

ETHICS, PROFESSIONALISM AND THE PUBLIC INTEREST

Dr. Stavros Thomadakis, Chairman, IESBA

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A. INTRODUCTION

Ladies and Gentlemen,

I am very happy to be in Beijing and to address distinguished representatives of the Accounting Profession today.

My presentation coincides with the celebration of the “Year of Professionalism”. It is appropriate and a great opportunity to share with you my perspectives on the significance of Ethics to professional judgment and professional practice; and on the positioning of ethical practices by accountants in the global context.

The financial crisis that shook markets ten years ago, and many corporate and financial scandals and misbehaviors that have occurred since then around the world, have been met by a variety of responses - policies and regulations. They have left however a lingering feeling of doubt and mistrust of the way markets work and of the way professionals who support markets, in the private and public sectors, choose their actions.

Trust is essential for smooth functioning of financial markets and, more broadly, of economic mechanisms. The buildup and maintenance of trust are not a momentary exercise nor can trust occur by declaration or decree. It takes time, consistency, mutual respect between contracting parties, and accountability, private and public. It is a long process with long-term consequences, either when it is preserved or when it is broken.

Trust is the pinnacle of a good professional reputation, both individual and collective for a whole profession. Especially in the case of widely practiced and visible professions - such as the Accounting Profession - a few misbehaving members may bring discredit to a whole profession. Professions need to be perceived collectively as reputable, i.e. dependable, competent, fair and honest, in order to maintain their trustful status in economies and enable their individual members to play their significant role in the economy and society.

If we examine carefully the policies and regulations that have been instituted around the world in the aftermath of financial crisis, we discover that most are shaped around agendas of reestablishing trust.

In the context of rebuilding trust, a renewed notion of “public interest” has emerged and has acquired sharp and specific planetary dimensions: financial and fiscal stability, inclusive growth and environmental sustainability are now understood as goals that transcend national

boundaries, striving to attain a “global common good”. Public expectations as well as policies are increasingly responding to these goals.

The accounting profession is the clearest and most important case of a profession whose role is paramount for the economic function; whose commitment to the public interest is an explicit responsibility; and whose “professionalism” is embedded and articulated in a comprehensive and globally accepted Code of Ethics.

In our times, professionalism cannot be understood without Ethics. Professionals, such as accountants, who interact with clients, stakeholders and decision-makers have to be ethical, and be perceived as ethical, in their social environment. Being ethical means simply to make judgments that embody ethical fundamental principles and reflect public interest goals. Being *perceived* as ethical means, in effect, that behavior is seen as above reproach and trustworthy.

In times of complex economic activity, difficult choices, dilemmas and challenges arise. The professional accountant must have recourse to an authoritative source-document guiding judgment and behavior. That is the Code of Ethics. The accountants’ code of ethics is not simply something we learned some time ago for our examinations and then left it on the bookshelves to collect dust. It is an everyday guide for judgments and actions. Compliance with the Code is a constant duty of the accountant either as an auditor or in any other role.

The [International Code of Ethics for Professional Accountants](#), which was first formulated under the auspices of the International Federation of Accountants ([IFAC](#)) in the late 1970s, has now evolved into a comprehensive and coherent framework for judgment and behavior. The Code of Ethics openly designates that upholding the public interest is a supreme responsibility of accountants in all their roles, and that is ultimately the bedrock of public trust in the profession.

I want to reemphasize this important point: in our world of repeated crises – corporate and financial – public perceptions of the duties of accountants, auditors and corporate officers have strongly shifted towards the need for ethics; ethical thinking and ethical doing. The centrality of Ethics is constantly being underlined in many quarters of international public opinion. This has increased our responsibilities as ethics standard setters to strengthen relevance, visibility and awareness of the Code, as well as making its contents more robust.

A global Code of Ethics that is applied uniformly in every jurisdiction and holds for auditors and accountants is today an indispensable instrument for economies, markets and states. In the present and future, ethics will be a major priority for the accounting profession.

I know, and am very pleased, that the International Code of Ethics is adopted as the basis of the Code that applies to the Chinese accounting profession. This is very significant not only in itself, but also because China is a big and globally influential country, a member of the G-20 and active in all international organizations; and it is of course important that the Code applied by the Chinese accounting profession remains relevant and up to date in a changing environment with new challenges.

So, it is my intention to present to you today the way in which the IESBA is constituted and works in order to produce a high quality, relevant and authoritative Code of Ethics; to discuss the new Restructured and Revised Code, including Independence Requirements for auditors, as it has just become effective; to report the most recent update on global adoption of the Code;

and to discuss the vision and future directions of IESBA's continuing work on strengthening the Code.

I will conclude my presentation with few thoughts on two areas of challenge: new "disruptive technology", and the need for uniform implementation of the Code within and across national boundaries combined with ethical leadership.

B. IESBA: AN INDEPENDENT AND AUTHORITATIVE STANDARD SETTER

The International Ethics Standards Board for Accountants ([IESBA](#)) is an independent standard setting body, diversified professionally and geographically. It is the recognized global body that issues the standards of Ethics for all professional accountants, including auditors.

The Board is made up of 18 members, men and women from all continents, eight of them are practitioners from the profession, and ten are non-practitioners and public members. The chairman is independent and a public member. All members are committed to act in the public interest, which is the overarching objective of the Code. Members are volunteers assisted by technical advisers.

The quality of IESBA's work is contingent on the qualities and personalities of its volunteer members. To be a successful member a person must have integrity, expertise, collaborative ability and capacity to articulate arguments; also, a perspective that expands beyond national boundaries and an understanding of the accounting profession and its regulation. Members are elected for three-year terms rotating after six years. An independent mindset and a public interest commitment are paramount. At present we do not have a member from China, and we would be happy to consider valid candidacies of worthy individuals from this country.

IESBA is supported by resources that IFAC provides; however, IESBA, as well as its sister Board the International Auditing and Assurance Standards Board ([IAASB](#)), operates independently of IFAC in its objectives, its processes, its choice of agenda and in the determination of its new or revised standards. That is why we talk of the "IESBA Code", not the "IFAC Code". IESBA works under the oversight of the Public Interest Oversight Board ([PIOB](#)), which is itself made up of independent members appointed by global regulatory organizations. The PIOB monitors and certifies that due process is followed, and the standards respond to the public interest.

In order to carry out its work, IESBA undertakes broad consultation with stakeholders around the world, including regulators, national standard setters, professional accounting organizations, firms, investors, corporate governance representatives, preparers of financial statements, and international organizations. The standards and the guidance that it issues take into account perspectives from around the world. This makes them broadly applicable. IESBA standards are principle-based and are designed for global application.

The International Code of Ethics, including the standards for auditor Independence, is adopted or used as a basis for national ethics standards by 120 jurisdictions around the world. It is also adopted by the [largest 32 international network audit firms for their transnational audits](#). This means wide acceptance and application. We invite all jurisdictions and countries around the world to join this large community by adopting the International Code.

C. ESSENTIALS OF THE INTERNATIONAL CODE OF ETHICS

The overarching objective of the Code is to define and pursue behaviors that serve the public interest and produce trust in the accounting profession.

The foundational presumption upon which the Code rests is that accountants and auditors do not simply apply rules, but rather, they exercise professional judgment on all the issues they tackle in their tasks. In exercising this judgment, the public interest is an overarching objective.

Five fundamental principles are the basis on which the Code is developed: Integrity, objectivity, professional competence and due care, professional behavior and confidentiality.

The Code includes a conceptual framework that describes the threats to compliance with those principles, as well as requirements and guidance for all professional accountants about how to comply. It also includes requirements for auditor Independence, as an important and special area for application of the fundamental principles.

The Code is thus all about professional accountants' responsibility. Compliance with the Code – and quality of service as well – requires active, perceptive and responsible individuals applying it.

One of your colleagues once asked me why the Code is called a Code rather than simply “standards of ethics”. The answer is simple. The entire Code flows from a need to define an ethical mindset and to assist ethical judgments in all professional situations. Furthermore, the entire Code flows from a tight core of the five fundamental principles. It is therefore cohesive in that all its provisions relate to the fundamental principles and compliance with them. Ethical behavior is unified, and the Code is a whole of interrelated parts not a sum of unrelated requirements.

Of course, we must recognize that active, perceptive and responsible individuals are not self-sufficient or solo actors. They certainly need courage when addressing ethical dilemmas or conflicts, but they also need the support of their teams, their colleagues and their organizations. In that regard, the Code's requirements and guidance extend to the responsibility of engagement teams and accounting firms.

HENCE:

- The Code seeks to elevate the ethical bar of the profession.
- The Code applies to large as well as small audit practices.
- The Code applies to all audits, those of Public Interest Entities and those of all other entities.
- The Code applies to auditor as well as non-audit roles, e.g., professional accountants in business and in government.
- The Code applies to developed as well as developing and emerging markets and economies.

D. RESTRUCTURING AND REVISION: THE NEW CODE OF 2018

In April 2018, we issued the [Restructured International Code of Ethics](#) including the International Independence Standards. This is the newest and most advanced version of the Code. We urge all adopters of the Code to move swiftly to adoption of the new Code.

The restructuring of the Code was a big project motivated by the strong desire of the Board to respond to new challenges and by the recommendation by many stakeholders, including users and regulators, to make the Code easier to understand, use, translate and enforce.

So, we undertook a complete rewriting of the Code with simpler language, clearer distinction between requirements and application material, and more and sharper examples. The architecture of the Code was also revamped into four parts, as follows:

1. Fundamental Principles and Conceptual Framework
2. Professional Accountants in Business
3. Professional Accountants in Public Practice
4. International Independence Standards

The Code ends with an accompanying Glossary of terms and definitions. This has also been enhanced and enriched compared to earlier versions.

The basic user principle running through the Code is that all requirements for any particular aspect of practice must be complied with, but that in every case, and in accordance with the conceptual framework, the accountant must “step back” and ensure that he/she has complied with all five fundamental principles.

Besides the restructuring exercise which involved new writing conventions and a total revamping of wording and text structure, the version of the Code released in April 2018 also includes many significant revisions and new standards that respond to new circumstances and emerging public perceptions.

The foremost examples of those are:

- The standard on “Non-compliance with Laws and Regulations” ([NOCLAR](#) for short) that describes the duties of an accountant when becoming aware of a serious noncompliance in the course of his or her work; this standard, which covers auditors and all other accountants, allows the professional to bypass the principle of confidentiality and report to an appropriate authority serious non-compliance that may place at risk of harm organizations and their stakeholders.
- The standard on partner rotation due to [Long Association](#) between auditor and client; the revision of this standard extends the “cooling – off period” for audit engagement partners to five years; it also imposes new restrictions on any other engagement of the partner with the client during the cooling-off period. This revision strengthens independence requirements.
- The standard on [“inducements”](#) which expands the earlier coverage of “gifts and hospitality” to all forms of inducement (including for example bribery and corruption) and forbids acceptance or offer of inducements to engage in unethical behavior, by failing to comply with the fundamental principles.

- Revised and clarified standards on [safeguards](#) for auditor independence that are aligned more directly with well-defined threats to independence such as self-interest, familiarity, self-review, advocacy etc.
- New provisions about [preparing or presenting information](#), which strengthen the role of accountants as guardians of the quality of information shared with stakeholders and the public at large.
- New guidance on [professional judgment and professional skepticism](#), recognizing that these are fundamental attributes which must be exercised by professional accountants in auditor or non-auditor roles.

Altogether these revisions enhance the Code's robustness and specify clear new ethical requirements that raise the ethical bar for the accounting profession.

The Restructured and Revised Code became effective on June 15, 2019. Already, there is a significant number of jurisdictions that have moved to adopt this new version of the Code, including Australia, the UK, Japan, South Africa, India and New Zealand to name a few.

Many others are actively working to introduce the new Code into their national standards, notably several European countries, Canada, Saudi Arabia, Indonesia, Brazil and Korea. China is also among those working in that direction, by revising its extant Code. We wish you rapid and good progress in that endeavor.

Finally, the Restructured Code has already been adopted by the 32 largest networks of accounting firms in relation to transnational audits. On the whole, there is impressive global momentum for adoption of the Restructured Code.

Let me also point out that some jurisdictions have ethical requirements of their own, but adopt the International Code. Using the International Code as a basis, they add on more stringent or specific requirements that fit their experiences. In this way they align with international practice but retain desired national features. The International Code is a principle-based Code and fits well with such circumstances.

The Chinese Code is a good example in which the International Code is adopted but fortified by more stringent requirements on partner rotation and on family relations with respect to independence, for example. This is acceptable from our perspective since additional requirements are more stringent than the Code and responsive to specific Chinese circumstances that remain within the Code's fundamental principles, respect the Codes architecture and neither dilute nor modify its overarching objectives.

As the new Code has now become effective, the IESBA is devoting considerable effort to facilitate the rollout and global adoption of the Restructured Code. On our webpage, you can find [tools and resources](#) such as slide decks, frequently asked questions (FAQs), videos, webcasts and brochures that explain the content and the advantages of the new Code. These are accessible and very useful tools for answering questions and clarifying the Code to facilitate adoption and use.

E. THE eCODE: A VALUABLE TOOL FOR USERS

The IESBA has also released a new digital tool that greatly facilitates understanding, use and training on the Restructured Code: an [eCode](#). This is a tool delivered at the same time as the new Code came into effect, last June.

The eCode presents functionalities such as copy and paste, drilling down to details for each section of the Code, a smart search facility, cross-referencing and links to non-authoritative documents (FAQs, explanatory memos, bases for conclusions etc.) among other features. It is freely available to all users on the website of IESBA. It is in English but its platform will be available for translated versions developed by national standard setters. Translations into several languages are already being prepared, as I am told.

We believe the eCode will multiply the accessibility and the navigation across the Code's sections; experimenting with its features will become itself a learning tool. The ability to cut and paste will enable the customization of features most needed, for example by firms, audit inspectors, academics or other users. So, we invite and urge you all to become familiar with the eCode, by visiting our webpage in the coming days and months.

Finally, let me point out that the eCode will not be a static tool. It will have a capability to collect feedback from users and point us to improvements that will be more directed to users' needs and preferences. Thus, it will be a dynamic tool that will evolve with use: a "living and learning" functionality.

F. WORKING FOR THE FUTURE

As an independent standard setting Board, IESBA has formulated its new five-year "[strategy and work plan](#)" (SWP) that extends from 2019 to 2023. This was achieved after extensive international consultation with stakeholder communities such as national standard setters, regulators, audit firms and accounting organizations, investors and academics. The Strategy and Work Plan embodies the independent priorities that IESBA has formulated and that will guide its effort over the period until 2023.

In other words, this is our program for the future. As I said, it reflects views and recommendations of the large community of stakeholders on the basis of our own proposals. The very large participation of stakeholders from around the world in our consultations, roundtables and dialogues has lent explicit legitimacy to our plans for the future.

Let me offer a brief description of the goals, the main themes and the priorities of our program for the future: The broad objective is to maintain the Code as a relevant, robust instrument that is applicable globally; and an instrument that enables the profession, through high ethical behavior, to discharge its primary duties: on one hand, to serve the public interest and, on the other, to reinforce its own international reputation, gaining trust in its capacities and confidence in its value.

In a dynamic and uncertain world, the Code of Ethics must be responsive to underlying and ongoing forces of change that shape new realities: Technology is one such force. Advances in Data Analytics and Artificial Intelligence already reshape the audit function, business models and methods of service delivery. (I will come back to technology in a few minutes.)

The other force of change comes from shifting public expectations and perceptions: the responsibilities of accountants and auditors are held up to a higher standard of expectations vis-à-vis the public and the public interest. Corporate failures and market crises, corruption and malfeasance elevate the centrality of ethics everywhere.

In tandem with these major themes, the IESBA has incorporated in its plan a major and pervasive work stream on “technology and ethics”. This work stream seeks to reexamine how technological progress will create risks and opportunities to compliance with fundamental ethical principles; and how such fundamental imperatives as independence and professional skepticism will be applied in the new technological environment.

Other projects that we are currently working on or will soon undertake relate mostly to independence; more specifically, the IESBA is already working on:

- The provision of non-audit services to audit clients, (prohibiting self-review situations, as no safeguards can be applied)
- The level and structure of fees charged by audit firms, (imposing requirements on the level of audit fees not being influenced by other services provided to the client, transparency about fees and restrictions on fee dependence)
- The role and mindset of the professional accountant, (explaining that beyond auditors who need to apply professional skepticism, all accountants must exhibit an inquiring mind during their work)
- The definition of a “public interest entity”, (current definition needs revision, alignment with similar concept in International Standards on Auditing (ISAs), and recognition of differences in the intensity of requirements between PIEs and non-PIEs)
- The ethics of tax advisers, which is another strong example of a project directed to expected public-interest behavior of accountants

All these current projects respond to strong public expectations about the independence of auditors, and the ethical conduct of professional accountants in different roles and capacities.

Furthermore, the IESBA is planning to conduct implementation reviews of the Restructured Code, as well as two recently issued and far-reaching standards, NOCLAR and Long Association.

One can easily discern in this summary of IESBA’s Strategy and Work Plan a very clear determination to tackle the most significant challenges that emerging technologies and societal expectations pose to the conduct and duties of all accounting professionals, auditors and non-auditors alike.

G. RECOGNIZING THE SYNERGY OF ETHICS AND ISAs

The areas of Independence and professional skepticism, and of the exercise of professional judgment to achieve high audit quality, are areas in which the standards of Audit (ISAs) and Ethics (the Code) overlap and work together.

Recognizing this interaction, the IESBA and the IAASB, our sister independent standard-setting board, initiated three years ago a systematic coordination effort. Frequent contact at all levels, joint determination of topics to coordinate on, and joint meetings and liaison functions constitute

a system of coordination that is now in place. Over the past two years, I am very pleased to say that this coordination has grown and flourished.

We at IESBA have just completed a project, for example, which aligns Part 4B of the Code to the revised assurance standard ISAE 3000 of the IAASB.

Professional skepticism, the definition of “Public Interest Entity”, technological effects on judgment and behaviors are other examples of areas of coordination. We expect this coordination to further strengthen as the plans of the two standard-setting Boards evolve overtime, respecting all the while our separate remits and our different methodologies.

H. TECHNOLOGICAL REVOLUTION

Let me revert back to the issue of Technology and its implications and share a few additional thoughts. I know that China is at the forefront of technological innovations, including artificial intelligence. Therefore, I am sure that the Chinese accounting profession will have to continue reflecting on issues of use and abuse of technology. This is a very broad subject and I am sure many of you have been already exposed to its repercussions. I confess that we at IESBA are now proceeding to examine the topic, from an ethical perspective, as I already mentioned. There are of course many others who have already a track record on the issue of “technology and the profession”, so that we can already profit from a voluminous body of work and reflection.

The technological revolution around us is sometimes astounding and certainly comprehensive. Methods of gathering, storing, organizing and verifying information are revolutionized. Analytics with large bodies of data now perform algorithmic functions at great speed and lead to unprecedented richness of conclusions and understanding of variations and co-variations. These imply that the organization of production of services, the delivery methods, the coordination of collaborating entities will acquire new forms. Finally, necessary skills and capabilities will be greatly differentiated. Professional accountants need to understand not only the new methodologies but also their functioning principles, their way of drawing conclusions and the means of cooperating with “learning and thinking machines” for ethical and effective outcomes.

From my perspective, we must all seek to distinguish truly new dilemmas from old problems with new wrappings. We must start off by looking at our fundamental principles, and risks and opportunities for their application in the new technological circumstances. It is clear that some of our fundamental principles will come to encompass new contents: for example, competence will embrace knowledge of multiple technological applications. Confidentiality will encompass data security.

A deeper question has to do with the fundamental core of the Code: professional judgment. To what extent will judgment be relegated to algorithmic intelligence? What will skepticism mean vis-à-vis self-learning machines? What will be the necessary safeguards for independence in the light of sub-contracting agents who will put together different streams of data analytics to be fed into an overall opinion?

Not pretending I have all answers to these questions, I can say that we should embark on a process of collective reflection, hoping that to spark dialogues around the globe about these

issues. To achieve meaningful results, we must work closely with those who lead in the practice of new technologies and those who champion them.

I. FROM GLOBAL ETHICAL PRACTICE TO ETHICAL LEADERSHIP

As international standard setters, we have no direct power on adoption and implementation of standards by national jurisdictions. We do have a measure of indirect power, however, through the provision of standards that are amenable to global application and implementation. And we do spend a considerable portion of our resources to make the Code user-friendly and comprehensive; that was the essence of our project of Restructuring the Code.

Adoption is a jurisdictional task and the relevant decision-makers (national standard setter) may well decide to add on or modify specific Code provisions relating to particular needs and experiences, as I already mentioned.

However, in a world where the Code is adopted by or used in 120 jurisdictions, uniform implementation presents a large challenge. Implementation may lag, vary, omit or misinterpret the Code's provisions. No doubt, the application of the Code – no matter how clear – can be stressful and costly. Lack of resources, risks of acting independently, and self-interest are frequent barriers to espousing ethical behavior.

Frequently, the peaks of the profession – say the large accounting firms – expend resources to implement the Code; but the periphery of the profession, say small audit practices, accountants in business, or geographically isolated practitioners are unaware or unequipped to apply ethical requirements.

There is therefore an “awareness problem” and a “resources problem” that hinder broad and uniform implementation.

To my mind, these issues define one of the primary duties of Professional Accounting Organizations: to activate programs that raise awareness, to support education and compliance to member obligations, to put in place disciplinary mechanisms for unethical practice.

They also underline a need for corporate leaders in state-owned or private enterprise to foster corporate cultures that retain ethical behavior at their core, thereby raising ethical priorities and facilitating the ethical practices by accountants themselves and by neighboring professions as well. Accountants who are at high levels of management have a responsibility to foster this objective for the creation of ethical cultures in their organizations, including the complement of corporate governance arrangements.

Most importantly, and beyond organizational actions and policies, individual professional accountants, auditors and non-auditors, and especially those who are talented and experienced must become active ethical leaders themselves: teaching the younger generation by example; working not only to banish unethical but also to uphold ethical practice in their environments; promoting public understanding of professional ethics, working to preserve the strong ethical reputation of the profession.

I firmly believe that the effective implementation of the International Ethics Code and the expansion of its influence to other corporate professions is an indispensable and valuable precondition for progress and well-being in our world.

Thank you very much.