

Meeting: IESBA CAG

Meeting Location: New York

Meeting Date: March 4, 2019

Agenda Item

B

Promoting the Role and Mindset Expected of Professional Accountants (Formerly Professional Skepticism)

Objectives of Agenda Item

1. To report back on the discussions at the September 2018 CAG meeting.
2. To obtain Representatives' views on the key issues identified by the Task Force and its related proposals.

Project Status and Timeline

3. At its September 2018 meeting, the IESBA considered key views and other significant matters raised by respondents to its Consultation Paper, [Professional Skepticism – Meeting Public Expectations](#) (the Consultation Paper or CP) as well as by participants at the four [global roundtable](#) events. The IESBA had also considered key comments raised by the CAG at its September 2018 meeting.
4. Upon due considerations of all key issues raised, the Board approved the [project proposal](#) "Promoting the Role and Mindset Expected of Professional Accountants" ("Role and Mindset").
5. At its December 2018 meeting, the IESBA considered the Task Force's [preliminary proposals](#) which included:
 - A draft introduction before Part 1¹ of the Code setting out the role of professional accountants in society, their responsibility to act in the public interest and the overarching objective expected of them; and
 - Proposed revisions to Sections 100² and 120³ relating to organizational culture and tone at the top, and the exercise of professional judgment.
6. Amongst other matters, the Task Force also sought IESBA's reactions to its preliminary thinking on:
 - Whether the concept of "courage" should be added as an "enabler" to comply with the fundamental principles.
 - Whether it would be more beneficial and impactful for users if the requirement to comply with the fundamental principle of objectivity were rephrased in a more affirmative way.
 - How best include the concepts of "questioning mindset" (or similar concepts) and "bias".

¹ Part 1, *Complying with the Code, Fundamental Principles and Conceptual Framework*

² Section 100, *Complying with the Code*

³ Section 120, *The Conceptual Framework*

7. At its March 2019 meeting, the IESBA will consider the Task Force’s revised proposals taking into consideration, amongst other matters, feedback received at the December 2018 IESBA meeting.
8. Appendix 1 provides the project history for the Role and Mindset project.

Report Back on September 2018 CAG Discussion

9. Below are extracts from the draft minutes of the September 2018 CAG meeting⁴ and an indication of how the Task Force and/or IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/IESBA Response
PROFESSIONAL SKEPTICISM AND THE PROJECT SCOPE	
<p>Mr. Fortin sought clarification about the scope of the new project in light of the overwhelming response from the consultations to reserve the term “professional skepticism” for the audit and assurance context. He also queried whether there is a need for an overarching statement of purpose in addition to the fundamental principles. Mr. Pavas also sought clarification about the objective of the project.</p> <p>Mr. Fortin also asked if any new material relating to auditing and assurance engagements would be developed as part of this project.</p>	<p>At the meeting, Mr. Fleck confirmed that for the purposes of this project, the term “professional skepticism” will be left to auditing and assurance standards. He explained that the project will address more the behavioral characteristics expected of professional accountants (PAs), reflecting more a development of what is required today, i.e., that PAs not be associated with misleading information. He added that the project now aimed to address the overarching articulation of what is expected of all PAs and to give the term “professional” some substance. He further noted that the project aimed to fill the gap between what PAs understand “being a PA” to mean on the one hand, and the fundamental principles and the conceptual framework on the other hand.</p> <p>Mr. Fleck pointed out that the IESBA had approved application material on the relationship between the fundamental principles and professional skepticism in December 2017.</p> <p>No additional specific material relating to auditing and assurance engagements will be developed as part of this project.</p> <p>The proposed text (Agenda Item B1) includes a provision (paragraph 120.5 A5) that clarifies that the term “professional skepticism” applies only to PAs when performing audits, reviews and other assurance engagements.</p>

⁴ The draft September 2018 minutes will be approved at the March 2019 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
<p>Mr. Hansen acknowledged that this is not a simple project. He was of the view that the Working Group should not avoid using the term “professional skepticism” entirely.</p>	<p>Point taken into consideration.</p> <p>Mr. Fleck responded that the project’s aim of changing the mindset and behavior of PAs cannot be achieved in the short term. He noted that the output of this project will need to be supported by the appropriate training and education programs as well as organizations, particularly firms, assuming responsibility for promoting the right culture.</p> <p>The Board has discussed at length the merit of using the term “professional skepticism” to capture the mindset expected of all PAs. In light of the strong feedback from many respondents to the CP and participants at the global roundtables, as well as from some within the CAG and IAASB, regarding the potential for confusion with the term as it is used in auditing and assurance literature, the Board has determined not to go down that path.</p>
<p>Ms. Robert generally agreed with the Working Group’s analysis of the feedback from the CP and the roundtables. She also reiterated Accountancy Europe’s view not to add any new terms but to focus on developing the fundamental principle of integrity, which she felt was somewhat more overarching compared with the other fundamental principles.</p>	<p>Point taken into consideration.</p> <p>Mr. Fleck agreed that integrity is in some sense an overarching principle but noted that the proposed project will look more broadly into public expectations and professionalism.</p>
<p>Ms. Meng expressed the view that the motivations for an individual to be a professional accountant will also contribute to that individual exercising professional skepticism. She added that to drive the desired behavior, there would need to be requirements in the Code.</p>	<p>Point noted.</p>
<p>NON-AUTHORITATIVE MATERIAL AND OTHER SUPPORT</p>	
<p>Ms. McGeachy-Colby highlighted the importance of education and training. In this regard, she suggested that consideration be given to including case studies when developing implementation support materials.</p> <p>Ms. Zietsman also noted that the International Auditing and Assurance Standards Board (IAASB)</p>	<p>Mr. Fleck agreed that there is a need to bring ethics standards to life. He added that while it is unlikely that the IESBA itself will develop the educational materials, it will work closely to support the International Accounting Education Standards Board (IAESB) in this regard.</p>

Matters Raised	Task Force/IESBA Response
<p>had received similar calls for educational or other implementation support material.</p>	<p>The Board has committed as part of its Strategy and Work Plan 2019-2023 to developing a strategy for collaboration with IFAC regarding the provision of implementation support.</p>
MISSION STATEMENT OR OATH	
<p>Ms. Diplock noted that from a public interest perspective, irrespective of whether the overarching statement is in the form of an oath, affirmation or other methods of reinforcing the behavior expected of PAs, it would need to be fundamental to the PAs and be universally applied.</p> <p>Mr. Fortin wondered whether the scope of the project was now broader with the proposed statement of purpose. He expressed some hesitation about going down the path of establishing an “oath” because he could not envision such an oath being positioned above the fundamental principles. Mr. James queried whether an annual oath would be sufficient in achieving the desired impact, drawing an analogy to whether annual declarations of independence have transformed professional behaviors and attitudes within firms. He reiterated the International Organization of Securities Commissions’ (IOSCO’s) view set out in its response to the CP that the focus should be on impacting the mindset and behavior of PAs on a day to day basis. Accordingly, he expressed some reservation about whether this approach would go to the heart of the issue.</p> <p>Similar to discussions about demonstrating independence of mind and independence in appearance, Mr. Hansen queried how the performance of a PA against an oath can be assessed. He also noted that it is important to keep reminding PAs of the importance of the behavior expected of PAs.</p> <p>Ms. McGeachy-Colby noted that many firms already require their staff to make annual declarations of independence and confidentiality.</p>	<p>At the meeting, Mr. Fleck clarified that the oath or affirmation is only one aspect being considered by the Working Group and that the aim is not about enforceability or assessing a PA’s performance against an oath. Rather, the objective is to imbue in the PAs’ mind some overarching objective they should be aspiring to and to remind them that they are professionals with certain responsibilities.</p> <p>At its December 2018 meeting, the IESBA agreed that that the Code is not the appropriate place to promote such an oath or mission statement. In light of the Board’s view, the proposed text in Agenda Item B1 does not contain any oath or affirmation or references to such statements.</p>

Matters Raised	Task Force/IESBA Response
<p>Ms. Robert suggested that the Working Group review other jurisdictions' use of an oath or similar affirmation statement. She also noted that the implementation of an oath in the Netherlands has had some positive impact on the profession.</p>	
TITLE OF THE PROJECT	
<p>Mr. James reiterated that the focus of the project needs to be about changing mindset and behavior. He therefore suggested that the proposed title be revised to reflect this as the true fundamental issue is about driving behavioral change. Mr. Sobel acknowledged Mr. James' comment but noted that it is not necessary for the CAG to agree on a title at this juncture. He also pointed out that it is difficult to divorce values and characteristics from purpose and role, and suggested that all these elements are needed. Mr. Hansen expressed his confidence that the Working Group would develop an appropriate title that takes into consideration Mr. James' comment.</p> <p>Dr. Thomadakis expressed the view that there should be a focus on mindset and not just on behavior, given that the Code as a whole is about changing behavior. As such, the title of the project proposal should include the term "mindset."</p>	<p>At the meeting, both Mr. Fleck and Mr. James agreed with Dr. Thomadakis' view about the focus on mindset.</p> <p>At its December 2018 meeting, the IESBA agreed to retitle to project to "Promoting the Role and Mindset Expected of Professional Accountants".</p>
POTENTIAL SOURCES OF INPUT	
<p>Mr. Hansen also encouraged the Working Group to not disregard views from academia such as those from Messrs. Steven Glover and Douglas Prawitt.</p>	<p>Points taken into consideration.</p> <p>At the meeting, Mr. Fleck reassured the CAG that all stakeholders' views would be duly considered.</p>
<p>Ms. Vanich suggested that it may be useful for the Working Group to consider the work of the bank examiners in the US as they have made strides in driving a culture of compliance within financial institutions post-global financial crisis.</p>	<p>The Task Force considered the relevant material in IAASB's approved ISQM 1 and ISA 220 Exposure Drafts when developing new material on organizational culture and bias as part of its proposed text in Agenda Item B1.</p>
<p>Ms. Zietsman suggested that the IAASB's draft Exposure Draft on ISA 220 which contains some discussion on the impediments to the exercise of professional skepticism might be helpful as a</p>	

Matters Raised	Task Force/IESBA Response
reference. She also agreed with the importance of firms instilling the right culture and highlighted the section of the draft IAASB Exposure Draft on ISQM 1 relating to firm leadership and governance.	
OTHER COMMENTS	
Mr. Bradbury raised a concern with the potential challenge for the Board and the CAG in 12 months' time as the forward timeline indicates that this would be when the current IESBA projects would be expected to have reached the Exposure Draft stage.	At the meeting, Mr. Fleck clarified that the proposed timelines were only indicative.
Mr. James queried if the Working Group had any plans to share with the IAASB relevant concerns raised by respondents to the CP or from the global roundtables.	At the meeting, Mr. Fleck confirmed that the chairs of all three SSB Working Groups on professional skepticism already had held a teleconference as part of their coordination activities, and that the Working Group had passed on all relevant comments such as those from IOSCO. He further noted that coordination amongst the three Working Groups would continue. However, given that the project had moved away from using the term "professional skepticism", he did not anticipate any major concerns from the IAASB regarding the forward direction

Matters for CAG Consideration

10. Representatives are asked to note the report-back.
11. Representatives are asked to share views and reactions on the Matters for CAG Consideration in Agenda Item B1.

Material Presented

For Discussion

Agenda Item B1 Role and Mindset Proposed Text (Mark-up)

For Reference

Agenda Item B2 Role and Mindset Proposed Text (Clean)

Project History

Project: Promoting the Role and Mindset Expected of Professional Accountants (formerly professional skepticism)

Summary

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	March 2018	March 2018
Project commencement, including: <ul style="list-style-type: none">• Consideration of feedback from consultation paper and roundtables• Approval of project proposal	September 2018	June 2018 September 2018
Development of proposed international pronouncement (up to exposure)	March 2019	December 2018 March 2019