

IESBA

Part C Working Group

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New York, USA

Background

- To inform the development of IESBA's Strategy and Work Plan
- To determine whether recent accounting irregularities reveal ethical implications for professional accountants in business (PAIBs)
- To determine whether Part C of the Code should be strengthened.

Working Group Membership

- Alice McCleary (Board member)
 - Lisa Snyder (Technical Adviser and AICPA)
 - Ian Rushby (PAIB Committee -- UK)
 - Larry Kean (SME -- USA)
 - Jim Gaa (Chair)
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- Significant input from PAIB/SME perspective

Working Group Activity

- Focus:
 - Areas in Part C that should be improved
 - Areas not currently in Part C that should be addressed
 - What forms additional guidance might take
- Discussion of results of selected cases of accounting irregularities and survey of member bodies
- Paragraph by paragraph examination of Part C
- Preliminary discussion of additional guidance

Working group's major findings

Part C provides limited guidance on:

- Responsibilities of PAIBs:
 - What PAIBs should do: produce financial information that is a faithful representation of the economics of transactions
 - What PAIBs should not do: be associated with misleading information and reports
- Dealing with pressure on PAIBs from superiors to violate legal or ethical standards or how to deal with the unethical acts of others

Faithful representation: Limited content

- PAIBs have a responsibility to produce financial reports that are faithful (complete, neutral and free of material errors) or truthful representations of the economics of transactions
- Code mentions this only briefly in two places: indirectly in paragraph 110.1 (“truthful”) and in 320.1 (“fair and honest”)

Association with misleading information

- Financial statements may be misleading even though they do not violate applicable financial reporting standards.
- PAIBs have a responsibility not to be associated with misleading information and reports
 - A number of mentions, especially 110.2 and 310.2 (current code), but limited guidance

Earnings management

- Most businesses undertake earnings management without violating any laws
 - fraud is rare
- Current Code makes no reference to it
 - it is included in proposed 300.6, and also 210.5 (illegal acts task force)

Pressure from Superiors – Limited Guidance

- Section 310 (current version) addresses pressures of many types
 - Deleted from Part C by conflict of interest exposure draft
- Section 320 focuses on threats relating specifically to financial reporting
- Section 340 is limited to self-interest and familiarity threats (incentives) related to financial reporting

Pressure from Superiors – Limited Guidance

- Survey and working group discussion: Pressure to improperly influence earnings are as likely to be the result of corporate culture, bullying and threats of job loss as personal financial gain

Preliminary recommendations to IESBA

- Financial reporting
 - More guidance to PAIBs about preparing and reporting faithfully representative (truthful) information
 - Confirm that 320.1 is intended to go beyond financial reporting principles
 - Provide guidance on earnings management
- Pressure
 - Section 340 should be expanded to include pressures of all kinds, not just financial self-interest
 - Part Code should include guidance for PAIBs who may exert pressure

June IESBA and follow up

- Support for work so far
- Working Group to extend research to identify any other issues to address in Part C
- Survey of 23 member bodies that have PAIBs to research the importance and prioritization of issues.
- Additional potential issues identified
- Respondents also asked to suggest further issues

Additional issues included in the survey

- Facilitation payments and bribes
- Specific guidance relevant to professional accountants in the public sector
- Conflicting business partner vs. controller roles
- Independence requirements for professional accountants who are not in public practice who perform assurance engagements
- Advocacy threats to fundamental principles
- Applicability of Part C to professional accountants in public practice

Survey Results

Priority	Issue
1	<i>Responsibility to produce truthful information and reports</i>
1	<i>Pressure from superiors to engage in unethical or illegal acts</i>
1	<i>Requirement to disassociate from misleading information</i>
4	<i>Facilitation payments and bribes (Inducements offered and received)</i>
4	<i>Specific guidance relevant to professional accountants in the public sector</i>
4	<i>Conflicting Business Partner vs. Controller roles</i>
4	<i>Independence requirements for professional accountants who are not in public practice who perform assurance engagements</i>
8	<i>Advocacy threats to fundamental principles</i>
8	<i>Applicability of Part C to professional accountants in public practice</i>

Comments on highest priority issues

Does CAG agree these issues have the highest priority?:

- Responsibility to produce truthful information and reports
 - Requirement to disassociate from misleading information
 - Guidance on earnings management
- Pressure from superiors to engage in unethical or illegal acts

Comments on the importance of other issues

- Facilitation payments and bribes
- Specific guidance relevant to professional accountants in the public sector
- Conflicting business partner vs. controller roles
- Independence requirements for professional accountants who are not in public practice who perform assurance engagements
- Advocacy threats to fundamental principles
- Applicability of Part C to professional accountants in public practice

Further issues

- Are there any other matters that the working group should address in its review of Part C?