Our Ref.: C/EC

31 October 2019

Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
The United States of America

Dear Sir,

IESBA Exposure Draft

*Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Exposure Draft (ED).

We appreciate the IESBA's time and effort in organizing the international webinar on the ED and explaining the changes.

We believe the concept of role and mindset expected of all professional accountants emphasised in the ED is embedded in the fundamental principles of the extant IESBA *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (“Code”). In general, professional accountants are familiar with the fundamental principles and aware of the expectation to apply them in performing professional activities.

Overall, we support the proposals in the ED which clarify what is implicit in the provisions of the Code, and thereby, serve as an important reminder to professional accountants of the significance of their roles in society and compliance with the ethical values and spirit in the Code towards acting in the public interest. The proposals are also helpful in strengthening the application of fundamental principles and conceptual framework.

To help professional accountants understand and implement these proposals, we would urge the IESBA to consider developing implementation guidance such as staff publications, case studies, FAQs. These would help to explain the intentions of the provisions and promote consistency in implementation.

Our responses to the questions raised in the ED are set out in the Appendix for your consideration.

If you have any questions regarding the matters raised above, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hkicpa.org.hk).

Yours faithfully,

Chris Joy
Executive Director

CJ/SH
Role and Values of Professional Accountants

1) Do you support the proposals in Section 100 that explain the role and values of professional accountants as well as the relationship between compliance with the Code and professional accountants acting in the public interest? Are there other relevant matters that should be highlighted in these paragraphs?

In general, we support the proposals in Section 100 which clarify the role and values of professional accountants and their responsibility to act in the public interest.

We acknowledge that the interpretation of “public interest” varies in different situations and culture, and hence it is not possible to develop a clear-cut definition.

It would be useful to clarify in publications such as the Basis of Conclusion or case studies the relevance of public interest to professional accountants, in particular PAIBs being employed by SMEs or PAPPs who audit SMEs. It is important that they understand the role and values of professional accountants the Code requires of them and how their behaviour impact public interest.

Though “public interest” is not defined in the Code, we agree the proposals in section 100 heighten the importance for professional accountants to uphold the spirit and ethical values of the Code when performing professional activities, rather than simply complying the prima facie requirements of the Code.

Determination to Act Appropriately

2) Do you support the inclusion of the concept of determination to act appropriately in difficult situations and its position in Subsection 111?

We note that the proposals in subsection 111 focus on professional accountants’ determination to act appropriately when faced with conflicting dilemmas or difficulties, which implies the importance of professionalism.

While similar concepts are implicit in the fundamental principles and the Responding to Non-Compliance with Laws and Regulations requirements, we support the inclusion of the materials to clarify the values and strengthen professional accountants’ application of professional judgment in difficult circumstances.

It would be helpful for IESBA to develop practical examples to illustrate the concept of determination to act appropriately in difficult situations e.g. how a professional accountant can act appropriately where there are cross borders laws and regulations prohibiting the professional accountant from obtaining relevant information.
Professional Behavior

3) Do you support the proposal to require a professional accountant to behave in a manner that is consistent with the profession’s responsibility to act in the public interest in paragraphs 110.1 A1(e) and R115.1?

We agree with the proposal. Given professional accountants’ wide-ranging role in society, the proposal is consistent with public’s expectation on the profession’s responsibility to act in the public interest, and has reinforced the values and mindset expected of professional accountants.

However, some local stakeholders have expressed concern that there may be circumstances where professional accountants may be challenged on the basis of “non-compliance” with the expected role as set out in proposed paragraph 100.1 A2 and have unintended consequences.

Impact of Technology

4) Notwithstanding that the IESBA has a separate Working Group that is exploring the implications of developments in technology, are there any additional matters relating to the impact of technology beyond the proposals in paragraphs 110.1 A1(b)(iii), 113.1 A2 and 120.12 A2 that you consider should be addressed specifically as part of the Role and Mindset project?

Professional accountants are continuously increasing the use of automated tools and techniques to prepare information and analysis when carrying out their professional activities. Applying professional judgement to evaluate outputs of complex, sophisticated computer systems becomes more important.

While we support the proposals in paragraphs 110.1 A1(b)(iii), 113.1 A2 and 120.12 A2 as appropriate reminders on the development in technology, we believe developing further application material and illustration to address the impact of technology to ethical behaviour of professional accountants would be helpful.

Inquiring Mind

5) Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?

Agree. Section R120.5 requires professional accountants to have an inquiring mind and apply the reasonable and informed third party test when making professional judgement.

We believe the inquiring mind concept supplements the reasonable and informed third party test when professional accountants exercise judgment, and enhances professional accountants’ thought process in decision making.

Professional accountants in Hong Kong are concerned that when they are being challenged on compliance with the Code, how they can demonstrate that they have complied with the requirement of having an “inquiring mind”. If the expectation entails documentation on how they have applied professional judgement, it would be adding to the work load of PAIBs to document their thought process.
Bias

6) Do you support the approach to addressing bias? If so, do you agree with the list of examples of bias set out in paragraph 120.12 A2? Should any examples be omitted or new ones added?

The list of examples of bias are useful indicators for professional accountants to assess a given situation or dilemma.

It is important to note that professional accountants would bring on their personal characteristics in exercising judgment, such as personal knowledge and experience; national/cultural background; adaptability to stress and time pressures. We suggest expanding the list of examples of bias to include personal attributes and skills which would seemingly influence one's professional judgment.

While we support the approach to addressing bias, with hindsight, professional accountants might find it difficult to articulate and justify his/her decision making, when regulators challenge an accountants’ compliance with the Code. Accordingly we encourage IESBA to develop application examples and illustration, particularly documentation guidance (such as those in sections 260 and 360 of the extant Code), to guide accountants.

Organizational Culture

7) Are there any other aspects about organizational culture in addition to the role of leadership that you consider should be addressed in the proposals?

We have no further comments.

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