



In an exclusive interview,
James Sylph, Executive Director,
Professional Standards & External Relations,
International Federation of Accountants,
speaks about the essential role of ethics
in the accounting profession.

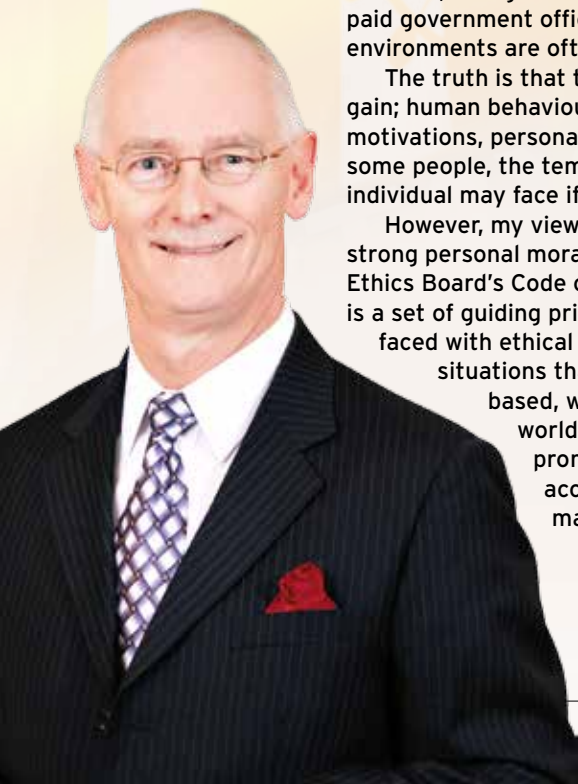
1. According to renowned Indian politician B.R. Ambedkar (1891-1956), "History shows that where ethics and economics come in conflict, victory is always with economics. Vested interests have never been known to have willingly divested themselves unless there was sufficient force to compel them." How relevant is this in today's context? How can ethics emerge victorious when faced with conflicts of interest, especially financial ones?

There will always be tension between ethics and economics - and it affects not only corporates but also politicians and even athletic competitions. Just look at the current bribery scandal surrounding Qatar as the host of the 2022 World Cup soccer tournament. At the corporate level, this conflict is exacerbated by local customs and practices, for instance, hiring family members and making small facilitation payments to poorly-paid government officials. And then there's the form of government - non-democratic environments are often rife with corruption and bribery.

The truth is that there will always be people who flout the law for their own personal gain; human behaviour is complex and will be governed in large part by an individual's motivations, personal moral code and the social norms around which they were raised. For some people, the temptation of personal gain will override the fear of any consequences the individual may face if caught breaking the law and/or professional codes.

However, my view is that most people want to do the right thing. Even people with a strong personal moral code will face pressures to act unethically, and that is where the Ethics Board's Code of Ethics for Professional Accountants (the Code) comes in. The Code is a set of guiding principles to help professional accountants make the right decision when faced with ethical dilemmas. It also helps put in place safeguards that help them avoid situations that typically engender conflicts of interest. The Code is principles-based, which is by design so that it can be applied in all jurisdictions around the world, regardless of local customs. Increased adoption of the Code will help promote a consistent and high level of ethical behaviour by professional accountants globally, thus also helping the profession to build and maintain trust with stakeholders.

James Sylph
Executive Director, Professional
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International Federation of Accountants



2. It has often been said that the ethical concerns of professional accountants in business (PAIBs) are somewhat different from those relating to professional accountants in public practice. How far has IESBA progressed in terms of addressing the concerns of PAIBs and what are the plans underway at IESBA to further address the needs of PAIBs?

I would not say that the ethical concerns are different for PAIBs; what is different is the ability of PAIBs to address the concerns. A practitioner can resign from a client relationship and suffer only a small loss of income. If the PAIB were to resign however, he or she could risk losing his or her entire livelihood. Even for practitioners, it is a concern if the proportion of revenue from a single client is significant.

The Ethics Board has recently launched a project to develop more comprehensive guidance in Part C of the Code, which relates to PAIBs, to assist them in addressing a number of important and often challenging issues, including pressure from superiors and others to act unethically or illegally, and in the facilitation of payments and bribes.

3. Auditor independence has always been an area of international focus. Recently, the reform of the audit sector in the European Union (EU) has finally made some headway. However, the flexibility accorded to EU member states in varying the rotation and tendering periods have led to concerns that it could create a “patchwork of regulation across the union”. How will this development affect the rest of the world in terms of adopting and implementing mandatory auditor rotation and tendering initiatives?

This development creates a practical concern in two respects: A change of auditor for an EU-based, listed parent company may necessitate a change in auditors for subsidiaries of the group based outside the EU. In addition, a parent company based in Asia for example, but with listed subsidiaries based in the EU, may find that the subsidiaries are required to change auditors.

The bigger question is whether mandatory firm rotation will improve audit quality. In my opinion, there is not enough empirical data yet to confirm this. A major concern is that mandatory firm rotation may create an impression that the audit is a commodity to be negotiated on price alone. Driving down audit fees will ultimately put significant pressures on audit quality. My view is that the recent regulatory developments in the EU are a manifestation of a broader trend towards regulatory divergence, which will increase costs for business and create greater impediments to global trade through added complexities and fragmentation of regulatory rules – and this is not in the public interest.

4. The IESBA project, Responding to Non-Compliance with Laws and Regulations (formerly known as Responding to a Suspected Illegal Act), has drawn some not-too-favourable feedback from stakeholders, resulting in revisions to its initial proposals and a possible re-exposure draft. Why has this been a more-than-challenging project for the IESBA to push through? In hindsight, what could the IESBA have done differently at the onset to smooth the process?

Let's first be clear – the comprehensive and thoughtful feedback the Ethics Board received from its stakeholders is evidence that debate around this issue was needed; the nature of the responses only shows that we struck a very sensitive and complex issue, and I was pleased that the Exposure Draft inspired such a high response rate. Hearing from a variety of stakeholders, who may not always agree with one another, is a vital part of our due process in developing an internationally applicable Code.



The project seeks to ensure balance between professional accountants' responsibility to act in the public interest with their duty to maintain confidentiality under the Code when facing suspected non-compliance with laws and regulations (NOCLAR). And therein lies the challenge and complexity. Accountants have an ethical responsibility not to turn a blind eye to suspected NOCLAR that could have grave consequences in terms of potential serious harm to individuals; significant damage to the environment, or significant financial losses to shareholders, customers, suppliers or counterparties. Yet, whistleblowing could expose the professional accountant to significant risk of retaliation, not to mention potential civil or criminal liability and loss of livelihood. What makes this project particularly challenging is establishing principles that will be operable globally across the diverse sectors in which professional accountants work, recognising the wide variation in legal frameworks in terms of not only whether they provide legal protection for whistleblowers but also whether they are well established and trusted.

The heart of the debate is really what is reasonable to expect of accountants within their role in the public interest. Our stakeholders' views on this have been polarised, hence the board's efforts to further reach out to them to better understand their views through the series of three global roundtables. At the time of writing, we have held the first of these in Hong Kong in May and the others will take place in Brussels and Washington over the next six weeks. In hindsight, the board could have more extensively engaged in dialogue with its stakeholders through holding such roundtables in the earlier stages of the project to better gauge the diversity of views and positions on the topic, but I'm optimistic that the board will come to a solution that will be acceptable to our broad stakeholder base.

5. The first independent Chair of the IESBA, Jörgen Holmquist, passed on earlier this year. Having worked with Mr Holmquist for a couple of years at IESBA, what is the most lasting legacy that he has left behind for IESBA and the global accountancy profession?

Yes, we suffered a huge loss this year. Jörgen was the first independent Chair of the board, and in this regard, he will be remembered as a trailblazer. He took this role very seriously, and his passion showed in everything he did. He will be remembered as an unflagging advocate for the importance of high-quality ethics standards for the accountancy profession, visiting no fewer than 15 countries and leading over 160 outreach activities on the board's behalf during his 18 months as Chair. He was inspiring to work with - the wealth of experience and knowledge that he brought, along with his energy and enthusiasm, were simply unmatched. He inspired the members of the board and IFAC staff - and I can only imagine, nearly everyone he encountered on a professional level - to do more. He was unafraid to test limits and challenge established procedures if it meant advancing the board's agenda. His dedication and persistence made him very successful at engendering change and making things happen. He leaves behind an immense legacy with the board to which he was so deeply committed, and I have no doubt that his presence will continue to be felt and influence the board's work and future direction.