

**Technical Manager**  
**IAESB/IFAC**  
**277 /Wellington St. West 4th floor**  
**DavidMcPeak@Ifac.org**

**Regarding: IES 4 On Professional Values, Ethics and Attitudes Due 7- 15- 2011**  
**Comments By: Dr. Joseph S. Maresca CPA, CISA**

#### Background

The International Accounting Education Standards Board (IAESB) has proposed changes in its ethics standards to provide for learning and development activities in professional ethics for accountants throughout their careers.

The revised standard proposes that the development of professional values and ethics be addressed by education activities that occur throughout a professional accountant's career.

In addition to a formal program assessment and learning outcome approach, the IAESB also proposes a requirement on reflective activity involving the practice of documenting experiences relating to lessons learned by ethical dilemmas. pp. 5

Questions Presented For Review: pp. 7

1. Is the proposed requirement for reflective activity proper for ethics education ? Document ethics dilemmas. Yes, I concur.
2. Have the implication issues been addressed? Generally, yes subject to the critique below.
3. Are the objectives appropriate ? Generally, yes.
5. Do any terms require clarification ? Generally, no.

Generally ethics should have some relationship to law or statute, as well as good governance. pp. 10

A14

The teaching modes are case studies, role playing, real life situations etc.

#### *Critique:*

Question 1, 2

The proposed requirement for reflective activity is proper for ethics education. Here, accountants can document and discuss extensively ethics dilemmas and implications thereof. A classic ethics dilemma may arise from the information flow from the internal auditors . There should be an Independent Audit Committee of the Board of Directors. If there isn't, then the likelihood of ethical dilemmas may be increased. The Independent Audit Committee of the Board of Directors should hire all auditors external, as well as internal financial and IT auditors. Generally, management should not be able to audit itself and an Independent Audit Committee of the Board of Directors is an important organizational focal point for affirming independence in both attitude, appearance and execution.

The classic mechanism for establishing corporate accountability is by articulating a formal mission, corporate charter, responsibility centers, an understandable internal Code of Ethics and an auditable Chart of Accounts.

There is another ethics dilemma in establishing accountability for derivatives transactions. Derivatives are a **creature of contract law** between legal

experts (parties and counterparties ) with very little prior stare decisis. Derivatives have not been defined formally by the Uniform Commercial Code. Without defining, rights, duties, responsibilities , obligations and accountability, how can any party to a derivatives transaction be held accountable for an ethics violation ? 1)

There are foreseeable difficulties with developing nations. i.e. Expropriations are a problem in some foreign countries. In addition, some Asian countries are more prone to sudden and de-stabilizing Acts of God which require a major reconstruction of operations in a disaster recovery mode. Sometimes, there are significant language differences, as well as legal venue differences requiring a reconciliation by the local legal counsels and experts. In some countries, bribery is a way of doing business. These foreseeable difficulties in implementation will continue to be present, although the impact can be lessened with a disciplined approach toward problem solving and actions by a consortia of trading partner affiliates and countries.

The classic teaching modes are described at A14/ pp. 12 i.e.

- o case studies
- o role playing
- o real life situations

A typical case study might be the evolution from manual to automated methods in a printing shop. A Quasi-reorganization in bankruptcy will pose very important implementation issues for the Court supervising the procedure. The classic problem is affirming the new mission and discouraging activities which precipitated the Quasi-Reorganization in the first place.

Records reconstruction in a disaster recovery situation is a very difficult process of planning , execution and reconstructing damaged records both manual and automated. Sometimes, redundant or tridundant data is maintained due to advanced telecommunications systems or Cloud Computing processing sites. Protection of customer data and customer lists is another challenging issue at a data processing servicing organization.

The existence of government surveillance like The Patriot Act makes these problems more difficult to quantify and deal with systematically .

There is an **unauditable presumption** that governments and their agents/surrogates are acting properly in gathering, disseminating and protecting privileged information.

Surveillance also makes more difficult or even impossible the determination and monitoring of insider information transactions because the insider information physically leaves the entity and enters into the hands of unsupervised personnel who are not accountable to any courts or a specific audit trail in the form of an application for a court order and a court order .

References:

1) **UCC 2010 Amendments**

**<http://extranet.ali.org/directory/files/2010AmendmentstoOfficialComments.pdf>**