

EXPLORING THE IESBA CODE

Installment 1: The Five Fundamental Principles



Professional accountants are often faced with complex, real world situations that are not black and white. The newly revised *International Code of Ethics for Professional Accountants* (“the Code”), developed by the International Ethics Standards Board for Accountants (IESBA), sets out principles to guide behavior and help accountants uphold their responsibility to act in the public interest, even in nuanced situations.

For example...

You are Director of Accounting Policy for an international manufacturing company:

The CEO has outlined a new business proposal to set up operations in an emerging market. The plan is supposed to comply with local bribery and corruption laws, but you are not sure everyone would agree with this assessment.

You are an Audit Manager:

Having worked for several years on the audit of a privately held retail company, you know company management well and expect to be offered an opportunity to replace the soon-to-retire Executive Vice President of Financial Planning. You are concerned the position may not be offered to you if there are problems identified during the current year’s audit.

You are the Vice President of Finance at a cutting-edge biotech company:

The marketing department has just proposed a new pricing policy for patent-protected, life-saving drugs that could be viewed as taking advantage of desperate, critically ill patients. You have been asked to provide an analysis that supports the prices the marketing executives want to charge.

FIVE FUNDAMENTAL PRINCIPLES HELP ACCOUNTANTS NAVIGATE ETHICAL DILEMMAS

1 INTEGRITY

Be straightforward and honest in all professional and business relationships:

As the Director, have you evaluated the spirit of the CEO's expansion plan to determine if it effectively relies on any inappropriate influence of government officials to obtain approvals for building a factory and selling products?

2 OBJECTIVITY

Don't allow bias, conflicts of interest, or the undue influence of others to compromise sound judgement:

As the Audit Manager, being mindful of the potential EVP job opportunity, are you able to plan and execute the audit with an appropriate level of skepticism and due diligence?

3 PROFESSIONAL COMPETENCE & DUE CARE

Always apply an appropriate level of professional knowledge, skill, and diligence:

As the Director, have you done enough work to really understand the rules and regulations governing bribery so that your CEO can make the right decision about expanding into new markets?

4 PROFESSIONAL BEHAVIOR

Comply with all laws and regulations and don't act in a way that could discredit the profession:

As the VP of Finance, is the analysis you prepared in support of the new pricing policy fair and accurate—such that it would hold up to professional scrutiny—and not be viewed as biased or incomplete information that “justifies” what the marketing department wants to charge?

5 CONFIDENTIALITY

Respect the confidentiality of information acquired because of professional and business relationships, subject to applicable laws:

As the Director, you subsequently discover emails describing a scheme to funnel money to government officials; how should you communicate this information internally—including the CEO if necessary? What obligation do you have to notify authorities or disclose this information?

While it is not possible to define every situation, the principles-based nature of the Code is relevant to all professional accountants, regardless of whether they work for a public accounting firm or in a business. Even if there is no requirement that is directly applicable to a specific situation, the five Fundamental Principles set out in the Code help the accountants find the right path—upholding their professional responsibility to act in the public interest.

WHERE TO GET ASSISTANCE?

The Fundamental Principles are found in **Section 110** of the Code. Professional accountancy organizations—members of IFAC—are required to support their members in the implementation of the Code. Therefore, national associations or institutes for accountants are often the first place professional accountants turn for guidance and training when faced with ethical dilemmas. The **Building Trust and Ethics** section of IFAC's Knowledge Gateway provides a wealth of resources for professional accountants, including this article as well as the May 2019 article titled **Paying Professional Ethics More than Lip Service**.



The eCode, which is available at www.IESBAeCode.org, is an online resource for accountants and other users of the Code. It provides quick and efficient access to the Code, making it easier to use, implement, and enforce.



The next installment of *Exploring the IESBA Code* will introduce the Code's Conceptual Framework which is designed to help professional accountants deal with “threats” to their ability to comply with the Fundamental Principles. Additional information about the IESBA and the Code is available on the IESBA's website.