (b) Expand on the material in Sections 200, 220 and 270 of the Code.

This paper is organized as follows:

- Section A includes proposed revisions to Sections 100, 110 and 120 of the Code.
- Section B includes proposed consequential changes to Sections 200, 220 and 270 of the Code
- Section C includes proposed consequential changes to the Glossary of the Code

The revised paragraphs from the Code is highlighted in grey. Revisions to the March 13 version ([Agenda Item 5A.1](#) from the March 2019 IESBA meeting) are in **track changes**.

For previous versions of the draft proposed text posted, please refer to the [December 2018](#) and [March 2019](#) IESBA meeting webpages.

## A. Proposed Revisions to Sections 100, 110 and 120

### ~~INTRODUCTION TO THE CODE~~

~~1. Businesses, governments and other institutions involve professional accountants in an ever broadening range of matters. They do so because they recognize the skills and values that professional accountants bring to the work they undertake through:~~

~~(a) Adherence to ethical principles and standards;~~

~~(b) Business acumen;~~

~~(c) Expertise on technical and other matters; and~~

~~(d) Professional judgment.~~

~~The application of these skills and values assists professional accountants to provide advice or other output that is fit for the purpose for which it was provided.~~

~~2. The Code sets out high quality ethical standards for adoption by professional organizations which are members of the International Federation of Accountants (IFAC), or for their use as a basis for their codes of ethics, and for others responsible for setting ethical standards for professional accountants in their jurisdictions.~~

~~3. Compliance with the Code lies at the heart of building and maintaining public confidence in professional accountants. The Code acknowledges all professional accountants have a responsibility to act in the public interest. Accordingly, every professional accountant has to apply the spirit, and not just the letter, of the Code.~~

At the March 2019 Board meeting, IESBA members expressed the view that it would be more appropriate to merge the proposed material in the draft Introduction to the Code into Section 100 of the Code.

In doing so, the Task Force (TF) took into account, in particular, the merit of incorporating the concept of compliance with the spirit of the Code with the overarching statement in section 100 about the role of the profession and the relationship between compliance with the Code and acting in the public interest.

# PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

## SECTION 100

### COMPLYING WITH THE CODE

#### Introduction

100.1 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants. Compliance with the Code enables accountants to meet their responsibility to act in the public interest and involves upholding the ethical values upon which the Code is based as well as complying with the specific requirements of the Code. In acting in the public interest, Aa professional accountant’s responsibility is not exclusively to satisfy the ~~needs~~ preferences or requirements of an individual client or employing organization when performing professional activities. ~~Therefore the provisions of the Code and, in particular, the fundamental principles and the conceptual framework, set out the behaviors and approach to professional activities expected of professional accountants in meeting their responsibility to act in the public interest.~~

100.1 A2 Businesses, governments and other organizations involve professional accountants in a broad range of matters. Accountants understand and acknowledge that these organizations do so because they recognize the skills and values that the accountants bring to the professional activities they undertake through:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables professional accountants to provide advice or other output that is fit for the purpose for which it was provided, and which is relied upon by investors and other users of such output.

100.1 A3 The Code sets out high quality ethics standards for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics standards for professional accountants in their jurisdictions and be used by firms.

~~100.1 A2 Individuals who are members of an IFAC member body are required to comply with the Code or its equivalent, irrespective of their role, the nature of their work (e.g. accounting, tax or consulting) and the capacity in which they are engaged (e.g. as employees, contractors, partners, directors, or volunteers).~~

~~100.1 A3 Additionally, firms that are subject to the Code or its equivalent have a responsibility to ensure individuals, who are not professional accountants, who provide professional services for those firms comply with the Code or its equivalent.~~

The TF is of the view that to meet a professional accountant's (PA's) responsibility to act in the public interest can potentially involve going beyond compliance with the requirements of the Code, including the five fundamental principles. An example would be where expectations of accountants on encountering breaches of law or regulation were not reflected in the Code until the NOCLAR provisions were developed and incorporated into the Code.

To demonstrate this point in paragraph 100.1 A1, the TF has introduced the phrase "upholding the ethical values upon which the Code is based". The TF considered retaining the proposed term "spirit of the Code" but concluded that it might create unnecessary confusion about how it should be interpreted.

The TF also considered the approach taken to the public interest in IAASB's Exposure Draft (ED) on Proposed ISQM 1 which states that "The public interest is served by the consistent performance of quality engagements". The TF is of the view that a similar formulation would not be appropriate in relation to the Code as it might lead to the conclusion that compliance with the Code sets up a rebuttable presumption that the public interest has been met. Both the IESBA and the CAG rejected such a presumption at their respective March 2019 meetings.

In paragraph 100.1 A3, the TF has added "be used by firms" to recognize that firms, such as members of the Forum of Firms, may also conform their policies and methodologies to the Code with respect to the provision of certain types of professional services.

The TF agreed that the draft proposed material presented to the Board at the March 2019 meeting relating to the scope of the Code (paragraphs 100.1 A2 and 100.1 A3 of [Agenda 5-A](#)) might not cover all the circumstances or might have unintentionally scoped in other entities not ordinarily required to comply with the Code. Upon reflection, the TF was also satisfied that the responsibility of an individual PA who is a member of an IFAC member body to comply with the Code is sufficiently clear in the Code. Accordingly, the TF agreed to delete these two paragraphs from the current draft.

#### **Matters for IESBA Consideration**

1. Does the Board agree with the proposed changes to paragraphs 100.1 A1 to 100.1 A3 of the Code?

### **Fundamental Principles and Conceptual Framework**

100.2 A1 The Code sets out the ethical behaviors and approach to professional activities expected of professional accountants in meeting their responsibility to act in the public interest when undertaking professional activities.

100.2 A2 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence.

100.2 A~~3~~<sup>2</sup> The remainder of the Code applies the fundamental principles and the conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

The proposed material relating to the public interest in paragraph 100.2 A1 is largely taken from paragraph 100.1 A1 of the March 2019 posted version ([Agenda Item 5-A](#)). The TF decided to retain this material because the reference to ‘behaviors and approach to professional activities’ is a helpful reminder to PAs that the Code plays an important role in PAs discharging their responsibilities to act in the public interest.

## Requirements and Application Material

- 100.3 A1 The requirements in the Code, designated with the letter “R”, impose obligations.
- 100.3 A2 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.
- R100.4** A professional accountant shall comply with the Code. There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.
- 100.4 A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.
- 100.4 A2 A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

## Breaches of the Code

- R100.5** Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant’s ability to comply with the fundamental principles. The accountant shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
  - (b) Determine whether to report the breach to the relevant parties.
- 100.5 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

## SECTION 110

### THE FUNDAMENTAL PRINCIPLES

#### General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – to exercise professional or business judgments without being compromised by:
  - (i) Bias;
  - (ii) Conflict of interest; or
  - (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors ~~(including technology)~~.
- (c) Professional Competence and Due Care – to:
  - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to:
  - (i) Behave in a manner that is consistent with the profession’s responsibility to act in the public interest in the course of undertaking professional activities;
  - (ii) aAvoid any conduct that the professional accountant knows or should know might discredit the profession; and
  - (iii) eComply with relevant laws and regulations ~~and~~.

The proposed revisions to the description of the fundamental principle of objectivity (paragraph 110.1 A1 (b)(iii)) were made at the recommendation of the Technology Working Group (TWG). The TWG was of the view that since technology is the only other factor identified, it would be more appropriate to add it as a separate factor rather than as an example of a number of factors.

The inclusion of technology in paragraph 100.1 A1 (b)(iii) recognizes the increasing reliance by PAs on technology such as artificial intelligence and data analytics when exercising professional judgement. The TWG has also recommended a similar reference to technology in ‘Professional Competence and Due Care’ – see Subsection 113.1 A2.

A new proposed element (paragraphs 110.1 A1(e)(i) and R115.1(a)) has been added to the requirement relating to the fundamental principle of professional behavior following the TF’s consideration of a number of suggested revisions by the TWG that relate to Subsection 115. Similar to the TF’s rationale in reframing

the description of “Objectivity”, the proposed requirement for PAs to behave in a manner that is consistent with the profession’s responsibility in the public interest aims to give an affirmative element to the requirement paragraph. The revision also creates a link between acting in the public interest and compliance with a fundamental principle.

**Matters for IESBA Consideration**

2. Does the Board agree with the proposed changes to the description of “Objectivity” and “Professional Behavior”?

**R110.2** A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles. The accountant has a responsibility to exercise professional judgment when complying with the fundamental principles and applying the conceptual framework.

At the March 2019 IESBA meeting, there was general consensus that the description of professional judgment should be kept in Section 120. In the course of that discussion, the Board asked the TF to consider if new application material on the exercise of professional judgment should also be added to Section 110.

The TF agreed that there is merit in expressly connecting the exercise of professional judgment to compliance with the fundamental principles. The addition of the last sentence is intended to achieve this.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## SUBSECTION 111 – INTEGRITY

**R111.1** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity implies fair dealing and truthfulness.

111.21 A42 Integrity also includes having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example:

- ~~s~~Standing one's ground when facing pressure to do otherwise during the course of performing professional activities, or
- ~~e~~Challenging others as and when appropriate, even when doing so creates potential adverse personal or organizational consequences.

**R111.23** A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.23 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

**R111.34** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

## SUBSECTION 112 – OBJECTIVITY

**R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgment without being compromised by:

- (ba) Bias;
- (ab) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors ~~[(including use of technology). ]~~

~~[112.1 A1—An example of potential reliance on technology affecting objectivity is the professional accountant's use of information that has been generated from technology using some form of artificial intelligence. In such circumstances, there is a risk that undue reliance might be placed on these outputs by the accountant or that these outputs might unduly influence the exercise of professional judgement. Considerations for evaluating this risk may include understanding the sources and processing of data to derive outputs and the extent to which the outputs can be relied upon.]~~

The technology related example in paragraph 112.1 A1 has been removed at the TWG's recommendation. The TWG takes the view that it is premature for the Board to consider application material on technology in relation to only one fundamental principle in light of the TWG's ongoing information gathering and assessment of the Code under Phase 1 of the IESBA technology initiative. The TWG has recommended a new example of bias (automation bias) in paragraph 120.12 A2 which captures the essence of this example on "Objectivity".

**R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

### **SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE**

**R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, ~~and~~ business and technology related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

**R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

**R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

A reference to technology has been added to paragraph 113.1 A2 at the recommendation of the TWG to more clearly indicate the need for PAs to be aware of technological developments as part of maintaining professional competence.

## **SUBSECTION 114 – CONFIDENTIALITY**

**R114.1** A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm or employing organization;
- (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
  - (i) To comply with the quality review of a professional body;
  - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

**R114.2** A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

## SUBSECTION 115 – PROFESSIONAL BEHAVIOR

**R115.1** A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

- (a)** Behave in a manner that is consistent with the profession's responsibility to act in the public interest in the course of undertaking professional activities;
- (b)** ~~a~~void any conduct that the accountant knows or should know might discredit the profession; ~~and-~~
- (c)** ~~e~~Comply with relevant laws and regulations, ~~and~~

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

**R115.2** When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

## SECTION 120

### THE CONCEPTUAL FRAMEWORK

#### Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

#### Requirements and Application Material

##### General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
  - (b) Part 3 – *Professional Accountants in Public Practice*; and
  - (c) *International Independence Standards*, as follows:
    - (i) Part 4A – *Independence for Audit and Review Engagements*; and
    - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.
- R120.4** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the

provisions in Part 2 that apply to these circumstances.

**R120.5** When applying the conceptual framework, the professional accountant shall:

- (a) Exercise professional judgment;
- (b) ~~Have an inquiring mind~~~~Remain alert for new information and to changes in facts and circumstances~~; and
- (c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

#### ~~Exercise of Professional Judgment~~

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.

~~120.5 A2 In relation to undertaking professional activities, the exercise of p~~Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

~~120.5 A2 [First sentence moved to first sentence of paragraph 120.5 A3] An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment. In such circumstances~~In making this determination, the professional accountant might consider whether:

- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.

#### Inquiring Mind

120.5 A3 ~~The exercise of professional judgment involves applying a questioning mindset. This means~~An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Obtaining this understanding entails having an inquiring mind, which means being open and alert for:

- (a) ~~that the professional accountant identifies s~~Situations and information (or the lack thereof) that might require further investigation~~critical assessment~~; and
- (b) The need to critically evaluate the available information~~Critical assessment involves an appropriate evaluation of such situations and information~~

having regard to the ~~facts and circumstances relevant to the nature of the~~ advice or other outputs of the professional activity being undertaken.

120.5 A4 In ~~exercising professional judgment~~ determining if further investigation is necessary, the professional accountant might consider, among other matters, whether:

- New information has emerged or whether there have been changes in facts and circumstances.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the available information.

120.5 A5 The requirement to exercise professional judgement applies to all professional accountants when undertaking any professional activity. Professional skepticism, as described in paragraphs 120.1~~65~~ A1 and 120.1~~65~~ A2, specifically ~~only~~ ~~to professional~~ accountants when performing audits, reviews and other assurance engagements.

Following the March 2019 meeting, the TF has reflected on the use of the term "questioning mindset" to describe the concept of curiosity, its relationship with professional judgment as well as with the application of the conceptual framework. The TF also considered additional views from IESBA members and participants from the joint Professional Skepticism TF Chairs teleconferences.

Having done so, the TF has concluded that the following key changes are appropriate:

- Replace the term "questioning mindset" with "inquiring mind".
- Replace the requirement to remain alert for new information and to changes in facts and circumstances in paragraph R120.5(c) with a requirement to have an inquiring mind.
- Under a separate sub-heading, insert new application material that explains the concept of having an inquiring mind.

The rationale for the TF's proposed changes is as follows:

- From the outset, the TF has set out to develop text that explains the need for PAs to be inquisitive and curious about the information at hand in the course of undertaking professional activities and to conduct the necessary investigation in order to reach an informed decision. This need to be inquisitive is important to the application of the conceptual framework irrespective of the types of professional activities undertaken. The TF recognizes that the type and level of investigation and assessment necessary may vary depending on the facts and circumstances and the type of professional services being undertaken. Whilst the term "questioning mindset" had been proposed in previous drafts, the TF was open to the use of other terms to capture this concept.
- Unlike the term "professional skepticism" which the Board agreed should be reserved for audits and other assurance engagements, the TF was of the view that the terms "questioning mind" or "questioning mindset" could be applied more broadly in the Code. However, the TF concluded that using the term "inquiring mind" will further minimize the risk of confusion by users of the Code

between the type of thinking inherent in the exercise of professional skepticism and the level of thinking expected of all PAs.

- The concept of “inquiring mind” in the proposed text is a scalable construct that aims to describe a way of thinking expected of PAs which progresses from being open and alert to critical evaluation.
- The TF preferred the word “mind” to “mindset” as the former denotes a way of thinking whereas the latter relates to a set of attitudes.
- The concept of remaining 'alert to new information and changes in facts and circumstances' can be retained as one the points for consideration when determining if further investigation is need.

### Matters for IESBA Consideration

3. Does the Board agree with the TF’s proposed introduction of the term “inquiring mind” and the revisions to R120.5 to 120.5 A6?

### *Reasonable and Informed Third Party*

120.5 A6 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.

### **Identifying Threats**

**R120.6** The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant’s identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behavior;

- (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made, or an activity performed by the accountant, or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employing organization’s position to the point that the accountant’s objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

The change of punctuation in paragraph 120.6 A3 (b) was made at the recommendation of the Non-Assurance Services Task Force which was concerned that the semi-colon meant that 'previous' did not qualify 'an activity performed by an accountant....'.

## Evaluating Threats

**R120.7** When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

### *Acceptable Level*

120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

### *Factors Relevant in Evaluating the Level of Threats*

120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.

- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

*Consideration of New Information or Changes in Facts and Circumstances*

**R120.9** If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

(a) Impact the level of a threat; or

(b) Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

**Addressing Threats**

**R120.10** If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) Declining or ending the specific professional activity.

*Actions to Eliminate Threats*

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

*Safeguards*

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

*Consideration of Significant Judgments Made and Overall Conclusions Reached*

**R120.11** The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

**Other Considerations when Applying the Conceptual Framework**

*Bias*

120.12 A1 Being aware of the risk of bias, whether conscious or unconscious, is important to the ~~effective application of the conceptual framework~~ exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of ~~unconscious~~ bias to be aware of ~~in order to effectively apply the conceptual framework when exercising professional judgment~~ include:

- Anchoring bias, which is Aa tendency to use an initial piece of information as an “anchor” against which subsequent information is inadequately assessed;
- Availability bias, which is Aa tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not;
- Confirmation bias, which is Aa tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief;
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose;
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility ~~A tendency to coalesce around a proposition, rather than challenging and questioning it;~~
- Overconfidence bias, which is Aa tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions ~~be over-optimistic about future events and to underestimate the likelihood of negative events;~~
- Representation bias, which is Aa tendency to base an understanding on a pattern of experiences, events or beliefs that is considered to be representative; and
- Selective perception, which is Aa tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 ~~Steps that might be taken to mitigate t~~he impact of bias ~~might be mitigated by include~~ involving others in the evaluation process, or seeking advice from experts ~~or introducing a devil's advocate~~ to provide appropriate challenge.

At the March 2019 IESBA meeting, a query was raised about whether the correct terminology in paragraph 120.12 A1 should be “unconscious bias” or “subconscious bias”. Upon further consideration, the TF decided to retain the term “unconscious bias” as that is the term used in academic literature and is the term used by IAASB in its Exposure Draft (ED) for ISA 220 (Revised).

The TF agreed with a suggestion raised at the March 2019 IESBA meeting that the concept of bias impacts the exercise of professional judgment, rather than the application of the conceptual framework. Such an approach is also consistent with the reference to professional judgement in Sections 210 and 310 relating to conflicts of interest. Appropriate amendments have, therefore, been made to paragraphs 120.12 A1 and A2.

With regards to the list of examples of bias (paragraph 120.12 A2):

- In the lead-in sentence, the TF has removed the reference to unconscious bias as the TF recognized that the list can be examples for both conscious and unconscious bias.
- Whilst noting the concerns of some IESBA members at the March 2019 meeting regarding the inclusion of terms commonly used for types of bias, the TF has concluded that, on balance, it would be useful to readers to include them in the description. Such an approach is also consistent with how the examples of bias are described in the IAASB’s ISA 220 (Revised) ED.
- The TF reviewed the term “anchor” in the first bullet following an IAASB Professional Skepticism Subgroup’s (PSSG’s) suggestion that it might not translate well. Upon reflection, the TF is of the view that the term is effective in conveying the concept of “anchoring bias” and does not believe translation will be a substantive issue.
- At the recommendation of the TWG, a new category of bias, sometimes known as ‘automation bias’, has been added to capture the tendency to rely on machine output irrespective of contradictory evidence. As mentioned above, this type of bias captures the key elements of the example in paragraph 112.1 A1 which has been removed by TF in this current version.
- The proposed text for “groupthink” has been revised in light of comments received about the potential difficulty in translating “coalesce”.
- Following discussion at the Board meeting, the TF agreed to replace the proposed description for “overconfidence bias” with the text used in the IAASB’s ISA 220 (Revised) ED.

With regards to paragraph 120.12 A3, the TF decided to remove the reference to “devil’s advocate” to avoid any potential translation issue.

#### **Matters for IESBA Consideration**

4. Does the Board agree with proposed changes to the application material on bias in paragraphs 120.12?

#### ***Organizational Culture***

120.13 A1 The effective application of the conceptual framework is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of an organization.

120.13 A2 The promotion of that ethical culture within an organization is most effective when led by committed leaders and ~~managers~~ those in managerial roles who overtly support the achievement of those principles by having in place appropriate education and training programs, ~~performance criteria~~, management processes, and ~~consequences when ethical principles are not upheld~~ performance evaluation criteria that promote accountability. The promotion of such culture within an organization is also supported by adherence to ethical values in dealings with third parties.

The TF recognized that the use of the phrase “consequences when ethical principles are not upheld” might be construed as being too negative and has replaced it with “performance evaluation criteria that promotes accountability” which aligns with the language in IAASB’s Proposed ISQM 1 ED.

The TF has also inserted a new sentence that highlights the importance of leaders and those in managerial roles consistently adhering to the same ethical values both within and without an organization in the promotion of an ethical culture within the organization.

## Considerations for Audits, Reviews, ~~and Other Assurance~~ and Related Services Engagements

### Firm Culture

120.14 A1 For professional accountants in public practice, ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm’s responsibilities to design, implement and operate a system of quality management for audits, reviews, other assurance or related services engagements.

The IAASB’s Proposed ISQM 1 ED deals with a firm’s responsibilities to design, implement and operate a system of quality management. The ED forms part of a package of proposed quality management standards on which the IAASB is currently seeking public comment. The ISQM1 ED sets out a system of quality management that addresses eight integrated components, one of which being “Governance and Leadership”. Under the component of “Governance and Leadership”, a firm is required to establish a number of quality objectives including the firm’s culture that “promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm and emphasizing the responsibility of all personnel for quality relating to the performance of engagements or activities within the system of quality management.”

The TF is of the view that this cross-reference in paragraph 120.14 A1 further highlights the importance of firm culture towards compliance of the Code by professional accountants in public practice. It also helps users to better understand the connectivity between the two Board’s standards.

### Matters for IESBA Consideration

5. Does the Board agree with this cross-reference to IAASB’s Proposed ISQM 1 ED?

### Independence

120.154 A1 Professional accountants in public practice are required by *International Independence*

*Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or an audit or assurance team member’s integrity, objectivity or professional skepticism has been compromised.

120.154 A2 *International Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

#### *Professional Skepticism*

120.165 A1 Under auditing, review and other assurance standards, including those issued by the IAASB, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.165 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- Integrity requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:

(a) Being straightforward and honest when raising concerns about a position taken by a client; ~~and~~

(b) Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances; ~~and~~

(c) Having the determination to act appropriately when confronting dilemmas or difficult situations. This would involve, for example, standing one’s ground when facing pressure to do otherwise or challenging others as and when appropriate, even when

doing so creates potential adverse consequences to the firm or individual accountant.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

In light of the proposed application material on having the determination to act appropriately being added to Subsection 111, the proposed text in paragraph 120.16 A2 (c) is intended to demonstrate that such behavior supports the exercise of professional skepticism.

- Objectivity requires the professional accountant to exercise professional or business judgment without being compromised by:

(~~a~~) Bias;

(~~b~~) Conflict of interest; or

(c) Undue influence of, or reliance on, individuals, organizations, technology or other factors ~~(including technology)~~.

For example, the accountant complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- Professional competence and due care requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:

- (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
- (b) Designing and performing appropriate audit procedures; and
- (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

## B. Consequential Changes to Sections 200, 220, 270

### PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

#### SECTION 200

#### APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

...

#### Requirements and Application Material

##### General

...

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management process and performance evaluation criteria that promote accountability.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

#### Identifying Threats

...

#### SECTION 220

#### PREPARATION AND PRESENTATION OF INFORMATION

...

#### Requirements and Application Material

##### General

...

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

**R220.4** When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
  - (i) Represent the facts accurately and completely in all material respects;
  - (ii) Describe clearly the true nature of business transactions or activities; and
  - (iii) Classify and record information in a timely and proper manner; and
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.
- (e) Be aware of the risk of bias.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

...

#### Relying on the Work of Others

**R220.7** A professional accountant who intends to rely on the work of others individuals, either internal or external to the employing organization, other organizations, as well as on technology or other factors shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

...

## SECTION 270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

...

#### Requirements and Application Material

##### General

...

270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 In such circumstances, a professional accountant is expected to have the determination to act appropriately, which involves standing one's ground and not allowing such pressure to result in a breach of the fundamental principles.

270.3 A~~3~~<sup>2</sup> Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
  - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.
  - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
  - Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.

- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

#### Matters for IESBA Consideration

6. Does the Board agree with the consequential changes to Sections 200, 220 and 270?

## C. Consequential Changes to the Glossary of the Code

### GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

...

Professional activity      An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional judgment      *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.*

Professional services      Professional activities performed for clients.

#### Matters for IESBA Consideration

7. Does the Board agree with inclusion of “professional judgment” in the Glossary of the Code?