

# Exploring the IESBA Code Nr6

Presenter: **Lettie Janse van Vuuren CA(SA)**



**7 APRIL 2021**

*Exploring the IESBA Code: The International Code of Ethics for Professional Accountants*

*This 6<sup>th</sup> and final webinar in this series focuses on The Role and Mindset Expected of Accountants and refers to the Building Blocks Installment*

# Presenter

## Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



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# **WHAT'S ON THE AGENDA?**



# Table of Contents

1. **Recap** (*where did we stop last time?*)
2. **The Role & Mindset expected of Accountants – a focus on bias:**
  - Background & Introduction (What is it?)
  - Why the Role & Mindset revisions?
  - What are the key changes?
  - What is the effective date?
3. **The Building Blocks installment:**
  - Structure of the Code & Interconnectivity
4. **In Summary...**

# Quotes

**“If you change the way you  
look at things,  
the things you look at  
change”**

*- Wayne Dyer*

ACCOUNTANT  
**NICKNAMES**  
ACCOUNTAHOLIC  
PROVISIONS PEDDLER  
DOUBLE ENTRY DEVIANT  
RESERVED RECONCILER  
DEALER IN DEBITS AND CREDITS  
BEAN COUNTER  
**LEDGER LOVER**  
BEANKEEPER  
COUNTING CONSULTANT  
NUMBER CRUNCHER  
PENNY PROCESSOR

**RECAP**

# Recap

Module 1 in your Webinar Material contains the basic summary (again):

- Introduction to the Exploring the IESBA Code series
- Structure of the Code
- South African Amendments (SAICA and IRBA)

**Where did we stop with the webinars in this series?**

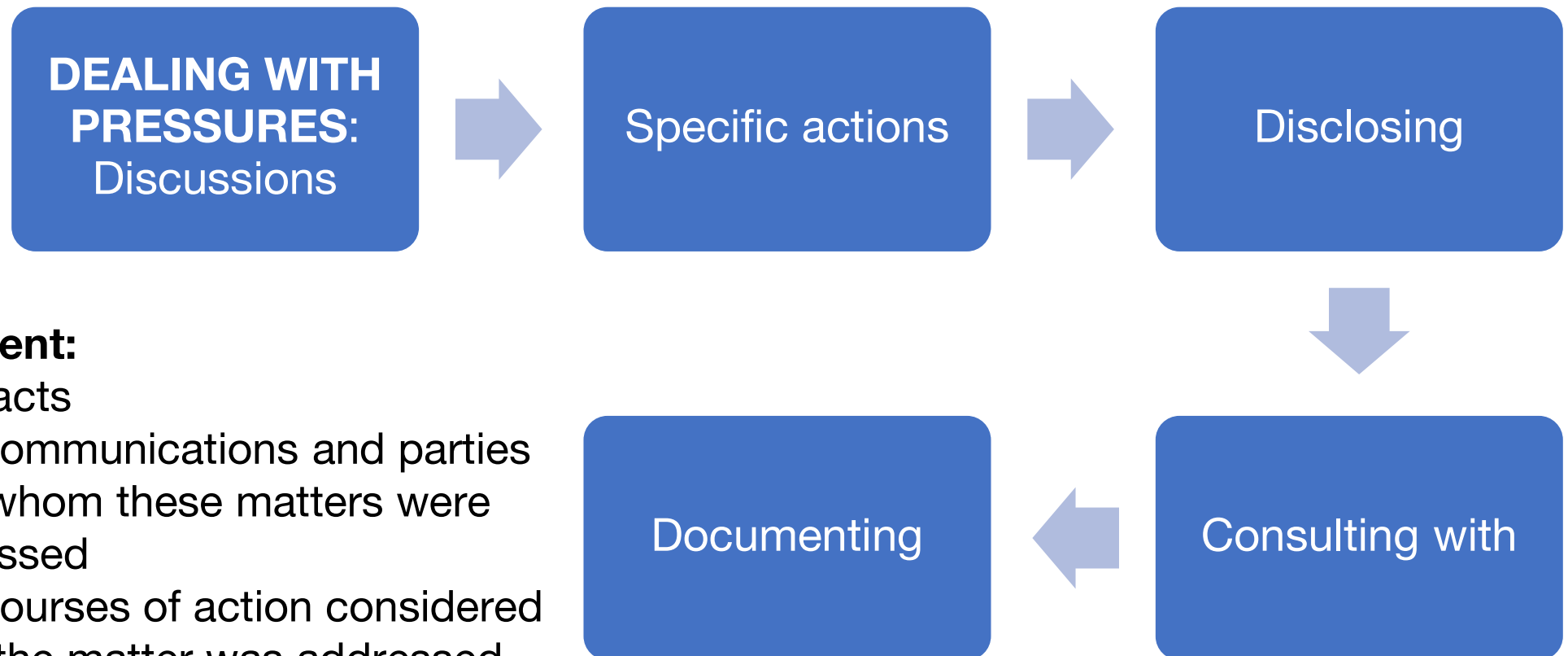
- We ended with Pressure to Breach the Fundamental Principles.
- Today we will focus on the **Role and Mindset expected of Accountants**  
– a focus on **Bias** and **The Building Blocks** installment

## Let's look at all the webinars in this series...

Webinar Nr	IFAC installments	Topic	Webinar Date
1	1 & 2	The 5 Fundamental Principles The Conceptual Framework, Step 1, Identifying Threats	17 Sep 2020
2	3 & 4	The Conceptual Framework, Step 2, Evaluating Threats The Conceptual Framework, Step 3, Addressing Threats	15 Oct 2020
3	5 & 6	Independence Conflicts of Interest	27 Oct 2020
4	7 & 8	Inducements Responding to NOCLAR (for PAIBs)	12 Nov 2020
5	9 & 10	Responding to NOCLAR (for PAPPs) Pressure to breach the fundamental principles	24 Nov 2020
6	11 & 12	Role and Mindset expected of Accountants The Building Blocks installment	7 Apr 2021



# Where did we end last time?



## **Document:**

- The facts
- The communications and parties with whom these matters were discussed
- The courses of action considered
- How the matter was addressed

# **ROLE & MINDSET EXPECTED OF ACCOUNTANTS**

*A FOCUS ON BIAS*



# Introduction

- **PAs must act in the public interest**
- PAs need to understand the expectations that come with their role and adopt the appropriate mindset
- The new provisions aim to strengthen the fundamental principle of objectivity, which requires PAs to exercise professional judgement or business judgement without being compromised by bias, conflict of interest, or undue influence or reliance

*Refer to Source Documents for detail*

# In the Public Interest

Professional accountants need to understand the expectations that come with their role and adopt the appropriate mindset.

- Strengthening of the fundamental principle of objectivity.
- The accountant is required to exercise professional judgment or business judgment without being compromised by bias, conflict of interest, or undue influence or reliance.

**Professional judgment** = *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

# Overview of the Key Revisions

## Fundamental principles

- Refinement
- Central role that compliance with the Code plays
- Integrity, objectivity, professional competence and due care, and professional behaviour

## Bias

- Awareness of bias
- Importance of organizational culture
- Potential adverse influence of bias on judgments and decisions

## Inquiring mind

- Applying the Conceptual Framework
- Identifying, evaluating and addressing threats
- Asking the right questions

# What outcomes are the Revisions seeking to achieve?

- More clearly recognizing the central role compliance with the Code plays in helping PAs and the profession meet their responsibility to act in the public interest
- A renewed mindset that encapsulates certain expected behavioral characteristics applied to all professional activities, including having an **inquiring mind** and standing one's ground or challenging others in difficult situations
- A greater awareness by PAs of the potential adverse influence of **bias** in their judgments and decisions, and an affirmation that they have an important role in promoting an ethical culture within their organizations

*Refer to Fact Sheet for detail*

# What are the Key changes?

1. Acting in the Public Interest
2. Having an Inquiring Mind
3. Enhancements to the Fundamental Principles
4. Awareness of Bias & Importance of Organizational culture

***Refer to the next 4 slides for detail...***

# 1. Acting in the Public Interest

- Highlight the importance of compliance with the fundamental principles in helping professional accountants to meet their responsibility to act in the public interest
- Explain that compliance with the Code means not only compliance with the letter of the Code but also with its spirit
- Clarify that compliance with the Code does not mean a professional accountant will have always met their responsibility to act in the public interest

*Refer to Fact Sheet for detail*



## 2. Having an Inquiring Mind

- A **new requirement** for ALL PAs (regardless of the professional activity undertaken) to have an inquiring mind when applying the conceptual framework
- Differentiate having an inquiring mind from the **exercise of professional skepticism** when performing audits, reviews and other assurance engagements
  - Under auditing, review, and other assurance standards—including those issued by the IAASB— accountants must also exercise professional scepticism, which includes a critical assessment of evidence.

### 3. Enhancements to the Fundamental Principles

- Strengthen the 5 fundamental principles of **objectivity**, **professional competence and due care** and **professional behavior**, including some enhancements that reflect the impact of technology
- Strengthen the fundamental principle of **integrity** by emphasizing the importance of having the strength of character to act appropriately

*Refer to Fact Sheet for detail*

## 4. Awareness of **Bias** & Importance of Organizational culture

- **Conscious and Unconscious Bias** affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.
- Mitigating the effects of bias can be challenging because we often fail to see our own biases and mistakenly believe we are acting objectively.
- PAs must be aware of their own bias in the exercise of professional judgment – **Refer to list of 8 common examples**
- Highlight the **importance that a positive internal organizational culture** has on the effective application of the conceptual framework
- Explicitly recognize that professional accountants have a role in promoting ethical behavior and culture in their organizations

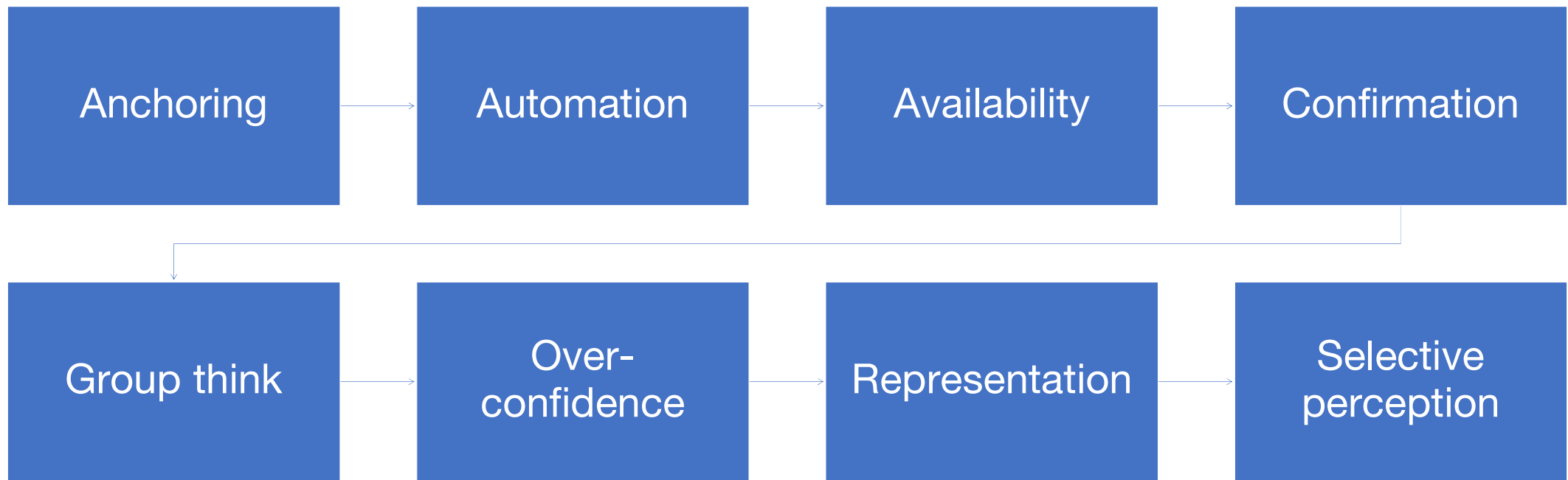
# Example of real world scenarios

## An audit manager chooses the engagement team for an upcoming audit.

- The manager asks the audit partner to approve the team. The partner points to a name on the list and says “I’m not sure it’s a good idea to have him on the team. I think that might pose too much of a familiarity threat.”
- “Really?” the manager asks “Does he have a connection to the client?”
- The partner replies “I have no idea, but you know there are lots of indigenous employees at that client, including some of the senior staff – I wouldn’t want our team member to be in an awkward position because of pressure from his own people.”

*Consider how bias might be illustrated above...*

# 8 Types of Bias



- *Refer to table on page 2 of IFAC installment 11 for descriptions and examples*

# Actions

Actions to mitigate effect of bias may include:

- Seeking **advice from experts** to obtain additional input,
- **Consulting** with others to ensure appropriate challenge as part of the evaluation process,
- **Receiving training** related to the identification of bias as part of professional development

# The Audit manager should...

In applying the conceptual framework:

- **Recognize** that allowing discrimination in workplace decisions does not reflect behaviour that is consistent with the profession's responsibility to act in the public interest,
- **Consider** whether and how the audit partner's bias might be **impacting objectivity**,
- **Have the strength of character** to engage in further discussions with the audit partner, even if doing so is challenging,
- **Discuss** the situation with others to ensure that perceived biased thinking is appropriately challenged.

Longer-term, education and training on bias and decision-making could benefit the partner, audit manager and their team — in order to better promote an ethics-based culture. In this situation, that might take the form of diversity, equity and inclusion training.

# What is the Effective date?

- The Role and Mindset Revisions will become effective as of **31 December 2021**
- *Early adoption is permitted*

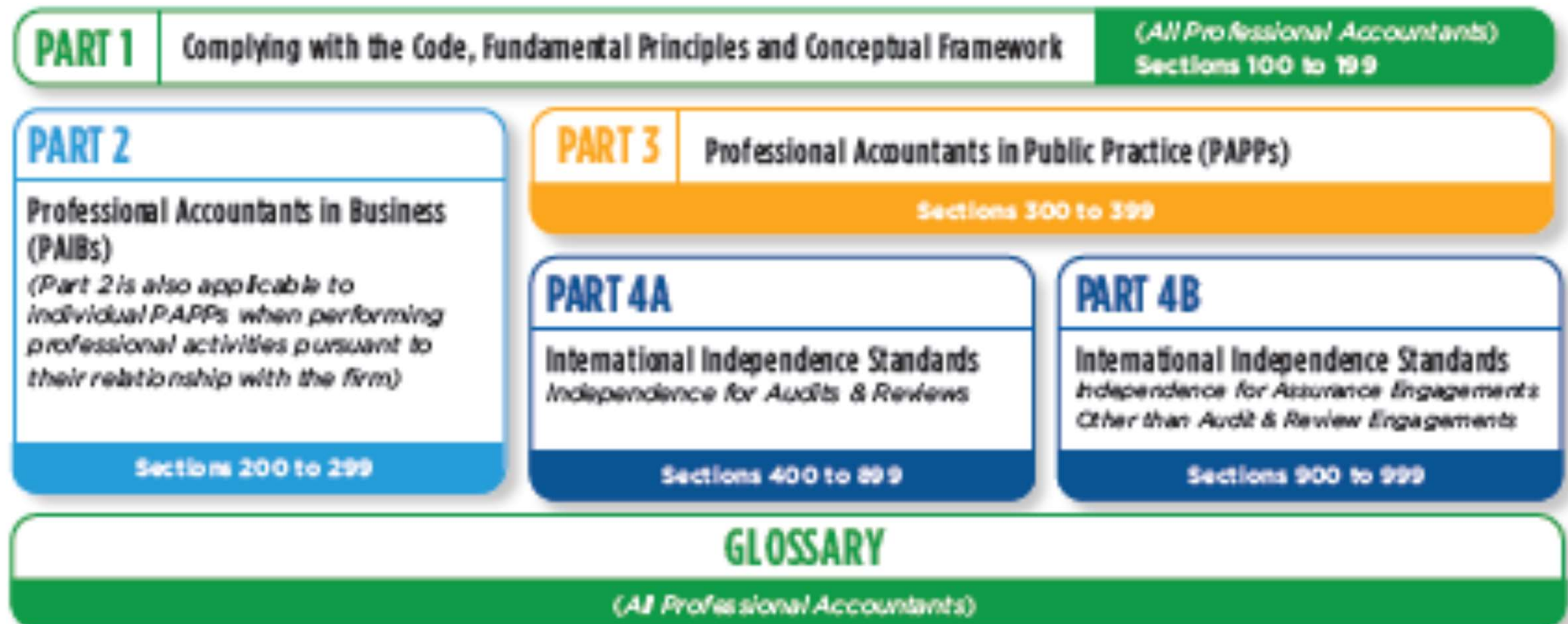


# **THE BUILDING BLOCKS INSTALLMENT**

# Remember...

- The International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) sets out the fundamental principles of ethics for professional accountants (PAs), reflecting the profession's public interest responsibility.
- The **principles apply to all PAs** irrespective of their roles and responsibilities. Together with the Code's conceptual framework, the principles provide a strong foundation for ethical decision-making.
- The building blocks approach **demonstrates the interconnected structure** of the Code

# Structure of the IESBA Code



# Structure of the IESBA Code

## DETAIL

- Part 1 = **The Conceptual Framework** applies equally across all professional activities, so this content is not repeated in Parts 2, 3 and 4.
- *Instead, **the other parts build on material covered in Part 1.***
- This approach demonstrates the scalability of the Code's provisions and emphasizes the overarching principles-based provisions in Part 1 that apply to all PAs in all situations.
- Subsequent parts of the Code provide context-specific information relevant to specific facts and circumstances encountered by PAIBs and PAPPs. Complying with the Code requires an understanding of the relevant provisions in a particular section in the context of Part 1, together with the applicable provisions in Sections 200, 300, 400 and 900 (i.e., the general sections).
- Finally, the Code's Glossary includes definitions and descriptions of terms.

# The conceptual framework specifies an approach for all PAs to:

Identify threats to compliance with the fundamental principles

**Installment  
2**

Evaluate the threats identified

**Installment  
3**

Address the threats that are not at an acceptable level

**Installment  
4**

# Independence vs the Fundamental Principles

- As discussed in **Installment 5**, independence is not a fundamental principle, but the same threats to compliance with the principles can also threaten independence.
- The International Independence Standards include requirements and application material to explain how to apply the conceptual framework when performing audits, reviews and other assurance engagements

# PAPPs vs PAIBs

- A PAPP is a PA, irrespective of function or classification (e.g., audit, tax or consulting) in a firm that provides professional services. Any PA not in public practice is deemed to be “in business” (i.e., PAIB) and are required to comply with Parts 1 to 2.
- In addition to Parts 3 and 4, PAPPs must also follow Part 2 in certain circumstances.
  - *For example, if a PAPP sees questionable or inappropriate actions by a client, they would follow Section 360 from Part 3.*
  - *If they see such actions by their own firm, they would follow Section 260 from Part 2.*

# **PAIB Scenario**

A PAIB is under pressure from the CEO to take an aggressive approach to recognizing revenues for the current reporting period, which could cause the financial statements to be misleading.

- The PAIB consults Part 2 of the Code and finds that:
  - Financial information needs to be presented in accordance with the appropriate financial reporting framework and cannot intentionally be misleading (see R220.4).
  - Pressure from others inside or outside the organization cannot result in a breach of compliance with the fundamental principles (see R270.3).



# **PAPP Scenario**

## **(on an Assurance engagement)**

A PAPP has been offered the opportunity to attend a major sporting event with an audit or review client.

- The PAPP consults Parts 3 and 4A of the Code and finds that:
  - A gift cannot be accepted from a client if the client is attempting to improperly influence their behavior (see R340.7).
  - A gift cannot be accepted from a client unless the value is trivial and inconsequential (see R420.3).

*In combination, the Code makes it clear that, even if the value is trivial and inconsequential, before deciding to accept the gift, the PAPP would need to evaluate the client's intent.*



## *In Summary...*

### **The Role and Mindset expected of a PA**

- ✓ PAs must be aware of the central role that **compliance with the Code** plays, especially with respect to the principles of integrity, objectivity, professional competence and due care, and professional behaviour
- ✓ PAs are expected to have a mindset that encapsulates an awareness of the potential adverse influence of bias on judgements and decisions. They are also expected to **promote an ethics-based culture** within their organization
- ✓ The requirement to have an **inquiring mind** when applying the conceptual framework applies to all PAs regardless of the professional activity undertaken
- ✓ Under auditing, review, and other assurance standards accountants must also exercise **professional skepticism**, which includes a critical assessment of evidence



## ***In Summary...(continued)***

### **The Building Blocks Installment**

- ✓ The structure of the Code is **interconnected**
- ✓ The introductory paragraphs in each Section of the Code remind PAs to apply the conceptual framework to **identify, evaluate and address threats to compliance with the fundamental principles**.
  - These paragraphs also highlight the different types of threats that might arise and the fundamental principle that might be impacted.
  - In this way, the structure of the Code always keeps the PA focused on applying the conceptual framework, no matter the situation.

# Source Documents available to you

1. IESBA\_FINAL Role and Mindset\_**Fact Sheet** NOV2020
2. IESBA\_**Final Pronouncement** Role and Mindset\_Oct2020
3. IESBA\_**Basis for Conclusions** Role and Mindset\_Oct2020
4. Exploring the **IESBA** Code **Installment 11** of 12 The Role and Mindset Expected of Accountants A Focus on Bias
5. Exploring the IESBA Code **the Building Blocks Installment**

*All of these are available to you as Source Documents, and short overviews have been summarized on the following 4 slides...*

# IESBA News Alert

- On 5 October 2020, IESBA released revisions to the IESBA Code of Ethics for PAs
- **In a nutshell, the revisions include:**
  - **Reinforce aspects** of the principles of integrity, objectivity and professional behaviour;
  - Raise behavioural expectations of all professional accountants through requiring them to have an **inquiring mind** as they undertake their professional activities;
  - Emphasize the importance of accountants **being aware of the potential influence of bias** in their judgments and decisions; and
  - Highlight the **supportive role the right organizational culture** can play in promoting ethical conduct and business.

# IESBA Final Pronouncement

## **Revisions to the Code to Promote the Role and Mindset expected of Professional Accountants**

- Issued in October 2020
- *48 pages*
  - ✓ *Clean version & Mark-up from Extant version*
- **Contents:**
  - Section 100 – Complying with the Code
  - Section 110 – The Fundamental Principles
  - Section 120 – The Conceptual Framework
  - Section 200 – Applying the Conceptual Framework – PAIBs
  - Section 220 – Preparation and Presentation of Information
  - Glossary, including List of Abbreviations

# IESBA Basis for Conclusions

## **Prepared by the Staff of the IESBA**

- Issued in October 2020
- *17 pages*
- **Contents:**
  - Introduction
  - Background
  - Acting in the Public Interest
  - Strength of Character to Act Appropriately
  - Having an Inquiring Mind
  - Bias and Organisational Culture
  - Other Significant Matters

# IESBA Fact Sheet

## **Prepared by the Staff of the IESBA**

- Issued in November 2020
- *3 pages*
- **Contents:**
  - Why the Role & Mindset revisions?
  - What is the effective date?
  - What outcomes are the Revisions seeking to achieve?
  - What are the key changes?



# QUESTIONS



# Formal Q&A Session

We will now take a **quick comfort break** before we discuss some questions received during the webinar.

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**Thank you for your  
participation!**