

Proposed strategy and work plan, 2019-2023

A consultation paper issued by the International Ethics Standards Board for Accountants (IESBA)

Comments from ACCA
July 2018

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 200,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 101 offices and centres and more than 7,200 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

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ACCA welcomes the opportunity to comment on the proposals.

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GENERAL COMMENTS ON THE PROPOSED STRATEGY AND WORK PLAN

In our opinion, the consultation paper includes the key elements of what the IESBA will be expected to address during the five-year strategy period, including aggressive tax avoidance, the digital economy (including cyber-security) and others. However, the process of standard-setting can be a long one, and so the timing (including prioritising) of projects is an important consideration if the IESBA is to remain agile.

While advancing the Code's relevance and impact will require such agility, this must be balanced with the strategic theme of expanding the IESBA's perspectives and inputs, and we welcome the enhanced level of strategic and technical coordination with the other standard-setting Boards. But we should also remind the IESBA of its clear intention (stated at the time of issuing its strategy survey in April 2017) to resist 'standards overload' and to resist further changes to the Code in the near future following the completion of the restructure project. This is particularly important to professional accountants working in SMPs and SMEs, and also in jurisdictions in which it is necessary to translate the Code from English.

We note that the IESBA is inviting comments on all aspects of its strategy and work plan (SWP) set out within its consultation paper. Our general comments below are structured around the IESBA's approach to planning, as set out in parts I and II of the consultation paper. The specific questions raised within parts II and IV are then addressed.

Vision for the Code and strategic themes

This section of the consultation paper is introduced with the following statement:

'The IESBA's vision is for the Code to be a foundation of strong ethical principles, values and standards to underpin trust in the global accountancy profession in a dynamic and uncertain world, and to enable the profession to act in the public interest.'



We welcome the stated aim of underpinning trust in the global profession, which is fundamentally in the public interest. In fact, the significance of trust is articulated well throughout parts I and II of the consultation paper. In practice, the development of trust in the global profession depends on individuals (professionals) accepting responsibility for their personal ethical decision-making and development. Professionals must acknowledge that their roles require individual trustworthiness and the development of ethical character. If this is widely achieved then, as a collective, trust in the profession will follow. Therefore, we believe it is important that the IESBA remains clear about the relationship between the development of individual trust and collective trust.

A comprehensive, well-structured and clearly-drafted Code will not, in itself, bring about trust in a profession. As explained already, individual professionals must first be *seen to be* trustworthy. In addition, effective processes must be developed within firms, and other organisations, in order to develop trust in those organisations. We suggest that the active involvement of institutions in which accountants are being taught is important in achieving this. Lecturers must provide the relevant training in trust and ethical development to students and organisations that makes clear *why* ethics is important, and illustrates how challenging ethical decision-making can be. Ethics must be a core element of education – running through a professional accountant’s examinations and experience.

The three strategic themes

The three themes set out in paragraph 3 of the consultation paper are:

1. advancing the Code’s relevance and impact (ensuring it remains fit for purpose, and raising expectations globally concerning ethical behaviour)
2. deepening and expanding the Code’s influence (through increased adoption and effective implementation)
3. achieving a wider range of perspectives and inputs (through proactive engagement and more avenues for cooperation with stakeholders).

While we support these themes, it should be acknowledged that the third of these is simply a means to an end (the end being 1 and/or 2). However, if appropriate engagement is achieved at an early stage, this process may serve to speed up the standard-setting process, rather than slow it down.



Relevance and impact

In ensuring that the Code remains fit for purpose, it is important that the IESBA identifies areas in which advances in technology will have the greatest impact on the Code. Technological change may challenge the robustness of the fundamental principles and the conceptual framework. It is possible that it will highlight areas of the Code in which appropriate application material will be useful. But while technology may impact the application of the conceptual framework to the fundamental principles, there is no evidence that fundamental ethical principles themselves are likely to change.

The IESBA clearly appreciates the importance of the Code being (in the words of the Chairman) ‘future ready’. We believe (as do many stakeholders) that a principles-based approach is important in achieving this. A clear articulation of the robustness of a principles-based Code, including the application of the conceptual framework, will enhance trust in the profession, as professional accountants will have the information and confidence to ‘do the right thing’, rather than search for loopholes. Ethics is more than just compliance with requirements; it is an attitude of mind, which arises out of familiarity with a Code that is clearly drafted.

Care must be taken to guard against regulatory influence eroding the principles-based approach. We assert this in the knowledge that regulators typically like ‘bright lines’ (ie rules), as they consider principles to be difficult to monitor and enforce. The argument against this viewpoint is that clear principles encourage the right *behaviours* by ensuring that responsibility for ethical decision-making rests with the professional accountant. This, in turn, safeguards the public interest, and enhances the reputation of the profession.

Nevertheless, the IESBA must look to regulators globally to inform the necessary development of the Code. This remains an important element of the third strategic theme. By way of example, ACCA agrees that a review of the definition of ‘PIE’ is due, and we would welcome a definition that supports a principles-based approach.

Greater influence – Global adoption and effective implementation

The statistics concerning adoption of the Code (set out in paragraph 18 of the consultation paper) ‘are a strong endorsement for the Code and its principles-based approach’.¹ The recent restructuring of the Code should (if it has achieved its objectives) provide an opportunity to promote global *implementation* of the Code, rather

¹ Proposed strategy and work plan 2019-2023, page 8



than mere adoption (which could be achieved by simply ‘pasting’ the IESBA Code into a local code). But we would also hope to see a range of resources made widely available through the IESBA website to make adoption and understanding easy. However, such resources will only be effective if they are of a high quality and actively promoted.

In paragraph 19, the consultation paper refers to the issue of ‘fragmented responsibility for ethics standards at the national level’.² It is not clear that the IESBA has addressed this issue in the proposed SWP, or even considered the impact of the issue and how it could reasonably be addressed.

Engagement with stakeholders

As already stated, strategic theme 3 is a means to an end, and we recommend that IESBA’s final strategy clearly articulates the benefits to be gained from the various forms of engagement and cooperation. We would support a process of active engagement with IFAC member bodies, in order to involve professionals in the development of the aims of the Code, as well as its content. The views of stakeholders should be integrated into the development process, rather than regard the three strategic themes separately.

It is clear that ‘engaging and seeking cooperating avenues with stakeholders’ requires more than simply gathering perspectives and inputs. A detailed strategy for engagement should identify the various groups of stakeholders, and articulate the nature and benefits of engagement with each.

We would support greater collaboration with the other standard-setting Boards. In particular, effective collaboration with the IAESB might encourage the involvement of education institutions to develop ethics training with organisations in their countries. This should aim to ensure that training in ethics respects cultural differences, even though the ethical principles themselves are robustly upheld across the globe.

We welcome the proposed ‘...enhanced level of strategic and technical coordination...’ between the IESBA and the IAASB.³ This is particularly important in an era of rapid technological change, as the various standard-setting Boards will, at times, have common interests. Some areas of technological advancement are likely to have an impact on the aims of the Code, technical standards and education standards. The value of strategic and technical coordination between all three standard-setting Boards

² Proposed strategy and work plan 2019-2023, page 9

³ Proposed strategy and work plan 2019-2023, page 9



(and other IFAC groups such as the SMP and PAIB Committees) should not be underestimated.

SPECIFIC QUESTIONS RAISED BY THE IESBA

1. Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

Broadly, we agree with the proposed criteria set out in paragraph 30 of the consultation paper. They set out a number of reasons why a project to amend the Code might be undertaken. However, they do not set out any criteria to suggest why a project should *not* be undertaken. For example, the scope of a potential project may be unknown until previous changes to the Code have been embedded. With this in mind, we support the IESBA's stated intention to resist 'standards overload'.

2. Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.

ACCA was pleased to respond to the IESBA Strategy Survey Questionnaire in July 2017, which recognised the need to resist further changes to the Code soon after the completion of the restructure project. In considering the IESBA's proposed areas of activity (not necessarily changes to the Code), we suggested exploring the areas of:

- trends and developments in technology,
- tax planning and related services, and
- definitions of PIE and listed entity.

A post-implementation review of the restructured Code was also seen as very important.

The development of guidance material, in various forms, features under 'outreach and communication with stakeholders'.⁴ While such material is important in maximising adoption, this seems to ignore the importance of guidance in improving implementation and changing behaviours in order to deliver the IESBA's vision. Guidance material that

⁴ Proposed strategy and work plan 2019-2023, page 13



improves understanding of the principles-based approach, including competence in applying the conceptual framework, is key to changing behaviours, public perception and trustworthiness.

We recognise the importance of considering ‘emerging or newer models of service delivery’, and the questions that may arise as set out in paragraph 46. However, we maintain that fundamental ethical principles must be (and be accepted as being) applicable to every circumstance, and so help to ensure that the Code is ‘future ready’. Therefore, we believe that many of the areas mentioned in the proposed SWP could be best served by issuing guidance to illustrate how the conceptual framework may be (and perhaps should be) applied in different scenarios (such as advancing technologies or business models). ACCA would like to see an acknowledgement in the SWP that not all guidance must take the form of application material within the Code.

We understand why projects concerning subjects such as materiality and communication with those changed with governance are relevant to the Code, even though these are subjects more commonly associated with audit and assurance. The IESBA clearly has an interest in these issues, but opportunities for collaboration with the other standard-setting Boards should be sought. In some cases, those other Boards might be expected to take the lead (in consultation with the IESBA); in other cases, joint projects may be appropriate.

3. Recognising that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.

There are already a number of ‘pre-commitments’, set out in Appendix 1 to the consultation document: four potentially relating to standard-setting, two post-implementation reviews, and one to develop an e-Code. Paragraph 39 sets out eight new items as priorities. We have already made clear that there must be a period of embedding the restructured Code before work streams aimed at further changes to the Code are commenced. If this does not happen, then the scope of such projects may be found to be inappropriate.

We note that ‘[t]he proposed work plan seeks to balance longer term, more resource-intensive initiatives with shorter term initiatives that are less resource intensive’⁵ and that ‘it evolves dynamically’.⁶ This should not imply that the SWP may be imprecise with

⁵ Proposed strategy and work plan 2019-2023, page 14

⁶ Ibid



regard to timings. We are clear that, in the short-term, focus should be on global adoption and effective implementation of the Code, rather than developing the Code itself.

4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

Paragraph 6 of the consultation paper states ‘Some outputs may result in changes to the Code’.⁷ Although it goes on to mention other outputs, such as IESBA Staff publications, we are concerned by the number of points throughout the proposed SWP where incremental additions and amendments to the Code itself appear likely to arise. For example:

- paragraph 12 states that ‘new questions or issues may arise in the fluid, dynamic external environment that might reveal potential gaps in the Code or areas in need of further strengthening’⁸
- paragraph 42 (second bullet point) asks whether there would be ‘a need to reconsider the concept of independence of mind and the fundamental principles of integrity, objectivity and professional behavior’ in the context of technological advances.⁹

IESBA should avoid minor or frequent changes to the Code, unless there is some compelling reason for them. Generally, such changes serve to undermine the robustness of the conceptual framework.

CONCLUSIONS

Overall, we are supportive of the proposed SWP, as it attends to various significant developments taking place in the professional arena. Even though it is ambitious, the aim should be to integrate and develop most of the proposals over time.

However, it is one of the greatest sources of concern for those who are bound by the Code (or indeed any similar code or legislation) that constant change creates

⁷ Proposed strategy and work plan 2019-2023, page 6

⁸ Proposed strategy and work plan 2019-2023, page 7

⁹ Proposed strategy and work plan 2019-2023, page 16



uncertainty. It also undermines the robustness of the conceptual framework and, in turn, confidence in the Code.

The Code has recently been updated and, in some jurisdictions, will not begin to become effective until the middle of next year. The IESBA has previously stated its intention to resist 'standards overload' and, similarly, we would expect any future changes to the Code to be kept to a minimum. The restructured Code must be allowed to 'bed down', as professionals who are at the receiving end of constantly changing rules and legislation experience anxiety and uncertainty in practice.

One of the objectives of the restructuring project was to make the Code more user-friendly, which entails the Code not being so long that it is unwieldy. We agree with the assertion in paragraph 17 that the Code must 'establish a universal baseline'.¹⁰ But the IESBA must be alert to the danger that the Code will be expanded and refined so that the fundamental principles are obscured by extensive detail or material that may be perceived as prescriptive.

¹⁰ Proposed strategy and work plan 2019-2023, page 8





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