

Meeting: Stakeholder Advisory Council (SAC)

Meeting Location: Madrid, Spain

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Agenda Item

3-B

IESBA Firm Culture and Governance Viewpoints

The following are the eight sets of IESBA viewpoints on the eight FCG elements.

A. Ethical Leadership

Public Interest Rationale

- A1. The senior leadership of a firm play a pivotal role in driving and fostering a strong ethical culture within the firm.
- A2. As ethical leaders, a firm's senior leadership demonstrate that they understand that they and the firm have an overarching responsibility to act in the public interest under the IESBA Code in all of the firm's professional services. This responsibility permeates the ethical culture of the firm and is fundamental to safeguarding public trust in, and the reputation of, the firm.

Ethics-Driven Senior Leadership

- A3. Senior leadership that are ethics-driven are committed to ensuring ethical conduct at every level of the firm and across all its professional services. They demonstrate this commitment when exercising their role as senior leaders by prioritizing ethics in all their decisions and actions including commercial considerations.
- A4. Senior leadership have an ethical mindset with a strong knowledge of the IESBA Code. They take an uncompromising stance in abiding by the IESBA Code's principles when making judgments and decisions, especially in difficult situations involving ethical conflicts or dilemmas.
- A5. In their oversight capacity, these leaders embed the firm's ethical values in the firm's overall business strategy. They ensure that the firm's governance, systems, policies, and procedures prioritize those values and minimize the risk of ethical failures. They accept full accountability for maintaining a strong ethical culture within the firm at all times.
- A6. In maintaining a strong ethical culture, senior leadership understand the value of independent input on strategic and governance matters, and they seek such input as needed.
- A7. Senior leadership recruit and promote partners and staff who demonstrate alignment with the firm's ethical values. They also reward those who are champions of ethical behavior and hold partners and staff accountable for unethical behavior.

Tone at the Top

- A8. Senior leadership that are ethics-driven set the tone at the top on ethical behavior at all levels within the firm by demonstrating their commitment to the firm's ethical values through their decisions and actions. Their ethical behavior serves as a model for all partners and staff to follow.

- A9. The tone of senior leadership influences and impacts every aspect of the firm, including how ethics contributes to the strategic direction and overall governance of the firm.
- A10. Senior leadership emphasize in their communication to all partners and staff the firm's ethical expectations and the importance of adhering to the IESBA Code in all professional activities and services. They reflect these expectations in the firm's performance evaluation, incentives and disincentives.
- A11. Senior leadership are transparent in their decision-making, demonstrating how they have prioritized ethics in their decisions and actions, for which they are accountable.

B. Oversight and Governance

Public Interest Rationale

- B1. Oversight and governance are foundational to cultivating a strong ethical culture within a firm.
- B2. Ethics-based oversight and governance reinforce ethical expectations across all of a firm's professional services and the accountability of the firm's senior leadership. Such oversight and governance help mitigate the risks of unethical behavior within the firm and safeguard the public interest.

Role of Oversight and Governance in Fostering an Ethical Culture

- B3. Oversight and governance that prioritize ethical values facilitate:
 - Ongoing monitoring of ethical behavior within the firm;
 - Evaluation of the effectiveness of systems, policies and processes in reinforcing ethical conduct at all levels within the firm;
 - Assessment of difficult situations involving ethical conflicts or dilemmas; and
 - Continual improvement of the firm's ethical culture and performance.
- B4. Implementing effective oversight involves assigning ultimate responsibility for overseeing ethical conduct and culture within the firm to an individual or group of individuals with the appropriate authority for decision-making on matters of ethical conduct, including situations involving the firm's senior leadership. Whether such responsibility is assigned to an individual or group of individuals is a matter for the firm to determine.
- B5. Firm governance structures, including the organization of the senior leadership's roles and responsibilities, accountability mechanisms, and decision-making processes, that prioritize ethical values contribute to building trust in the firm irrespective of changes in leadership.
- B6. Good governance that is grounded in ethical values guides the firm's senior leadership in making challenging ethical decisions that uphold those values with integrity and transparency. Such governance also encourages ethical behavior across all levels of the firm, fostering a strong ethical culture.
- B7. The appropriate governance mechanisms, systems and processes depend on the firm's specific circumstances, including its size and nature of professional services it provides.
- B8. For network firms, having consistent expectations regarding oversight and governance helps promote a shared understanding of expected ethical behavior across the whole network. In addition, regular dialogue about ethics-related matters within the network promotes shared learnings across the network.

C. Independent Input

Public Interest Rationale

- C1. Independent input is impartial and comes from sources that are free from conflicts of interest. Incorporating such input into the decision-making processes for strategic and governance matters provides opportunities to obtain different perspectives and challenges that help achieve a balanced outcome. This contributes to the ethical culture of a firm.
- C2. Independent input, from an ethical and public interest perspective, helps decisions reflect broader stakeholder considerations on strategic and governance matters. This increases confidence and transparency in the firm's ethical decision-making processes and its commitment to the public interest.

Obtaining Independent Input

- C3. There is no uniform approach to obtaining independent input on strategic and governance matters.
- C4. Not all situations need or benefit from independent input. Identifying and describing the criteria under which independent input is sought promotes consistency in approach and shared understanding among senior leadership.
- C5. Obtaining effective independent input involves selecting the individual(s) or organization with the relevant skills, knowledge, and experience, while being appropriately impartial and free from conflicts of interest.
- C6. A firm can obtain independent input from a variety of sources. This may include independent non-executives (INEs), a committee of independent advisors to the firm, individuals with extensive business experience or regulatory expertise, professional accountancy organizations, other firms including within the firm's network, or retired partners of the firm.
- C7. The appropriate source depends on factors such as the size of the firm, whether the firm provides audit and other assurance services or other engagements of a public interest nature, and the clients' profile. For instance, firms that audit public interest entities may consider appointing INEs as part of their governance structure.
- C8. A firm may obtain independent input on an ad hoc basis, or through a formal mechanism or role within its organizational structure. The decision depends on factors such as the size and resources of the firm.

D. Accountability Across the Firm

Public Interest Rationale

- D1. Accountability of all partners and staff across a firm contributes to the firm's ethical culture as it promotes personal responsibility, making it clear that each partner's and staff's ethical conduct matters and contributes to the ethical standing of the firm.

Personal Accountability of Partners and Staff

- D2. All partners and staff share a personal responsibility for adhering to the IESBA Code and upholding the firm's ethical values from the moment they join the firm, regardless of their role and seniority.
- D3. Making a commitment to acting in accordance with the IESBA Code and the firm's ethical values supports the accountability of partners and staff to the firm. This includes being answerable for those ethical values and accepting the consequences if ethical expectations are not met. It also includes justifying decisions and actions when warranted in the circumstances.

Promoting Accountability

- D4. Continuous education and training programs on ethics help to promote awareness and understanding of the IESBA Code and the firm's ethical values, against which partners and staff are accountable.
- D5. Performance evaluation that includes evaluating the behavior of partners and staff against ethics criteria helps to support personal accountability.
- D6. Enforcing appropriate consequences for unethical behavior through clearly defined disincentives, including specific sanctions which may vary depending on the circumstances, underscores the importance of ethical conduct of partners and staff.
- D7. Firms' governance structures and mechanisms through which they monitor and reinforce accountability may vary depending on the firm's specific characteristics and circumstances, including their size and nature of professional services they provide.

E. Incentives and Disincentives

Public Interest Rationale

- E1. Incentives and disincentives that promote ethical behavior strengthen a firm's ethical culture and underscore its commitment to ethical values and the public interest.
- E2. Performance evaluation and incentives and disincentives that prioritize expected ethical behavior alongside other performance goals help encourage enduring ethical behavior and the long-term sustainability and reputation of a firm.
- E3. Designing and implementing incentives and disincentives that recognize, support and promote ethical behavior, and establish clear consequences for unethical behavior, signal to all partners and staff the importance of ethical values. They also act as motivating factors to achieve the expected ethical behavior and set up a "standback" mindset, reducing the risk of unethical behavior.

Incentives Aligned with Ethical Behavior

- E4. Incentives that promote and recognize ethical behavior reinforce a firm's expectations on all partners and staff to act in accordance with the firm's ethical values and the public interest.
- E5. Rewarding outstanding ethical behavior (such as proactively championing the importance of ethical behavior) of partners and staff, whether through compensation, promotion or other incentives, reinforces the firm's commitment to ethical values and contributes to the development of ethical leaders.
- E6. Factoring the ethical behavior of partners and staff, such as acting with integrity when confronted with difficult situations, into promotion decisions helps firms select partners and staff with the right ethical values and mindset for leadership positions.

Disincentives

- E7. Implementing disincentives reinforces the importance of acting ethically and promotes accountability.
- E8. Regularly communicating the consequences of unethical behavior helps deter behaviors that fail to meet the firm's ethical values and expectations.
- E9. Responding to unethical behavior in a timely, decisive, consistent and fair manner demonstrates to internal and external stakeholders that senior leadership prioritize ethical behavior as a key performance measure and a strategic objective. This, in turn, contributes to building public trust in the firm.
- E10. The manner in which firms apply disincentives depends on factors such as the nature of the unethical behavior, including its severity and frequency of occurrence, and the roles of the offending partners or staff.

F. Open Discussion and Challenge

Public Interest Rationale

- F1. An environment of open discussion and challenge promotes ethical decision-making and accountability within a firm. It encourages partners and staff to feel empowered to raise ethical concerns and seek guidance from others in the firm who might have dealt with similar matters, including ethical dilemmas.
- F2. Such an environment enables timely identification, consideration and mitigation of ethical issues, thus contributing to public trust in the firm.

Culture of Open Discussion and Challenge

- F3. A culture of open discussion and challenge involves the cultivation of a psychologically safe environment of mutual respect and trust for dialogue, where partners and staff are empowered to engage in dialogues about ethics-related matters and raise concerns without fear of adverse consequences.
- F4. Acknowledging that mistakes are part of the learning process and that ethical dilemmas can be complex encourages and normalizes transparent conversations about ethics-related matters.
- F5. In an environment of open discussion and challenge, partners and staff understand how to engage in constructive dialogue and are encouraged to speak up on behalf of themselves and others.
- F6. A culture of open discussion and challenge benefits from a firm's policies and internal mechanisms on resolving differences of opinion. Such a culture is also strengthened by clear, accessible and confidential speak-up channels, and where applicable whistleblowing mechanisms, by allowing ethical issues to come to light, promoting transparency and accountability.
- F7. Timely and consistent resolution of ethical issues raised reinforces the firm's commitment to ethical behavior and demonstrates to partners and staff that their concerns are listened to and addressed.
- F8. For network firms, having shared expectations of what a culture of open discussion and challenge looks like encourages all partners and staff to communicate openly and freely, regardless of cultural differences across jurisdictions.

Role and Expectations of Leadership

- F9. Leaders at all levels of the firm have critical roles in creating a psychologically safe environment where partners and staff feel comfortable and safe in voicing their perspectives and concerns.
- F10. Senior leaders cultivate such an environment when they consistently model the firm's ethical values, engage authentically with partners and staff, and demonstrate alignment between personal conduct and the ethical values promoted by the firm.
- F11. Other leaders, such as engagement leaders and managers, through their regular interactions with partners and staff, can directly support and encourage ethical conversations as a part of day-to-day operations where open discussion and challenge are not only encouraged, but expected.

G. Education and Training

Public Interest Rationale

- G1. Continuous education and training on ethics matters play an important role in fostering an ethical culture in a firm as they equip partners and staff with the knowledge, skills and judgment needed to navigate ethical dilemmas and act in the public interest.

An Ethical Mindset

- G2. Effective education and training on ethics not only enhance knowledge of the IESBA Code and other relevant ethical standards, policies, rules and regulations, but also develop an ethical mindset of partners and staff across all service lines that brings ethical behaviors to be top-of-mind.
- G3. Such education and training strengthen the ability of partners and staff to identify ethical issues, which can be complex in nature, and make judgments and decisions that uphold ethical values and are in the public interest.

Effective Education and Training on Ethics

- G4. Embedding mandatory education and training programs at the commencement of employment and throughout the careers of partners and staff with the firm reinforces the foundational role of ethical values. Such programs position decision-making on ethical matters as a core ability on par with technical competence.
- G5. Leadership's involvement in education and training programs demonstrates the strategic importance of ethical values to the firm and facilitates open discussion.
- G6. Effective education and training programs use practical, relatable, and interactive scenarios that connect abstract principles to everyday ethical dilemmas as well as focus on grey areas.
- G7. Taking into consideration the partner's or staff's background (PAs or not), role, seniority and service line enables a firm to deliver relevant and fit for purpose education and training programs.
- G8. Regularly updating education and training programs to incorporate developments in the IESBA Code and other relevant ethical standards, policies, rules and regulations enables such programs to address emerging ethical issues.
- G9. Firms with limited internal resources to develop their own ethics training programs may use external resources that suit their needs, such as materials developed by professional accountancy organizations, commercial organizations specializing in training, or academia.

H. Transparency

Public Interest Rationale

- H1. A firm's transparency about relevant ethics-related aspects of the firm's performance highlights its commitment to its ethical values, the public interest, and accountability to its clients, partners, staff, and other stakeholders.
- H2. Subject to confidentiality restrictions, reporting as appropriate on a firm's policies or actions to drive ethical behavior, or how a firm has responded to ethical failures, contributes to an ethical firm culture and builds or rebuilds public trust in the firm.

Internal Transparency

- H3. A firm's senior leadership being transparent to partners and staff about their decisions and actions to promote and uphold ethical values demonstrates the firm's commitment to ethical values and compliance with the IESBA Code.
- H4. For network firms, sharing ethics-related learnings and experiences promotes consistency of approaches and helps to reduce the risk of similar cases of unethical behavior occurring in other parts of the network.

External Transparency

- H5. Public disclosure of relevant information by a firm on how it prioritizes ethical values helps demonstrate the firm's commitment to ethical behavior and responsibility to act in the public interest.
- H6. External transparency may also contribute to building and strengthening public trust in the firm.