

Keynote Address at APESB Dinner Event
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Dr. Stavros Thomadakis, Chairman, IESBA

Greetings and thanks to Nicola Roxon, Channa Wijesinghe and APESB staff for their collaboration and the warm welcome they have prepared for the IESBA Team in Sydney.

We are very pleased with the continuing close and productive relationship of APESB with IESBA.

We are celebrating the good news – with which APESB has greeted us upon arrival – of the incorporation of the Restructured International Code of Ethics into the Australian ethical standards. This merits our sincere congratulations!

Ladies and gentlemen,

I think it appropriate, on this excellent occasion of Australian adoption of the International Code of Ethics, to share my thoughts with you about the essentials of the Code, its global positioning, and the challenges that both standard setters and users of the Code face for the present and future.

A. Essentials of the Ethics Code

The five fundamental principles of the Code of Ethics may appear self-evident but are hard to apply. A score of doubts, dilemmas, dubious loyalties and conflicting incentives may cloud their application.

Independence for auditors, and integrity and objectivity for other professional accountants can frequently be difficult to achieve just on one's own. Let us not overlook that it takes both personal courage and the support of others, colleagues, superiors, employing organizations to attain these noble objectives.

The public interest, as an overarching objective of the activity of professional accountants, is also difficult to achieve given that it may be inconsistent, may even conflict, with private or corporate interests that need to be subdued. Again, achieving public interest outcomes is not always easy to do on one's own. It also requires clarity, courage and support from others.

These are the reasons why the International Ethics Code for Professional Accountants is not a document of only two pages, including the conceptual framework and the fundamental principles, but rather the current restructured Code of four parts, including a large number of topical sections that specialize the principles in a variety of circumstances and accountant roles.

The Code is all about professional accountants' responsibility. It makes clear that compliance with the fundamental principles is a primary duty of the professional accountant. The Code is centered around the ways in which professional judgment is exercised. It conceives of the professional accountant not as an individual who simply follows rules and ticks boxes.

Compliance with the Code – and quality of service too by the way – requires active, perceptive and responsible individuals applying it. Yet, we must recognize that active, perceptive and responsible individuals are not self-sufficient or solo actors. They certainly need courage but they also need the support of other agents in their environment. This is something I will be coming back to.

What I would like to present to you tonight is the perspective of IESBA on the broad issues that challenge the content and the spread of ethical practices of accountants in present and future.

B. Global Positioning of the Code

Before speaking of challenges however, let me share briefly my perspective on how the Code should be positioned and remain operable in the global environment.

We think of a Code of professional ethics as a suite of principle-based standards that underpin proper behavior and support the good reputation of an international profession that is explicitly bound by its obligation to act in the public interest.

We think of professional behavior bound by its public interest mission as being subject to public expectation and public criticism. In that regard, the Code must take into account public perceptions, especially with regard to the role of professional accountants as guardians of the credibility of economic measurement and reporting.

We think of the profession as a global body whose behavior is based on ethical principles that can operate alongside national, institutional and cultural diversities, in the offering and conduct of professional accounting services.

We believe the mission of the Code's implementation is not to operate only as an instrument of exclusion of bad behaviors but also as one of motivation of good behaviors:

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- 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 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.

In other words, we envision the Code as a highly integrated body of principles, standards and requirements aiming at the totality of behaviors of a Global Profession. The unity of the Code reflects the identity of the profession, the interrelationship of roles, and the integrity of the personality of the ethical professional.

I must say that this view is not universally held. In some quarters, there is belief that the Code should be split into two bodies of standards, one including auditor independence, the other embracing the balance of professional roles and behaviors. We disagree with this view because we think it will make effective implementation uneven, complicated and risky, damaging the public interest.

Finally, we understand the Code as a dynamic body of standards responsive to changing circumstances and new challenges, but anchored on a sound conceptual framework and stable fundamental principles, that form the Code's anchor to ethical behavior.

In that sense, the challenges I am talking about do not – at least at first pass – cast doubt on the general validity of the fundamental principles. But they do create questions about relevance and innovation of existing requirements and application material.

In approaching what the major challenges will be in our view, I will categorize my remarks into three areas that will give ample reason to rethink and refurbish behavioral standards.

These are: Shifting public expectations and regulation; pervasive technological change; and the interplay of globalization, integration and fragmentation in international practices.

C1. Public Expectations, Public Interest, Regulation

In my experience, as I am sure in yours, there is a continuous ebb and flow of challenges, questions and criticisms about the profession's performance. These arise from misbehaviors, failures or unfulfilled public expectations that feed more demanding public reactions, more intense interventions to banish misbehavior via inspection mechanisms, more activist stances towards crisis prevention. A general tightening up is, of course, understandable and expected after a global financial crisis. And much of the resulting focus is placed on the financial sector itself, not only here in Australia but also worldwide, critical as that sector is for the functioning of national and global economies.

Regulation that becomes more comprehensive has direct implications for the accounting profession, its stance and its social profile: commitment to the public interest, both in substance and appearance; adherence to policies of quality of service; and close and visible observance of fundamental principles of ethics are now more needed to elevate trust in the profession and respond to satisfy regulatory pressure. After all, the ebb and flow of misbehaviors and failures, as it continues, implies a constant focus on the profession's role as guardian of the quality and objectivity of information.

Professional firms are in charge of collecting, organizing and interpreting information to produce opinions. The business model of doing this needs to remain open to review and adjustment, not only because of technological developments that I will come to in a moment, but also because of public perceptions about reputation, objectivity, and credibility.

I would say that a central place in the response to public and regulatory doubts about integrity, objectivity of information and credibility of opinions should be held by the acquisition and exercise of a critical mindset, akin to "professional skepticism," by all accountants.

Clearly then, the role of ethics becomes more and more central and should penetrate more deeply both into the corporate cultures and the organizational forms of the providers of audit and other accounting services.

What do these circumstances imply for standard setters? Working even harder to make our conceptual framework and fundamental principles easy to understand and implement, while resisting the temptations of sliding down the slope of producing explicit prescriptive rules! That implies the need for clarity and relevance: Provision of new examples and guidance; awareness of the evolving regulatory, business and technological environment; underlining anew the need

to comply both with the letter of detailed requirements and with the spirit of the conceptual framework.

Those are the objectives that we aimed to achieve with the Restructured Code. And we will continue to aim at these in future, knowing full well that the success of the Code will depend on it.

C2. Technological Revolution

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 late starters on this, only now beginning to examine the topic, from an ethical perspective. Thankfully, there are many others who have already a track record on the issue of “technology and the profession,” so that we can profit from a voluminous body of work and reflection.

The technological revolution around us is sometimes astounding and certainly comprehensive. Methods of gathering, storing and organizing 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.

From the perspective of the Code of Ethics, we must 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 analysis to be fed into an overall opinion?

Not pretending I have answers to these questions, I am able to say that we are embarking on a process of collective reflection and thought, hoping that we will be able 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.

C3. Global Ethical Practice: Integration or Fragmentation?

As 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 setters) may well decide to add on or modify specific code provisions relating to particular needs and

experiences. In fact, the history of audit failures in each jurisdiction leaves its particular mark on ethical requirements. More stringent national provisions vis-à-vis the Code are common international practice. The Code itself is, in our thinking, a principles-based set of requirements that ensure a robust ethical culture but can be enriched by experience. I would call this “positive variation.” There is also negative variation in adoption: Jurisdictions that, rather than adding on, carve out pieces of the Code or choose not to adopt newer versions.

However, by far the larger challenge is implementation. Implementation may lag, vary, misread the ethics code, or misinterpret its provisions. No doubt, the application of the Code – no matter how clear – may be stressful and costly. Lack of resources, risks of being penalized for “doing the right thing,” and self-interest are the frequent barriers to espousing ethical behavior. It may also happen that 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 other isolated practitioners are not even aware of ethics requirements. There is therefore an awareness problem and a resources problem that hinder broad and even implementation. To my mind, this defines one of the primary duties of professional accountancy organizations: to activate programs that raise awareness, to support education and compliance to member obligations, to put in place disciplinary mechanisms for unethical practice. The IESBA, as the international standard setter, plans to engage with IFAC on the design and execution of proper implementation support, leveraging IFAC’s relationship with its members to promote awareness and compliance.

There is also an obverse side to the response to public expectations, the challenge I talked about, which relates to effective implementation.

As the accounting profession gears up to respond to its public interest responsibilities, there should be symmetric actions by other agents to facilitate, strengthen and make more effective that response. Those could be non-accountant corporate and financial leaders, regulators, public officials and policymakers. They could all work up and abide to commensurate Codes of Ethics. They could also engineer institutions and policies to facilitate the exercise of accountants’ responsibilities.

Let me use NOCLAR as an example. This is a standard that places a clear responsibility on professional accountants but needs the action of other agents in order to work. Corporate management and those charged with governance are involved. They must have not only an organizational capacity but also a corporate culture that discourages and discredits noncompliance. If there is to be disclosure, an appropriate public authority must exist; and that public authority must have the capacity to handle NOCLAR, after disclosure. Lastly, the institutional environment regarding protections of the discloser is also the work of government.

Clearly then public expectations on accountants must be matched by expectations of meaningful cooperation from agents outside the accounting profession, in the private and public sector. This must become part of a program for action towards the general application of ethical rules in economic life, that can offer great improvement in implementation.

In closing, I cannot but also comment on an emerging macro-challenge that is quite visible in our times: the rise of economic nationalism and the risk of dissolution of international agreements that support the global economic order. Let us not forget that standards make up a part of that order.

We at IESBA are staunch internationalists. Not only are we a broadly diversified Board in terms of origin and culture, not only do we hold high respect for each other's views and perspectives, but also we are exercising day after day our commitment to an international Code and its global ambitions. We believe that fundamental human values are universal and provide the foundation for ethical behavior. The same fundamental human values are the indispensable foundation for the broader world order and peaceful competition and cooperation. So, in the challenging circumstances of rising nationalism, we become even more staunch supporters of our global code of ethics, and even more determined to work to achieve its broad and beneficial implementation.

Thank you very much.