

### Promoting the Role and Mindset Expected of Professional Accountants

#### Comments on ED Question 7

#### (Organizational Culture)

ED Question 7:

*Are there any other aspects about organizational culture in addition to the role of leadership that you consider should be addressed in the proposals?*

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

##### 02 Accounting and Audit Board of Ethiopia

No

##### 03 Basel Committee on Banking Supervision

The Committee would welcome clarification on one point, namely the proposals around organisational culture and "effective application" of the IESBA Code (paragraph 120.13.A1). Whilst organisational culture is important context for a professional accountant, the ED is not clear on how the professional accountant should react to different cultures and whether the IESBA is suggesting that culture affects the professional accountant's requirement to adhere to the fundamental principles. The Committee does not believe that organisational culture should affect the applicability of the requirements of the IESBA Code. Therefore, we recommend that the revised Code should clearly explain that its requirements apply regardless of the organisational culture within which the professional accountant operates.

##### 04 Independent Regulatory Board for Auditors

We agree with the reference to the proposed International Standard on Quality Management 1 (previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, as it provides the robust framework for implementing and monitoring an audit firm's culture.

##### 08 The New Zealand Auditing and Assurance Standards Board

We believe it is important for any organisation to understand what are the potential drivers and pressures that encourage departure from ethical values and principles.

##### 09 Baker Tilly International

An organisation's culture is reflective of the 'tone at the top' and the role and behaviour of the leaders of an entity will determine its internal culture. Overall, we do not consider there is a significant need for change in this section; however, it may be worth considering adding content about ethical organisations actively encouraging, supporting and protecting whistleblowers who report unethical behaviours.

##### 10 BDO International Limited

There are no additional aspects about organizational culture that should be addressed in the proposal. We do support that the inclusion of application material adds value to the reader, but we question if the text would be better placed in section 100.2 Ax which is in the 'Complying with the code' section rather than the 'Conceptual framework' section.

#### **11 Crowe Global**

The role of leadership is important in setting organisational culture. IESBA may wish to consider broader environmental and societal conditions that influence organisational culture. These impact upon leadership but might have wider implications. Again, we welcome the recognition of the consideration of leadership and culture by the IAASB in ED-ISQM 1.

#### **12 Deloitte Touche Tohmatsu Limited**

We do not have any suggestions with respect to the proposal.

#### **14 Grant Thornton International Limited**

GTIL believes the role of leadership, coupled with education, training programs, and adhering to ethical values when dealing with third parties are sufficient aspects when discussing organizational culture.

#### **16 Moore Global**

We consider open and frequent communication as part of the role of leadership, however the importance of such communication of relevant matters could possibly be emphasised more.

Other aspects that could be considered are internal monitoring/evaluation of compliance with the values and principles; enforcement; management processes; performance evaluation and whistleblowing policies.

Given this code covers both members in business as well as members in practice it is particularly important that whistleblowing policies and procedure are given more emphasis.

We welcome the link between the International Standard on Quality Management (ISQM) and the Code in the revised wording of the Code. It is important that IESBA continues to work closely with the IAASB (the International Auditing and Assurance Standards Board) in ensuring the appropriate links between the ethical requirements and the auditing standards and it is important for the wording in the final version of ISQM to appropriately reflect the importance of audit firm's compliance with the IESBA Code.

#### **17 PricewaterhouseCoopers International Limited**

We recommend that the following refinements be made to the paragraph below:

120.13 A2 The promotion of that ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles act as role models and hold themselves and others accountable for demonstrating the ethical values of the organization;
- (b) When ethics and ethical values are made visible, both internally and externally,
- (c) Appropriate education and training programs, management and consultation processes, and performance evaluation and reward criteria that promote that ethical culture are in place and set clear expectations; and
- (d) Ethical values are adhered to in dealings with third parties.

#### **18 RSM International**

No. We believe the proposals are sufficient and appropriate.

#### **19 U.S. Government Accountability Office**

We support including additional guidance highlighting the importance of the organizational culture on effectively applying the conceptual framework. We have not identified any other aspects about organizational

culture that should be addressed in the Code.

#### **21 Accountancy Europe**

We are of the view that the cross-reference to proposed ISQM1 may be more helpful if the link is explained between the quality objectives under the “Governance and Leadership” component of the ISQM1 and the role of organisational culture according to the Code. Otherwise the paragraph 120.14 A1 can be removed.

#### **22 Botswana Institute of Chartered Accountants**

We agree with elements identified and have no further additions.

#### **27 Federación Argentina de Consejos Profesionales de Ciencias Económicas**

In relation to organizational culture, it might be sufficient to analyze the leadership that should be addressed in the proposals. However, we believe that the corporate risk management developed by each organization could also be analyzed.

#### **29 Hong Kong Institute of Certified Public Accountants**

We have no further comments

#### **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**

No comments on this topic.

#### **39 Japanese Institute of certified Public Accountants**

Paragraph 120.13 A2 explains the conditions under which the promotion of the ethnical culture within an organization is most effective, and (c) stipulates that “ethical values are adhered to in dealings with third parties.”

The way this statement is expressed makes it difficult to understand whether the subject of (c) is an organization or an individual. We believe that this point should be clarified

#### **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.

#### **43 Wirtschaftsprüferkammer**

We have no further suggestions.

#### **44 IFAC Professional Accountants in Business Committee**

Accountants can operate within a corporate culture which may lead them to do whatever is mandated by the leadership. We therefore agree that the role of leadership in setting, demonstrating and encouraging an ethical culture is fundamental. The challenge for accountants is when they are working in an organization that does not have a strong ethical culture, which then comes back to the need for them to demonstrate “moral courage” in standing up to ethical improprieties or when dealing with ethical dilemmas.

## 2. Support with More Substantive Amendments

### 01 Abu Dhabi Accountability Authority

It is not always the case that professional accountants can influence the organisation's internal culture. Several organisations with very powerful leaders have failed recently. Therefore, perhaps this issue can be considered.

### 06 United Kingdom Financial Reporting Council

Ethical values may vary between organisations, particularly where there are no applicable regulations or codes intended to drive an ethical culture. We recommend, therefore, that the application material be expanded to direct professional accountants, no matter what their position in the organisation, to seek to promote an appropriate ethical culture. Accountants can do this by complying with the Code, but also seeking to encourage other persons, to whom the Code may not apply, to both promote and apply appropriate ethical values.

For firms that undertake audits, reviews, other assurance and related engagements, it would be better to have a requirement within the Code itself rather than a cross reference to ISQM 1, as that standard may not be adopted in all jurisdictions. Such a requirement could be along the lines of:

"The senior management of the firm and those with direct responsibility for the management of the firm's audit, review, other assurance and related business shall instil the necessary culture and behaviours respectively throughout the firm and that business, so as to ensure that meeting the fundamental principles and other provisions set out in the Code is paramount and overrides all commercial interests of the firm."

There could also be further related requirements to establish appropriate policies, procedures and quality management systems.

### 07 Accounting Professional Ethical Standards Board Australia

APESB does not consider there to be any other aspects of organisational culture to be addressed in the proposals. However, as ISQM 1 remains a proposal and has been subject to significant global feedback, we are of the view that it may be premature to refer to this standard at this stage. From an Australian perspective, APES 320 Quality Control for Firms (based on extant ISQC 1) applies to all firms, regardless of the services provided, which will also impact the drafting of this paragraph for use in Australia.

### 23 Chartered Accountants Australia and New Zealand

IESBA could consider providing some guidance for professional accountants who are not in the role of leadership and find themselves in an organizational culture that does not enhance the effective application of the conceptual framework i.e. the need to be self-reliant, extra vigilant and potentially self-sacrificing in order to ensure compliance with the Code.

### 25 CPA Australia Ltd

CPA Australia is supportive of the discussion at paragraph 120.13 A1. We note that the IESBA has omitted the concept of 'tone at the top' when discussing organisational culture. The explanatory memorandum is silent on the omission of the concept. CPA Australia considers that 'tone at the top' is a well known and important concept for understanding the role of leadership in organisational culture.

Whilst 120.13 A2 (a) highlights the importance of accountability of those in leadership roles within an organisation, setting the 'tone at the top' precedes accountability. It would be beneficial if the discussion at 120.13 A1 and 120.13 A2 related back to the PAs obligations or role in establishing organisational culture, in particular, for Members in Business.

As the proposed ISQM 1 is not yet approved and has been subject to substantial constructive feedback, CPA

Australia suggests that references to the proposed ISQM 1 may be premature.

### **26 Chartered Professional Accountants of Canada**

It was noted that the proposed additions in 120.13 are supportable, however, the following considerations were raised:

- Leadership is important but everyone in an organization, whether junior or senior, plays a part in having the “right” culture,
- The concepts are very appropriate regarding “firm culture” but may be difficult for professional accountants in business to change or establish if the leadership of the organization is not bound by the same ethical standards,
- The provisions could be enhanced to ensure professional accountants in positions of senior authority in industry and public practice recognize the importance of their role in influencing events, practices and attitudes within an organization to encourage an ethics-based culture, and
- Encouragement for creating a speak-up culture where decisions on ethical grounds can be challenged without fear of reprimand is important and a defined whistleblowing policy allowing for the reporting of breaches in ethical conduct could be referenced.

### **33 Institute of Certified Public Accountants of Uganda**

ICPAU believes that the appropriate education and training programs as well as management processes that promote ethical culture should be expounded on especially for the non- practicing professional accountants. IESBA should clarify the necessary trainings that these accountants should have in order to promote a culture that is compliant with the requirements for accountants to have an inquiring mind in the execution of their duties.

### **35 Institute of Chartered Accountants of Nigeria**

Yes, there are other aspects of organizational culture in addition to the role of leadership. Organisational culture is specific and depends on the type and nature of the organisation, IESBA could borrow some guidance from Corporate Governance principles. Also, there should be an exact definition of organizational culture. It is not enough to refer to a culture that supports ethics without a clear definition of such culture.

### **36 Institute of Chartered Accountants of Scotland**

We agree with IESBA in paragraph 52 of the Explanatory Memorandum that “the internal culture of an employer, be it a firm or other organisation, can significantly impact whether professional accountants comply with the Code and act ethically”. This echoes the sentiment within ICAS’ The Power of One publications, and in particular, the ICAS publication ‘Organisational culture and values’

We do believe that it is helpful to alert the professional accountant to the fact that an organisation’s culture could have an impact on their ability to comply with the Code and therefore we agree with the inclusion of the organisational culture paragraphs 120.13 A1 and 120.13 A2.

However, ICAS believes that professional accountants, at all levels, have a responsibility to be ethical leaders and have an important role to play in embedding a culture of ethics within their organisation. Power of One publication ‘Personal Responsibility and ethical leadership’ calls on all CAs to place ethical leadership at the heart of their professional responsibilities, and to shape the culture and values of their organisations.

Whilst we agree with paragraph 120.13 A2, we believe that, on its own, it does give the impression that only those at the top of organisations have a responsibility for an ethical culture within an organisation. Individuals at less senior levels could therefore think these paragraphs are not relevant to them. ICAS believes that all professional accountants have a responsibility to be ethical leaders within their own particular sphere of influence. In order to ensure that all professional accountants recognise that they have a role to play in creating an ethical organisational culture, we suggest the inclusion of additional wording discussing the

importance of individual ethical leadership within organisations.

We would also suggest that another aspect of organisational culture which could be noted in paragraph 120.13 A2 is in relation to advocating the importance of speak up/listen up mechanisms within organisations. To ensure a successful organisational culture, employees need to feel they can speak up about concerns without retribution, that their concerns are listened to, and, most importantly, are followed up.

This is discussed in ICAS research publications: “Speak up? Listen up? Whistleblow? A survey of ICAS members” and “Speak up? Listen up? Whistleblow? In their own words – Insights into the ethical dilemmas of ICAS members”

### **37 Institut der Wirtschaftsprüfer**

We find this question to be a “leading question” because it only asks whether there are other aspects beyond the role of leadership that we believe need to be addressed, but does not address whether we agree with the proposals in paragraphs 120.13 A1 and A2 on organizational culture. Both paragraphs appear to assume that organizations may set “ethical values that align with the fundamental principles”. Perhaps this presumption needs to be explicit in an introductory sentence to paragraph 120.13. A1. We note that paragraph A2 refers to the “ethical values of the organization”, which also presumes that organizations would set such values.

The introductory phrase in paragraph 120.13 A2 refers to an “ethical culture”: it is unclear what this might be. Is this a part of the organizational culture?

Furthermore, that sentence uses the word “most”: this should be changed to “more”, since using superlatives in this way is not appropriate. We also gather that in (c), the organization’s ethical values are meant: this should be made explicit through the addition of the word “Organization’s” prior to “ethical”.

### **40 Malaysian Institute of Accountants**

In addition to the role of leadership, we believe that a successful ethics compliance programme should include the following activities:

- (a) Policies and procedures
- (b) Tone at the top
- (c) Research and advisory
- (d) Whistleblowing channel
- (e) Risk assessment
- (f) Due diligence
- (g) Monitoring
- (h) Investigation

### **42 South African Institute of Chartered Accountants**

There could be a misalignment between the values of the individual and the values of the organisation. A mismatch in the values of the organisation and the values of the PAIB could lead to the PAIB having to resign from the organisation or not even accept employment. A mismatch in culture, may make life difficult for the PAIB from a moral perspective but not necessarily impossible.

Where the firm or organisation has a more aggressive culture, guidance should be provided to the PAIPPs and PAIBs on dealing with the misalignment.

PAIPPs have standards and other documents that can assist them in dealing with and managing ethical requirements, such as the International Standard of Quality Control, ISQC1 (or proposed ISQM1) PAIBs have no other guidance on how to manage or deal with culture differences and other biases as well as guidance on ethical requirements.

#### 45 IFAC Small and Medium Practices Committee

We agree that the internal culture of an employer can significantly impact whether PAs comply with the Code and act ethically. Hence, we agree that the role of leadership in the firm or company in setting, demonstrating and encouraging an ethical culture is fundamental. However, as indicated in our response to question 1, we are concerned that the new application material (120.13 A1 and A2) refers to “ethical values” without further explanation of what these are intended to entail.

We do not consider there are other aspects about organizational culture, which should be addressed in the proposals. The challenge for PAs may not be limited to what is included in the Code. The SMPC believes that it will need the entire eco-system to work together in a way that can provide the impetus for a PA to comply with the Code and act ethically and in certain instances, with the appropriate resolve despite possible adverse personal consequences.

### Does Not Support

#### 13 Ernst Young Global Limited

Regarding organizational culture, while we fully understand the importance of a positive internal organizational culture and the role this plays in facilitating compliance with the fundamental principles, to include this section without any type of requirement could potentially be confusing. The Board should consider including this guidance in other material, for example Staff Questions and Answers, instead.

Regarding firm culture, as noted in paragraph 120.14 A1, the IAABS’s ISQM 1 includes quality objectives for governance and leadership that address the need for an appropriate firm culture that promotes ethical values. We support these quality objectives in ISQM 1. The guidance included herein should be discussed with IAASB with an accompanying recommendation to include this guidance in ISQM 1 to explain the role of culture and ethical values.

#### 15 KPMG IFRG Limited

We question how the PAIB is to respond to the application material in paragraphs 120.13 A1 and 120.13 A2, especially in the circumstance where their organisation does not have a positive internal culture. In this circumstance, is a change in the PAIB’s behaviour expected?

We also recommend reverting to the language in the extant Code for the heading “Considerations for Audits, Reviews and Other Assurance Engagements” preceding 120.14 A1, which is more appropriate as the subsequent paragraphs on Independence (120.15 A1-120.15 A2) and Professional Skepticism (120.16 A1-120.16 A2) do not include “related services”. If the inclusion of “related services” is essential in relation to Firm Culture, the wording in 120.14 A1 could be expanded as needed to provide clarity on what services are being captured by that additional phrase.

#### 20 Association of Chartered Certified Accountants

We recognise that the internal culture of an organisation can impact the professional accountant’s ability to comply with the Code and act ethically. However, we question the proposal to include organisational culture within paragraphs 120.13 A1 and A2 and whether this information is best placed within the Code as application material, or within supplementary guidance. We also question to whom the section on organisational culture is addressed.

We are uncertain what the requirements are in relation to organisational culture, or whether this is purely guidance in respect of ‘other considerations’ to be aware of when applying the Conceptual Framework. The section on organisational culture doesn’t attach to any specific requirement, and is therefore ‘hanging’ application material. We believe sections with no requirements are more challenging to interpret.

While the proposed section on organisational culture provides context and raises awareness, the inclusion of this new application material impacts on whether professional accountants comply with the Code and

enforcement. It depends upon the level of seniority of the individual as to whether organisational culture can be influenced. In our opinion, it would not be possible to discipline a firm or an individual for failing to do enough to promote a positive organisational culture.

With regard to other aspects about organisational culture, we believe that whistleblowing should be addressed in the application material, in addition to the role of leadership.

#### **24 Consultative Committee of Accountancy Bodies**

We agree with the importance of organisational culture, given professional accountants' responsibility to encourage and promote an ethical culture in their organisation. There has been some debate about the positioning of a discourse on this in terms of whether it would be better included within the Code, or as separate external background guidance. The IESBA Board might wish to reconsider this when the final shape of the guidance is determined.

#### **28 FAR**

FAR agrees with the view that the internal culture of an employer can significantly impact whether professional accountants comply with the Code and act ethically. However, FAR finds the proposal to highlight the importance of a positive internal organizational culture superfluous in the context of the Code as this matter is dealt with in other standards. The Code should be addressed mainly to the professional accountant, not to the firm.

#### **32 Institute of Chartered Accountants in England and Wales**

We agree that an ethical culture within an organisation is a good thing, and should always be encouraged, but we question whether the Code of Ethics for Professional Accountants is the appropriate place for this commentary on the factors that can positively influence organisational culture. Separate guidance on organisational culture might be issued for the use of members and others.

We believe that IESBA should proceed with caution in introducing such material into the Code given the risk that professional accountancy firms could find themselves subject to disciplinary action from oversight regulators, if they consider the firm has failed to adhere to this best practice on organisational culture.

The seniority of individuals within an organisation will also have a significant bearing upon their ability to influence the culture, in particular the actions of leadership, and the processes and programmes in place within the organisation. Should IIESBA decide to retain these paragraphs, clarity would be welcomed on the purpose of these sub-sections and who they are intended to apply to and for what purpose: - all professional accountants individually? Firms in practice? Professional accountants in business only?

#### **38 Institute of Singapore Chartered Accountants**

We agree with IESBA's view that the internal culture of an employer, be it a firm or another organization, can significantly impact whether professional accountants comply with the Code and act ethically.

We note that IESBA proposes to highlight the importance of a positive internal organizational culture to the effective application of the conceptual framework by introducing new application material in paragraphs 120.13 A1 and 120.13 A2 under the subheading, "Other Considerations when Applying the Conceptual Framework".

##### Paragraph 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.

##### Paragraph 120.13 A2

The promotion of that ethical culture within an organization is most effective when:

- a) Leaders and those in managerial roles hold themselves and others accountable for demonstrating the ethical values of the organization;
- b) Appropriate education and training programs, management processes, and performance evaluation criteria that promote that ethical culture are in place; and
- c) Ethical values are adhered to in dealings with third parties.

However, it is unclear what the current drafting intends to achieve and how it helps to improve the application of the conceptual framework. Acknowledging the importance of strong ethical culture in facilitating the effective application of the conceptual framework, the drafting of paragraphs 120.13 A1 and 120.13 A2 need to be improved for better clarity and robustness.

#### **4. No Comment**

**05 National Association of State Boards of Accountancy**

**34 Institute of Chartered Accountants Of India**

**46 Professor Sir Andrew Likierman**