

14 April 2015

Ken Siong
Technical Director, IESBA
529 Fifth Avenue
6th Floor
New York NY 10017

By email: KenSiong@ethicsboard.org

Dear Ken

**Submission on the International Ethical Standards Board for Accountant's ("IESBA")
Exposure Draft: Proposed Changes to Part C of the Code Addressing Presentation of
Information and Pressure to Breach the Fundamental Principles ("the ED")**

Our Response to the Exposure Draft

We commend the IESBA's efforts to amend Part C of the Code of Ethics for Professional Accountants ("the Code") to provide greater guidance to Professional Accountants in Business (PAIB's) in regards to the presentation of financial information and the actions to take in response to pressure to breach the fundamental principles. We have sought feedback from some of our members who are PAIBs, they are highly supportive of the proposed changes and feel that the proposed changes will assist them in discussing an ethical matter within their organisations.

We have responded to each of the IESBA's questions below.

Proposed Revised Section 320

1. Is the enhanced guidance on applying the "fair and honest" principle in Section 320 helpful?

We believe that specifically including a reference to non-financial information in the guidance is helpful to users of the Code. However, the examples used at paragraphs 320.1 and 320.3 are heavily weighted to historical financial reporting, we recommend that additional examples be provided, for example, the preparation of tax positions, budgets, forecasts or regulatory reports.

At paragraph 320.2 the ED refers to the PAIB taking "reasonable steps" to assess that the information is fair and honest. We encourage the IESBA to provide greater guidance as to what "reasonable steps" are.

Chartered Accountants Australia and New Zealand

33 Erskine Street, Sydney NSW 2000,
GPO Box 9985, Sydney NSW 2001, Australia
T +61 2 9290 1344 F +61 2 9262 4841

charteredaccountantsanz.com

We also caution the IESBA on the use of lists in the revised Code. Whilst a list can be helpful to users it can also be seen as an exhaustive checklist of the only items to be included or excluded. The inclusion of a phrase such as “examples include but are not limited to” at the start of the list can assist in this unintended outcome.

Finally, those charged with governance are ultimately responsible for the information prepared and presented by their organisations. We recommend that this be included in this section of the Code.

2. *In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?*

We believe these are good examples of areas where a PAIB could encounter information not being prepared and presented in a fair and honest way. However, the manner in which the bullet points are expressed could be improved, in particular the last bullet point that states “...omitting or obscuring information so that materially different items are not distinguished in order to mislead” is unclear as to its meaning. We recommend rephrasing these as examples of where/how entities have manipulated financial reporting in the past, and accordingly, are areas where a PAIB should give greater attention.

Similar items are raised within guidance to the auditing standards (refer Appendix A) the IESBA may consider these as drafting examples.

3. *Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?*

We believe that the paragraph highlights well the important interrelationship between the purpose, the context and the audience of / for the information.

4. *Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?*

We agree with this concept, however, to assist in the consistent application of the Code by PAIB's we believe that greater guidance should be included. We raise the following questions for the IESBA's consideration

- Should a PAIB be expected to audit, review or “redo” information provided by other parties?
- Should a PAIB be able to rely on the organisation's system of internal control?
- What if the identity of the preparer is not known or not from within the PAIB's organisation?
- What is the PAIB's responsibility if they are only responsible for part of the information in the report?

Alternatively, the Code could direct a PAIB to take additional steps **only** in the event of their being a matter that, in the PAIB's professional opinion, appears to not be fair and honest.

5. Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?

We agree with the actions included in 320.6 and 320.7. We note that the IESBA has used “may” in these paragraphs but “shall consider” in 320.8. We recommend the IESBA review the use of shall and may throughout these amendments to the Code.

Proposed Section 370

1. *Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?*

We agree with the requirements of 370.1 and 370.2. However the introduction of the concept of routine pressure at paragraph 370.3 is possibly out of order and should be introduced in 370.1.

Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?

Examples assist in the consistent application of the standard but, as discussed earlier, they can infer an exhaustive checklist and infer that these are the **only** situations giving rise to pressure. The inclusion of a phrase such as “examples include but are not limited to” at the start of the list can assist in this unintended outcome.

2. *Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?*

In our opinion the examples do not make it sufficiently clear that Section 370 is designed to address unreasonable pressure to breach the fundamental principles as opposed to routine pressure. This can be addressed by making it clearer in the introductory paragraphs, i.e. 370.1 and 370.2

3. *Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?*

Yes, however the use of the phrase “may wish to consider” is in our opinion very subjective and will allow for inconsistent application of the Code. Amending the paragraph to the “professional accountant may consider” would achieve more consistent application.

4. *Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?*

Yes.

Additional Observation

At paragraph 320.1 there is a reference to the PAIB being “involved in the preparation and presentation of information”. In subsequent paragraphs 320.2 and 320.3 the reference is to the preparation or presentation of information. We recommend the IESBA review the use of “and” and “or” throughout these amendments to the Code.

About us

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand are known for professional integrity, principled judgement and financial discipline, and a forward-looking approach to business. We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

If you have any questions regarding this submission, please contact Kristen Wydell (General Manager, Professional Standards, Quality and Liability Capping) via email; kristen.wydell@charteredaccountantsanz.com

Yours sincerely



Rob Ward FCA
Head of Leadership and Advocacy

CC – Via Email: Tony Dale, Chief Executive, External Reporting Board: tony.dale@xrb.govt.nz

CC – Via Email: Channa Wijesinghe, Technical Director, Accounting Professional & Ethical Standards Board Limited: channa.wijesinghe@apesb.org.au

ISA 240 THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

A4. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as:

- Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.
- Concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to significant and unusual transactions.

ISA 315 IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

A35. An understanding of the entity's selection and application of accounting policies may encompass such matters as:

- The methods the entity uses to account for significant and unusual transactions.
- The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the entity's accounting policies.
- Financial reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt such requirements.