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International  
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# FIRM CULTURE AND GOVERNANCE

GEOFF KWAN, IESBA DIRECTOR  
CARLA VIJIAN, IESBA PRINCIPAL

Inaugural Stakeholder  
Advisory Council Meeting  
April 29-30, 2024  
New York, New York

# AGENDA

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Introduction

Working Group  
Approach

Lessons from recent  
cases

Observations March  
2024 IESBA Meeting

Breakout Discussions  
& Report-back

Way Forward &  
Timeline

# INTRODUCTION

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## BACKGROUND

### STRATEGY & WORK PLAN 2024-2027 (SWP)

- Issue raised as part of SWP development
- IESBA recognized impact of firm culture on firm reputation and profession and agreed the topic is of strategic importance
- Strong stakeholder support
- Approved SWP:
  - An area of strategic focus
  - New work stream to commence Q1 2024

Working  
Group  
established  
Dec 2023

## TERMS OF REFERENCE

### OBJECTIVES

- Gather an **understanding of culture and governance and their impact** on compliance with ethics and independence requirements in accounting firms and, where applicable, their networks (“firms”);
- **Review the extant provisions** on organizational and firm culture in the Code and consider whether the Code should be further strengthened to reinforce a robust culture of ethical behavior within firms;
- **Raise awareness** of the issues relating to, and the importance of, governance and ethical culture within firms through outreach activities; and
- Develop a **report and recommendations** to the IESBA

# APPROACH

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## Gather Information

Research & case studies

Outreach

SAC/NSS meetings

## Understand the Issues

Key concepts and their relationships

Culture and governance issues at firms that led to ethical failures

Common characteristics

## Identify Possible Solutions

How can the issues be addressed

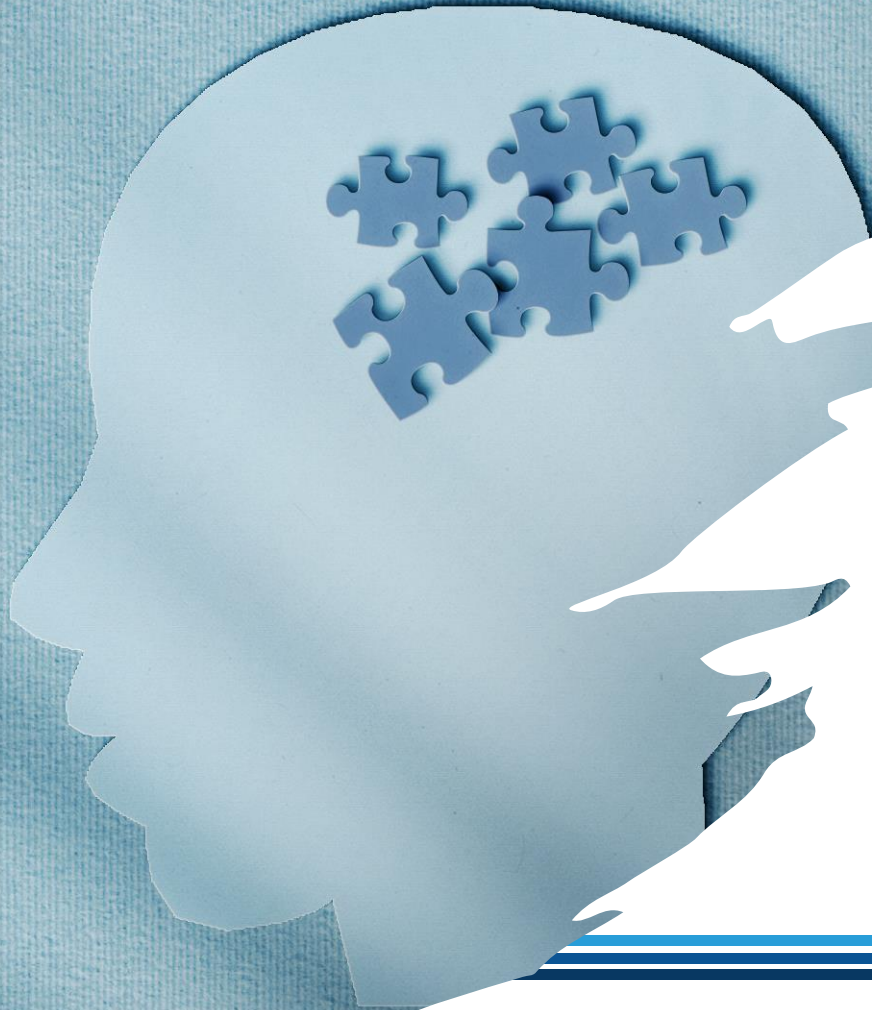
If the Code should be strengthened

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Do SAC members have  
any questions or  
comments?

# MARCH 2024 IESBA MEETING

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## Potential Areas of Inquiry

### 4 External Presentations

UK FRC

IRBA

Australian Taxation  
Office

Prof. Ramanna  
(Oxford)

- Who is the true client?
  - E.g. when it comes to serving the government as a client, *public interest is the absolute priority*
- International firms
  - Are they each truly a global firm (submitting to highest standards) or a collection of local firms adhering to local requirements (i.e., sliding to “lowest common denominator”)?
- Incentives really matter
  - Chasing revenue? Have firms become too corporate?
- Effect of weighting of audit vs consulting business on partners’ mindsets?
  - Short-term mindset (consulting) vs long-term (audit)

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## Potential Areas of Inquiry

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Prof. Ramanna  
(Oxford)

- Does governance break down when firms reach a certain size?
  - Challenges managing “rain-making” partners?
  - Big risks when business model is revenue-based?
  - Who resolves the issues when problems emerge – the partners managing revenue generation/growth?
- Transparency mechanism?
  - Internal and external signaling of consequences of unethical behavior as issues are being addressed
- Compliance mindset vs ethical principles
  - Large firm tendency to focus on rules, losing sight of ethical values

# AUSTRALIAN SENATE HEARINGS

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## Two current inquiries:

- Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry
- Management and assurance of integrity by consulting services

# LESSONS FROM RECENT CASES

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Recent cases demonstrate that:

- An excessive focus on financial performance and individual reward/advancement can lead to unethical or illegal behaviour; and
- The leadership of a firm or company determines the values of a firm or company – including what is and what is not acceptable behaviour
- Leadership plays an important role in the culture of an organization

That, in turn, highlights a need to look at the criteria that determine the leadership of firms or companies

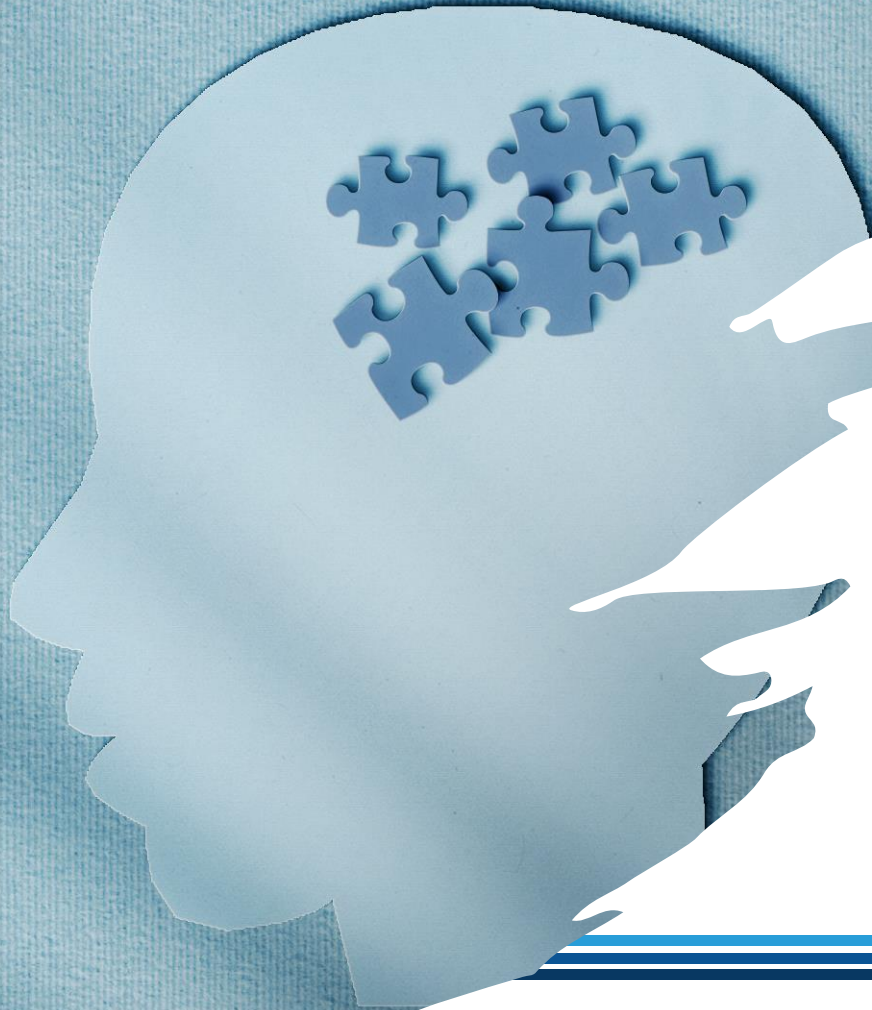
- A lack of confidence in the leadership of firm by stakeholders--can lead to a view that the firm's culture and values are beyond recovery

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Do SAC representatives  
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# BREAKOUT GROUP DISCUSSIONS

# REPORT BACK

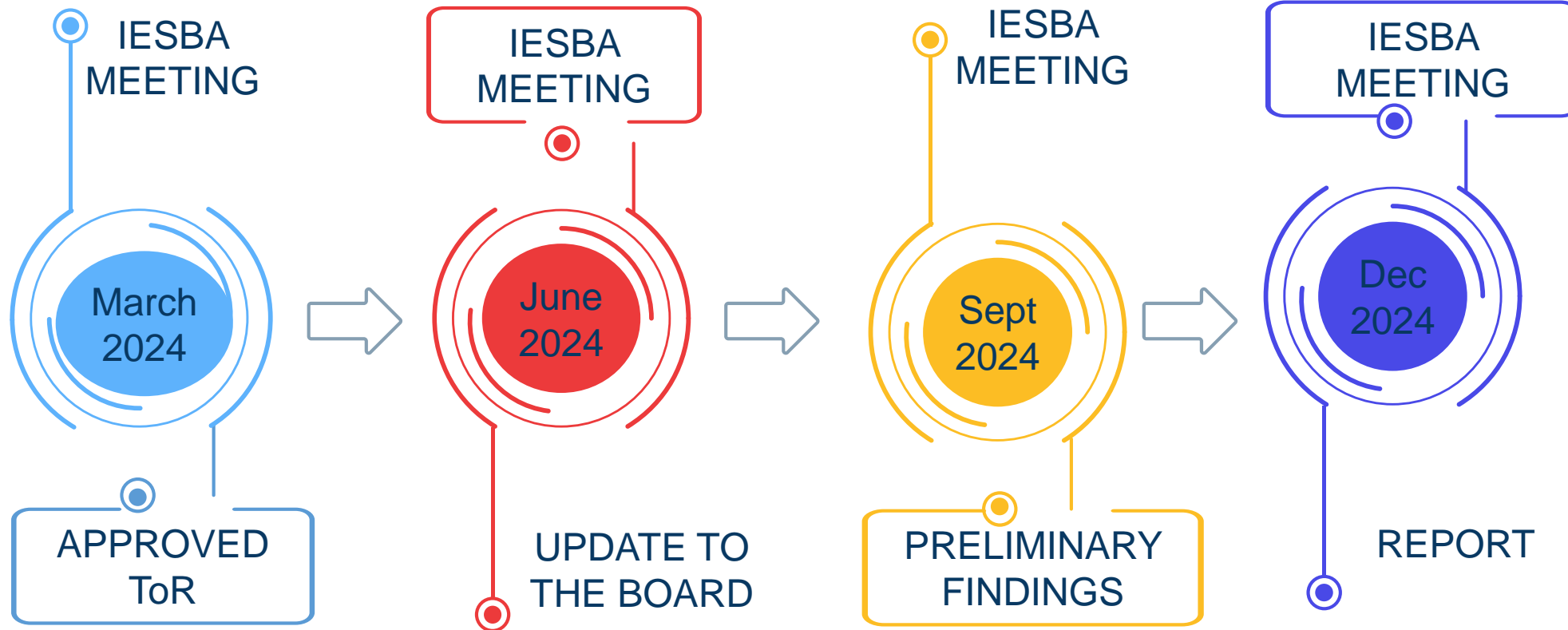
# WAY FORWARD and TIMELINE

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**CONTINUED OUTREACH AND DESKTOP RESEARCH**

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