



Proposed changes to Part C of the Code addressing presentation of information and pressure to breach the fundamental principles

Submitted by AAT

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1. AAT welcomes the opportunity to comment on the proposed changes to Part C the Code of Ethics for Professional Accountants, recognising, in particular, the challenges faced by professional accountants in business (PAIBs) to succumb to pressure to present information in a favourable light to the business at the expense of ethical compliance. This is a frequent dilemma presented to AAT's ethics helpline, particularly so during the global economic crisis, when access to finance for SMEs in particular was tightened as the risk appetite of financial institutions diminished.

2. In response to the questions asked about proposed revised section 320:
 - 2.1 AAT welcomes the guidance that has been included in section 320 as to the interpretation of the "fair and honest" principle, and considers the drafting to provide a sound platform for PAIB's to determine the parameters they should work within when preparing and presenting information.

 - 2.2 In respect of the proposed guidance detailed in paragraph 320.3, AAT supports the sentiment underpinning the document, and the explanation provided which expands significantly on the extant section 320. AAT would suggest that use of the word "often" in the first sentence is superfluous in the context of the remainder of the paragraph, and risks inviting PAIBs to disregard whether or not the situation they are considering involves judgment and discretion. AAT's view would be that the exercise of judgment is a critical determining factor to the definition of a professional accountant in all circumstances.

 - 2.3 In respect of the second bullet point in paragraph 320.3- "*selecting a particular accounting method among two or more alternatives permitted under the applicable financial reporting framework. For example, selection of one method from among alternative revenue recognition methods in order to manipulate income*", AAT makes the following observations. Organisations will inevitably want to present information in a favourable way, but at the same time ensure that the information presented does not mislead. AAT's view would be that an unintended consequence of this particular example would be to create a perceived obligation on PAIBs to always use the less favourable accounting method in order to mitigate against the accusation of manipulation. AAT would suggest that such disparity should properly be considered in the context of the relevant accounting methods permitted under the applicable financial reporting frameworks, as opposed to through the context of ethical compliance, and this should be considered a safeguard created by the profession.

 - 2.4 In respect of paragraph 320.4, an initial observation on this is that the paragraph starts with "an important factor", and then subsequently lists three factors, all of which AAT agrees. Therefore the wording of this sentence could be revisited.

 - 2.5 AAT suggests that the guidance in paragraph 320.4 could helpfully be extended to include relevant consultation activity undertaken with others, which would afford those who may rely on information an opportunity to gauge wider views. It could additionally add a safeguard to ethical decision making, with a check and balance provided to the PAIB on their use of professional discretion.

 - 2.6 Following on from the suggested extended guidance outlined in paragraph 2.5 above, AAT does agree that a PAIB should be required to take reasonable steps to be satisfied that such work does not preclude them from compliance with the overarching principle detailed in paragraph 320.2.

 - 2.7 In AAT's experience, the guidance provided in paragraphs 320.6 and 320.7 are rarely available to those in the situation of experiencing such an ethical dilemma. In AAT's

view, more guidance could helpfully be provided with regards to how to address such an issue informally at first, in order to prevent the matter from escalating. An example of where this issue is typically seen is in an owner-managed business; where frequently there is little in the way of organisational structure between the PAIB and the owner manager themselves, and certainly no ethics policy. On this basis, AAT would suggest that the guidance is extended to explain how a PAIB might initiate such a discussion in the absence of organisational safeguards as this would be particularly welcomed by the profession in order to make the guidance pertinent.

3. In respect of proposed Section 370:

- 3.1 AAT agrees with the overarching requirements in paragraphs 370.1 and 370.2. AAT particularly welcomes the provision of section 370.2, which encourages an ethical culture within the organisation.
- 3.2 The illustrative examples of the type of pressure that could result in a breach of the fundamental principles, as set out in paragraph 370.4 are both comprehensive and helpful.
- 3.3 AAT considers the guidance to clearly distinguish the pressures which may result in a breach of the fundamental principles from routine work place pressures. Paragraph 370.5 could be extended from the point of *“being alert to the fundamental principle of confidentiality, the professional accountant may also wish to consult with”* to include a bullet point referencing independent legal counsel, given that the nature of the pressure could be such as to put the PAIB in a position of complicity with suspected violation of laws and regulation. This is included in paragraph 370.6, but could be considered earlier, particularly in circumstances where to raise a matter internally, there could be legal implications. An example of this might be in respect of suspicions of criminality, whereby any discussions with a line manager could potentially tip off.
- 3.4 AAT very much welcomes the cross referencing in paragraph 370.9.

4. General comments from the user perspective

- 4.1 AAT considers the revisions and additions proposed to be consistent with the rest of the Code. AAT uses the Code in support of professional discipline activity. The provisions of sections 320.2, 370.1 and 370.2 in particular provide a clear statement of requirement on the practitioner to undertake action, and as such, in AAT’s submission would make the terms practical from a regulatory perspective.