

Promoting the Role and Mindset Expected of Professional Accountants

Comments on ED Question 6

(Bias)

ED Question 6:

Do you support the approach to addressing bias? If so, do you agree with the list of examples of bias set out in paragraph 120.12 A2? Should any examples be omitted or new ones added?

The respondents' responses are divided into four groups:

1. Support with minor amendments
2. Support with more substantive amendments
3. Does not support
4. No comment

1. Support with minor amendments

01 Abu Dhabi Accountability Authority

We support the approach and suggest adding: authority bias, information bias, outcome bias, self-serving bias, status quo bias, and story bias.

02 Accounting and Audit Board of Ethiopia

Yes

We support the approach to addressing bias which shows different dimensions that professional accountants look. Knowing the specific bias may relieve professional accountants to give Professional judgment without worries.

04 Independent Regulatory Board for Auditors

We support the proposed amendments relating to bias. We think that the inclusion under Subsection 112 – Objectivity and the explanation under paragraph 120.12 A2 provide the correct balance.

The proposed examples of bias offer a vocabulary that will be helpful in identifying threats to objectivity and evaluating the root cause where there has been a lack of objectivity.

We appreciate the alignment of paragraph 120.12 A2 with the proposed amendments to International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statement (ISA 220). This consistent language will allow for better awareness and implementation by registered auditors.

08 The New Zealand Auditing and Assurance Standards Board

Yes, we support the approach and the examples included. We would also recommend including the definition of bias in the Glossary.

09 Baker Tilly International

We support the approach to addressing bias and we consider that the list of examples provided is informative and descriptive. With respect to other potential areas for consideration, we wonder whether the list in 120.12 A2 might also include something along the lines of “background bias”, where one’s upbringing and societal/cultural norms may lead to a risk of unconscious bias?

10 BDO International Limited

Yes, we support the approach to addressing bias and we agree with the examples.

11 Crowe Global

We support the approach to recognising bias. Bias is a threat to objectivity and continued efforts are needed to draw attention to this risk. We welcome the liaison between IESBA and IAASB in this area.

14 Grant Thornton International Limited

GTIL supports the approach to addressing bias and agrees with the list of examples of bias set out in paragraph 120.12.A2. We believe being aware of the risk of bias is an important consideration and the list of examples as provided are useful to assist in an understanding of the concept.

15 KPMG IFRG Limited

We support this approach in addressing bias and see it as a welcome development to remind professional accountants of these influences.

16 Moore Global

Yes, the addition of examples is particularly useful. See comments under question 4 Impact of Technology for further discussion.

However, the actions that can be taken to mitigate the bias are very brief and consideration should be given to extending the guidance in this area, including looking for other sources of data, recruitment procedures, training, review, consultation, governance processes, etc.

17 PricewaterhouseCoopers International Limited

In relation to “availability bias” we suggest that it might be helpful to also include a reference to placing weight on “information”, so that this could read:

“Availability bias, which is a tendency to place more weight on information, events or experiences that immediately come to mind or are more readily available than on those that are not”.

This said, we question whether the word “weight” will translate well and suggest that “emphasis” may be a better word.

We note, in relation to 120.12 A3, that there is a converse argument that a reliance on experts can result in over reliance and group think simply because they are experts and that this may in fact detract from individual responsibility.

Otherwise we consider this to be an appropriate and helpful list.

18 RSM International

Yes, we support the approach to addressing bias and agree with the examples

20 Association of Chartered Certified Accountants

We support the approach taken to addressing bias and welcome the illustrative list of examples of bias and definitions set out in paragraph 120.12 A2. It can be onerous and difficult to be aware of bias and this provides a framework by which to consider points regarding bias. We believe the inclusion of clear application material within the Code (instead of within supplementary guidance) will improve the understanding of the professional accountant when required to exercise professional judgement and help them to apply the Conceptual Framework more effectively. It is also consistent with standards produced by The International Auditing and Assurance Standards Board (IAASB) and supported by regulatory bodies.

The eight examples of bias are helpful and highlight specific areas to consider. We note that the examples

focus predominantly on ‘unconscious’ bias which undermines behaviour, as opposed to ‘conscious’ bias which undermines decision making. This may be due to the fact that impediments to the compliance with the Fundamental Principles are usually identifiable, whereas cognitive bias (a subset of unconscious bias) often is not.

There are numerous types of bias which affect a professional accountant’s judgement and behaviour. For example, in ACCA’s report on Banishing bias? Audit, objectivity and the value of professional scepticism 1 we identified 12 cognitive biases that are most relevant to the audit process. While it may be helpful to include further illustrative examples of bias (for example, outcome bias, hindsight bias), we believe the IESBA should avoid making the application material too technical and detailed as this would impact on its understandability and could cause translation difficulties.

22 Botswana Institute of Chartered Accountants

Paragraph 48 of the Explanatory Memorandum rightly states the importance of being aware of one’s bias. Biasness is an inherent risk in most professional engagements by accountants. It becomes imperative then for professional accountants to remain constantly cautious of this risk and means of which biasness can occur.

Groupthink as defined in paragraph 120.12 A2 does not spell out how biasness may occur in that scenario. Investopedia defines Groupthink as “a phenomenon that occurs when a group of individuals reaches a consensus without critical reasoning or evaluation of the consequences or alternatives”. This definition is indicative of biasness that can occur as members of the team fail to consider other alternatives. It is recommended that the definition provided in paragraph 120.12 A2 be revised to talk to psychological definition.

24 Consultative Committee of Accountancy Bodies

We agree with the approach overall

25 CPA Australia Ltd

CPA Australia welcomes the discussion of conscious and unconscious bias at paragraph 120.12 A1. CPA Australia is supportive of the guidance material regarding categories of bias and the potential effects on exercising professional judgement. Unconscious bias remains a significant threat to the fundamental principles of Objectivity and Professional Judgement. Unconscious bias may lead the PA to underestimate the impacts of their actions and decisions as initially assessed and result in the PA overlooking the need to explore available safeguards to address issues relating to bias. To highlight the importance of bias, CPA Australia suggests providing a cross-reference to the material on bias in subsection 112 – Objectivity.

27 Federación Argentina de Consejos Profesionales de Ciencias Económicas

We agree with the examples proposed for cases identified as possible bias, they include several of the situations in which bias can influence the planning of procedures, in the evaluation of evidence and conclusions.

30 Iranian Association of Certified Public Accountants

That notwithstanding, we strongly support the revisions particularly, introduction of the concept of an inquiring mind. and have no more comment to add.

31 Instituto dos Auditores Independentes do Brasil

Yes, in general we support the approach. However, as we pointed out above, a connection should be made on inquiring mind paragraph with Bias proposals.

In relation to omitted some of them, we understand that automation bias definition is in its essence similar to the confirmation bias, since all information put in place more weight by professional accountants could be

obtained from output generated from automated system.

33 Institute of Certified Public Accountants of Uganda

ICPAU supports the IESBA's approach to addressing bias. This will aid professional accountants especially in regards to compliance with the fundamental principle of objectivity. ICPAU further agrees with the list of examples of bias set out in the exposure draft .

35 Institute of Chartered Accountants of Nigeria

Yes, we support the approach to addressing bias and agree with the examples . However, there may be the need to add a Halo type bias, where one places confidence in a particular source of information perhaps due to past experiences.

36 Institute of Chartered Accountants of Scotland

We believe the examples of bias are a helpful addition to the Code and will assist professional accountants recognise when bias could be a threat to their professional judgement, particularly in relation to technology. We also note there are other examples of bias given in the ICAS publication:

“Shades of Grey: Directors’ Dilemmas” page 15 Table 1.

38 Institute of Singapore Chartered Accountants

The fundamental principle of "objectivity" requires a professional accountant to exercise professional or business judgments without being compromised by bias, conflict of interest or undue influence of others.

We note that bias is a factor that may impact "objectivity" and we support the proposed text in Section 120 which raises awareness of the risks of bias. In our view, introducing the bias concept is a timely precautionary reminder to professional accountants on the risk of bias.

We also observe that IESBA considered proposed text on bias from the International Auditing and Assurance Standards Board ("IMSAB") in developing the application material to address the issue of bias. We agree with IESBA's approach to ensure appropriate alignment with IMSAB and the inclusion of a list of examples of bias to create awareness, especially to those who may not be conscious of their biases.

39 Japanese Institute of certified Public Accountants

We support the approach. We do not think that any of the examples set out in paragraph 120.12 A2 should be omitted or new ones should be added.

40 Malaysian Institute of Accountants

We support the approach taken in addressing bias.

However, similar to our comments to 05, additional application guidance to differentiate between 'inquiring mind' and 'professional skepticism' would be helpful.

41 Royal Nederlandse Beroepsorganisatie van Accountants

We support IESBA's position to emphasize the professional accountant's responsibility in a general way. We believe that with the proposals in the exposure draft, sufficient guidance is offered to the professional accountant to fulfill his responsibility. Further we believe that with these proposals the IESBA with the Code of Ethics meets the requirements set for the accountant in this time of technological developments and a critical attitude of the environment in which the professional accountants act.

42 South African Institute of Chartered Accountants

SAICA supports the approach to addressing bias as this would be an important consideration when having an inquiring mind. It would be important for professional accountants to consider and be aware of their own biases when applying the conceptual framework and evaluating the threats and safeguards.

43 Wirtschaftsprüferkammer

We agree.

Support with More Substantive Amendments

05 National Association of State Boards of Accountancy

We agree that professional accountants should be aware of bias. Avoidance of bias is currently in the Code's requirement to maintain objectivity and we support inclusion of a list of examples to promote awareness.

As to the list of examples, we suggest modifying the following examples to include the items in quotes:

- Availability bias - which is the tendency to place more weight on "information," events.....
- Groupthink - which is the tendency to think or make decisions as a group "in a manner" that

06 United Kingdom Financial Reporting Council

This needs to be strengthened. In addition to being "aware of the risk of bias", an accountant should "avoid" conscious bias and seek to avoid unconscious bias. However, it should also be made clear that bias is not an issue when it is in effect a requirement in the development of certain information and that is made clear to the users of the information. For example, the accountant may be required to apply the concept of 'prudence' in making assumptions rather than be neutral.

We are generally supportive of the list of examples. However, they need to be described as examples of "possible" bias and the text should recognise that the actions described may not be appropriate in some circumstances. For example, using an initial piece of information as an anchor may be appropriate only where the accountant has good reason to believe in the veracity of that information,

The risk of bias is a threat to compliance with the fundamental principles. Accordingly, it should be addressed in the sub-sections on identifying and addressing threats, rather than in a separate sub-section on "other considerations when applying the conceptual framework".

07 Accounting Professional Ethical Standards Board Australia

APESB supports the IESBA's approach to increasing awareness of the risks of bias impacting professional judgement in the conceptual framework. We believe that unconscious bias is a potentially under-recognised threat to the fundamental principle of Objectivity and the exercise of professional judgement.

APESB is supportive of the inclusion of an illustrative list of common forms of bias in the IESBA Code. 11 However, APESB is concerned that the use of catchwords such as 'anchoring bias' and 'groupthink' could create translation issues and could be avoided, for example, if the paragraph was amended to:

Examples of bias to be aware of when exercising professional judgment include the tendency to:

- ~~Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.~~
- ~~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.~~
- ~~Availability bias, which is a 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 a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.~~

- ~~Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.~~
- ~~Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.~~
- ~~Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is considered to be representative.~~
- ~~Selective perception, which is a tendency for a allow a person's expectations to influence how the person views a particular matter or person.~~

Also, APESB believes it is important to educate Professional Accountants about these issues in addition to the inclusion of application material in the Code. APESB encourages the IESBA to support IFAC member bodies educating Professional Accountants on the impact of bias (particularly unconscious bias).

12 Deloitte Touche Tohmatsu Limited

Bias is mentioned in the context of its impact on objectivity and we recognize the benefit of providing guidance as to how an accountant could mitigate the impact of bias on the exercise of professional judgment. It is strangely placed, however, as a new section entitled "Other Considerations when Applying the Conceptual Framework" when it refers to being important to the exercise of professional judgment. We question whether the concept of bias should therefore be discussed in connection with the exercise of professional judgment specifically, rather than as a separate section on the application of the conceptual framework.

Regarding the examples of bias listed in 120.12 A2, we have concerns that there are no standard definitions or cited source for the examples, the examples are psychological and not grounded in accounting or auditing, and they may raise potential unintended consequences such as not being translatable. Overall, we do not consider this material belongs in the Code, but would be supportive of the Board doing a thought piece explaining bias in non-authoritative material. If the Board retains the list in 120.12 A2, we suggest providing the descriptions of some relevant biases without the "labels" attached which would be less distracting and give greater emphasis to the underlying concepts. For example, simply saying "placing more weight on information that confirms one's previously existing beliefs" without the label "anchoring bias" would be clearer for a reader.

13 Ernst Young Global Limited

We fully support the Board's efforts to increase the awareness of bias and the impact it has on professional accountants' ability to effectively apply the conceptual framework. We note, however, that proposed paragraph 120 .12 A2 includes more biases than those included in the IAASB Exposure Draft, Proposed International Standard on Auditing 220 (Revised) (ISA 220 ED).

Furthermore, the descriptions of the biases in paragraph 120 .12 A2 are not aligned with the descriptions in ISA 220 ED. We recommend that the IESBA and IAASB coordinate their efforts in addressing this important consideration by agreeing on a common list and description of biases.

Also, the introduction of "automation bias" without any further guidance on "automation" can potentially be introducing a bias in the Code that automation can only be harmful, when instead

automation also can be a technique used to remove bias. The output of the automated systems will remain the same as long as the programming remains the same – i.e., the automation itself cannot be biased. We recommend that this revision be postponed until the Technology Working Group presents its final report so that the benefits of automation can also be considered.

19 U.S. Government Accountability Office

We support providing the list of common forms of bias in the Code. However, we suggest placing the list in

Subsection 112 as application material for the concept of objectivity. We believe that the examples of bias would assist accountants in identifying threats to objectivity and would better meet the IESBA's goal of addressing threats to compliance with fundamental principles arising from bias. In our view, moving the bias examples list to the subsection addressing objectivity may help accountants address bias by assisting them in identifying a threat to objectivity, evaluating the threat, and addressing the threat by eliminating or reducing it to an acceptable level. We also believe that the IESBA should consider additional examples of safeguards to eliminate or reduce any threats to objectivity posed by the different types of biases.

We believe that the examples of bias should be aligned with the International Auditing and Assurance Standards Board's (IAASB) final approved International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statement. We encourage the IESBA to continue working with the IAASB to ensure alignment of the types of biases.

21 Accountancy Europe

We support highlighting the importance of being aware of bias in Section 120. However, inclusion of an illustrative list related to common forms of bias in the Code may lead to some unintended consequences. Bias is already cited as a factor that may impact objectivity in the Code and the professional accountants are familiar with its definition. Consequently, stressing that awareness of one's bias will reduce its risk and impact should be sufficient for the purposes of the Code. The illustrative list could be useful outside of the remit of the Code to develop a Staff publication.

23 Chartered Accountants Australia and New Zealand

We support the inclusion of guidance material on addressing bias in the Code.

However, we note that, similar to the concept of an inquiring mind above, freedom from bias is required for both the application of the conceptual framework and to achieve compliance with the fundamental principle of objectivity. It is unclear whether paragraphs 120.12 A1 -A3 are intended to or should be used to provide guidance in this later situation. Therefore, a clarifying statement and further guidance material, if not applicable, would be welcome. In addition, it would also be useful to provide direction to paragraphs 120.12 A1 -A3 in the other paragraphs of the Code that mention bias so that the reader knows that further guidance material is available in the Code on the topic.

While we do not consider that any of the examples set-out in paragraph 120.12A2 should be omitted, IESBA should consider whether those examples adequately encompass bias created by professional accountants' relationships with and assessment of others (i.e. background, experience, character, age etc.) – i.e. bias that may give rise to self-interest threat; advocacy threat; familiarity threat; over reliance on expert opinion etc. and, therefore, whether further examples should be added to 120.12 A2.

26 Chartered Professional Accountants of Canada

We are generally in support of the approach to address bias and note that the illustrative list of common forms of bias provides additional information and clarity for the reader. We are aware that there are multiple potential biases, descriptions as to what they entail and that it is difficult to anticipate which ones might occur in practice. For these reasons, it would be desirable to indicate that the example listing is not intended to be exhaustive in order that the reader remains alert to other existing or potential biases.

We did not receive suggestions for the omission of any of the examples from the list but did receive the following additional types of bias for consideration: rush to solve bias, authority bias, loss-aversion bias and projection bias.

We also note that there is little information provided as to how the professional accountant should address the varieties of bias should they exist, and we believe that further guidance and practical context would be helpful for all professional accountants. Additional guidance could include examples and case studies relevant to those in industry and public practice with suggestions for actions and matters to consider when

faced with such biases and pressures.

28 FAR

FAR supports the approach to addressing bias and finds the list of examples adequate. However, FAR finds that the examples of concept of bias could be given separately in a guidance to the Code, where they could also be elaborated upon.

29 Hong Kong Institute of Certified Public Accountants

The list of examples of bias are useful indicators for professional accountants to assess a given situation or dilemma.

It is important to note that professional accountants would bring on their personal characteristics in exercising judgment, such as personal knowledge and experience; national/cultural background; adaptability to stress and time pressures. We suggest expanding the list of examples of bias to include personal attributes and skills which would seemingly influence one's professional judgment.

While we support the approach to addressing bias, with hindsight, professional accountants might find it difficult to articulate and justify his/her decision making, when regulators challenge an accountants' compliance with the Code. Accordingly we encourage IESBA to develop application examples and illustration, particularly documentation guidance (such as those in sections 260 and 360 of the extant Code), to guide accountants.

32 Institute of Chartered Accountants in England and Wales

We welcome the extra discussion on bias which provides a helpful framework for accountants to evaluate whether bias could be affecting their judgements. In our view the detailed discussion on bias sits more logically within sub-section 112, rather than within section 120, given that avoiding bias is one of the main aspects of the fundamental principle of objectivity.

The additional examples of bias provided are useful and illustrate well the different aspects of bias. There are a few examples which appear fairly similar in that they refer to bias towards information that an accountant already knows, sees first, or perceives in a certain way – anchoring bias, confirmation bias, representation bias, and selective perception bias. In the interests of simplicity and understandability, there may be some merit in grouping these similar types of bias together. This would allow members to focus on other types of bias such as automation and groupthink.

37 Institut der Wirtschaftsprüfer

We agree with the list of examples of bias set out in paragraph 120.12 A2 and do not believe that any should be omitted, and have not identified any new ones that ought to be added. However, we suggest that in the first bullet point of paragraph 120.12 A2 the word “assessed” be replaced with “considered”, since professional accountants would apply their mind to the subsequent information, and only would need to evaluate it if this consideration resulted in the view that an evaluation is needed. Furthermore, in line with the use of the word “challenge” in paragraphs 111.1 A2 second bullet and 120.16 A2 first bullet third sub-bullet, and because challenging is a severe form of questioning that is only done when appropriate, the wording in paragraph A3 should be changed to read “... or challenge, as and when appropriate, as part of...”.

However, we have concerns with how bias is dealt with generally within the Code in relation to objectivity in paragraphs 110.1 A1 (b), R 112.1, 120.12 A1, and 120.16 A2 second bullet. In our view, both the current and proposed description of objectivity does not appropriately distinguish between bias and sources of bias. We agree that conflicts of interest, undue influence and undue reliance affect objectivity. However, we note that these affect objectivity because they affect or may affect the bias of the professional accountant. In particular, conflicts of interest are an issue because of the threat they pose to an unbiased consideration of matters by professional accountants towards one of the conflicting interests; undue influence biases the consideration of

matters by professional accountants in the direction of the influence; and undue reliance biases decisions about reliance towards reliance in an inappropriate manner. Consequently, conflicts of interest, undue influence and undue reliance are sources of bias or potential bias, not matters to be considered separately from bias. This implies that bias represents the converse of objectivity. We therefore suggest that the treatment of bias and its sources in paragraphs 110.1 A1 (b), R112.1 and 120.16 A2 be amended accordingly.

In addition, we suggest that paragraph 120.12 A1 be augmented to clarify that the risk of bias represents a risk that the fundamental principle of objectivity is not fulfilled.

45 IFAC Small and Medium Practices Committee

We generally support the addition of bias and the list of examples of different types of bias. However, we are concerned that the list could become a checklist for regulators.

We strongly support the need for the Board to continue to liaise with the IAASB to ensure there is appropriate alignment with the IAASB's text relating to bias in ISA 220 (Revised).

There is a general statement about mitigating bias (120.12 A3), but it may be worth exploring more specifically what accountants can do to reduce bias and its link to professional judgement. Guidance material could be useful in this context.

46 Professor Sir Andrew Likierman

The increased emphasis on identifying and countering bias is welcome. It would be better, nonetheless, to reconsider para 120.12.A2. Anchoring, availability, confirmation and representation biases, as well as Groupthink and overconfidence are well established in the Psychology literature. Automation and selective perception appear to stretch the category. A definition of a bias would be welcome to help readers unfamiliar with the literature to understand and mark the boundary of what constitutes a bias.

In terms of what is included in the text, rather than include what is inevitably partial and potentially contentious list of biases, it would be better to cut the paragraph to mention two or three and refer readers to the considerable literature for more information.

Whatever else is changed, 120.12 A3 needs to include the importance of self-awareness, since paragraph 120.12 A1 refers only to the need to be aware in general terms of the risk of biases, not that the individual should be aware that he or she is prone to them. And in 120.5.A4, the list of circumstances requiring further investigation is preceded by the words "might consider, among other matters". Such a relaxed approach is hardly appropriate to what is supposedly a cornerstone of professional practice and merits more robust endorsement.

3. Does not support

44 IFAC Professional Accountants in Business Committee

The PAIB Committee is not in a position to comment on whether the list of biases included are complete or accurate. A review of academic research would be needed to reach such a conclusion.

The PAIB Committee felt that describing different types of bias is not necessary in the Code itself. Whether one can describe bias is not relevant, it is about recognizing it. The focus in the Code should be more around ensuring accountants have an awareness of the risk of bias and how one would mitigate it.

Bias is inherent in the human mind, and will never be completely eliminated, only mitigated. Training on conscious and unconscious bias can help to recognize biases.

There is a general statement in paragraph 120.12 A3 about mitigating bias by involving others and seeking advice from experts, but there may be situations where legally accountants are unable to do this. There is risk too that the expert is biased.

It may be worth exploring more specifically what accountants can do to reduce bias. As an example, the need for diversity is crucial throughout an organization, not just gender, but also factors such as background, experience, character and age. Bias might still happen, but diversity is one safeguard.

No comment

03 Basel Committee on Banking Supervision

34 Institute of Chartered Accountants Of India