

Mr. David McPeak
IAESB Technical Manager
IAESB

Dear David,

Following is a report commenting on the IAESB exposure draft on IES 4 prepared by an IAAER committee consisting of Bel Needles and Linda Kidwell, both well versed in ethical issues. While this does not constitute an official position of IAAER, it is endorsed by the following members of the IAAER Executive Committee:

Banerjee, R.P., India
De Lange, Paul, Australia
Frezatti, Fabio, Brazil
Glaum, Martin, Germany
Howieson, Bryan, Australia
Pacter, Paul, UK
Ruiz de Chavez, Salvador, Mexico
Sangster, Alan, UK and Australia
Street, Donna, US
Suardy, Themin, Singapore
Sundem, Gary, US

Bel and Linda have prepared a very thoughtful report, and I hope it is useful to the IAESB is revising IES 4.

Sincerely,

Gary Sundem, President, IAAER

Report of the IAAER Committee to Respond to the IAESB on IES 4

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Thank you for the opportunity to comment on the *Proposed International Education Standard (IES) 4: Initial Professional Development – Professional Values, Ethics, and Attitudes (Revised)*. We are both educators with many years of experience teaching accounting at the university level, primarily in the United States but with additional education experience in Europe, Australia, Africa, and Asia. Ethics education has been a high priority of ours for a considerable time, and we trust that our comments will be helpful to the IAESB.

We welcome the considerable effort that has been made to craft a revised standard concerning ethics education. The overall framework for ethics education in the IES is helpful, and the IES makes it clear that IFAC member bodies must make it a priority to ensure that IPD pays sufficient attention to professional values, ethics, and attitudes as the global accounting community works toward a common understanding of the nature of accounting professionalism. We will address the questions posed in the guide for respondents in turn.

1. Do you agree with the tabular format adopted for learning outcomes?

The tabular format of the proposed IES is helpful in mapping competence areas to learning outcomes and expected levels of proficiency. However, as currently constructed, the table implies that every learning outcome within a competence area must achieve the same level of proficiency. For that matter, every competency area identified in the proposed IES sets the same level of proficiency, Intermediate. If there is to be no differentiation among or within areas, then the benefit of mapping learning outcomes to proficiency levels in the table is lost. Furthermore, as mastery is one of the levels described in the appendix, does the IAESB intend to imply that accountants do not need to master professional ethics? The IES requires intermediate proficiency on ethics, but the remainder of the standard discusses the importance of ethics throughout the career of the professional accountant. Perhaps it would be more helpful to clarify that intermediate (or perhaps advanced) proficiency is required upon entry, but that mastery is to be expected within some time frame of initial entry. More differentiation of levels between learning outcomes would be helpful, as discussed in the response to Question 3, below. In addition, in Table A, professional skepticism and professional judgment are joined together in one box in the first column. We believe these are not quite the same concept, and the drafters indicate differentiation as well in Table B. Table A should separate them as Table B does, as attitude and judgment are demonstrated rather differently.

2. Do you agree with the competence areas identified for ethics education?

Ethical Principles as a competency implies something accountants *know*, rather than something they *do*. There is also some inconsistency with the prioritization of competence areas within the document, and we believe ethics demands primacy within the IES. Therefore we suggest that “Ethical Principles” be renamed “Ethical Principles and Reasoning.” This would achieve two desired results. First, it signals that ethics are not only a list of principles to know but also a call to make ethical reasoning an integral part of the practice of accounting. Second, it provides a competency area that could house additional topics often covered by accounting ethics educators but not readily matched to the proposed areas in the IES, namely classical ethics theories, moral development, and moral reasoning and decision making. In addition, we believe Ethical Principles and Reasoning should be the *first* of the competence areas listed. Second should come the Commitment to the Public Interest, followed finally by Professional Skepticism and Professional Judgment. Skepticism and judgment are informed by ethics, in the context of protecting the public interest. As judgment flows from the other two competency areas, it should follow them in the table. This would also be more consistent with the sequencing of these competencies in the Scope section (Ref Para 3 – 5) and the Explanatory Material regarding the Framework of Professional Values, Ethics, and Attitudes (Ref Para A10 – A13).

3. Do you agree with the minimum levels of proficiency as identified for each competence area?

As suggested above, we believe that setting a single level of proficiency within each competency area, as well as a single level across all three areas, leaves the levels somewhat irrelevant and the explanations in Appendix A unnecessary. In considering the levels as defined in the Appendix, as well as the widely accepted and utilized levels outlined in Bloom’s Taxonomy,¹ the learning outcomes listed do not map consistently to the Intermediate level. Using the Appendix terminology, rather than Bloom’s, we suggest the following levels are better matched to the learning outcomes:

- Professional Skepticism outcome, “Apply a skeptical mindset . . .” represents an Advanced level of proficiency, as indicated by the inclusion of the following phrase in the Appendix definition of Advanced: “Making judgments on appropriate courses of action.”
- Professional Skepticism outcome, “Identify and evaluate . . .” is correctly mapped to the Intermediate level.
- Ethical Principles [and Reasoning] outcomes “Explain the nature of ethics” and “Explain the advantages . . .” represent a Foundation level of proficiency.

¹ Bloom, B.S. (Ed.), Engelhart, M.D., Furst, E.J., Hill, W.H., and Krathwohl, D.R. (1956). Taxonomy of educational objectives: The classification of educational goals. Handbook 1: Cognitive domain. New York: David McKay.

- Ethical Principles [and Reasoning] outcomes “Apply the fundamental ethical principles . . .” and “Apply the relevant ethical requirements . . .” are appropriately identified as Intermediate.
- Public Interest outcomes “Explain the role of ethics within the professions . . .” and “Explain the role of ethics in relation to business . . .” represent the Foundation level of proficiency.
- Public Interest Outcomes “Analyze the interrelationship of ethics and law . . .” and “Compare the consequences of unethical behavior . . .” are appropriately labeled as Intermediate.

Changing the levels in the table may make it more complex, but we believe it enhances the value of mapping the learning outcomes to the levels of proficiency. Another approach the IAESB might consider is developing a more comprehensive table with proficiency levels for each of the following professional development stages: aspiring, beginning, experienced, and leadership/partner.

4. Do you agree that the learning outcomes related to professional skepticism and professional judgment identified are appropriate for ethics education?

Although the learning outcomes do not pertain to ethics, as asked in this question, they clearly do pertain to professional attitudes and therefore suit the subject matter of the proposed IES.

5. Does Appendix 1 of the proposed IES 4 Exposure Draft (June 2012) provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Paragraph 11 of the proposed IES 4 Exposure Draft (June 2012)? If not, what changes do you suggest?

Appendix 1 is very helpful, especially for those not yet familiar with the idea of different levels of proficiency. We would make one suggestion for a change in the description of the Foundation level. This suggestion is based on Bloom’s Taxonomy², the most widely cited model of the hierarchical stages of learning. *Interpretation* requires a higher order of understanding, possible only after attaining foundational knowledge and an understanding of the complexities of the topic at hand. Therefore “interpret” should be moved from the Foundation level description to that of the Intermediate level. To be consistent with the education literature that cites the Bloom Taxonomy, the advanced level should include the terms *evaluate* and *synthesize*. Because of the hierarchical nature of learning, each level of proficiency assumes and builds on those below it. Therefore the Mastery level, as it depends on the terms in lower levels, does not seem to add anything new. Those ideas listed as bullet points under Mastery do not represent proficiency levels but rather behaviors, thus they do not fit the nature of the rest of the appendix. We recommend elimination of this category.

² Bloom (1956).

6. Are there any terms within the proposed IES 4 Exposure Draft (June 2012) which require further clarification? If so, please explain the nature of the deficiencies.

We were unable to locate a definition of “Public Interest” in this or any of the other IESs (extant or proposed). In our experience, there is great diversity of thought as to what public interest means, even within national boundaries. As the IESs are intended to guide IFAC member bodies from diverse cultures and political and financial constituencies, we believe a definition of public interest ought to be provided. Language in Para A13 could be used for this purpose, but A13 itself is not a substitute for including it in the glossary. We did not identify any other terms that needed to be included, and the definitions provided were clear.

7. Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 4 Exposure Draft (June 2012)?

Organizations or educators that do not have a history of including ethics in the IPD curriculum will likely face challenges to effectively train students in ethics, but this will be alleviated if organizations like the IAAER and various other organizations of accounting educators facilitate sharing of ideas and materials, as well as assessment tools.

The wording of the Objective (Para 8) of the IES implies that the IFAC member bodies themselves are to provide values, ethics, and attitudes. This is problematic on two fronts. First, it implies that the IFAC member bodies themselves are the educators, which is often not the case. (This is more clear in the explanatory material, Para A9, but the meaning should be as clear in Para 8.) Second, it raises the age-old question of whether we can provide ethics to students. We suggest wording more along these lines:

The objective of an IFAC member body is to ~~provide~~ **ensure that** aspiring professional accountants ~~with~~ **have been trained in** the professional values . . .

Additional Comments

- Para 5 implies that the learning outcomes in the IES are the definitive set that capture learning in the three competencies. Better language would imply that the learning outcomes may include those listed. Para 11 is more clear on this point.
- Ethical principles learning outcome (iv) requires aspiring accountants to apply the relevant ethical requirements to professional behavior. However, the relevant ethical requirements as defined in the IESBA Code, include “professional behavior,” making this outcome unclear. Perhaps this learning outcome should be “Apply the relevant ethical requirements to professional dilemmas and compliance with standards.”
- Para 13: Assessing learning outcomes is in the domain of IFAC member bodies, but in many jurisdictions, designing learning activities is not. IFAC member bodies should

require documentation that the IPD period included reflective activities, but they should not necessarily design them.

- The explanatory material contains clarification or guidance for Professional Skepticism (Para A23) and Ethical Principles (A24 – A27). However, no equivalent guidance is provided for Commitment to the Public Interest.
- Para A32: We have serious concerns about the proposed requirement for reflective activity as proposed. Our particular concerns are about potential issues that could arise in connection with professional accountants documenting ethical dilemmas that occur in the workplace. Possible issues include:
 - Completeness: Whether the documentation has included all of the relevant facts and circumstances that were considered in arriving at a decision. This can be a particular problem for junior personnel that may not always be apprised of all of the relevant facts and circumstances considered in arriving at a decision.
 - Neutrality: There is a risk that each of the participants in a decision could introduce personal biases into the documentation, intentionally or otherwise.
 - Privacy of individuals: Personal privacy issues could arise if individuals are identified or identifiable from information included in the documentation.
 - Confidentiality: Documentation of ethical dilemmas that arise when working with confidential employer or client information poses issues of potential unauthorized access. Also, information prepared by clients is generally not considered privileged information in most countries and could be subject to discovery and use by adverse parties in litigation or potential litigation.

Case studies are often employed by educators precisely to ensure that privacy and confidentiality issues do not arise. Therefore we do not agree that the practice of documenting experiences relating to lessons learned from ethical dilemmas and considering what approach may be taken in the future in similar circumstances would be appropriate for professional accountants, especially at the early stages of their careers. Nor do we believe that documentation of real-life situations is desirable or superior to the use of case studies as part of the learning process.

- Para A35 is inaccurate as it refers to IES 6.
 - The proposed IES 6 expressly addresses both IPD and CPD, not just IPD as stated.
 - IES 6 does not provide principles to assess professional values, ethics, or attitudes. It provides principles to assess professional competency. Para A35 could instead note that the principles provided to assess professional competency, outlined in IES 6, could also be applied to the assessment of professional values, ethics, and attitudes.

- The content of A37 is appropriate and helpful. We note, however, that it is inconsistent with the approach taken in IES 6, Para A3 – A5. For clarity, these two IESs should be consistent.

We thank you again for the opportunity to comment on the proposed IES 4. We hope that our comments have been constructive and helpful to your efforts.