

Meeting: IESBA CAG

Meeting Location: Paris, France

Meeting Date: March 7, 2016

Agenda Item D-3

Review of Part C of the Code

Objective of Agenda Item

1. To provide a report-back on proposals of the Representatives on this project as discussed at the September 2015 IESBA CAG Meeting.

Project Status and Timeline

2. The Part C project focuses on the work of professional accountants in business (PAIBs), many of whom play an important role in the financial reporting cycle and in the governance of organizations large and small. The IESBA approved this project at its meeting in March 2013, including that priority attention be given to the following topic areas:
 - Pressure by superiors and others to engage in unethical or illegal acts (Pressure);
 - The responsibility of professional accountants in business (PAIBs) to produce financial reports that are faithful representations of the economics of transactions, and associated matters (Faithful Representation); and
 - Facilitation payments and bribes (Inducements), and the applicability of Part C to professional accountants in public practice (PAPPs).
3. This project is divided into two phases:
 - Phase I of the project addresses two topics of importance to the public interest, namely: (a) the need for PAIBs to prepare or present information that is not false, misleading, or prepared or presented recklessly or negligently, and in particular their behavior when faced with improper earnings management; and (b) with respect to the presentation of information, how PAIBs should deal with inappropriate pressure on them, or pressure that they themselves may place on others.¹
 - Phase II of the project focuses on a review of extant Section 350, *Inducements*, and the applicability of Part C to professional accountants in public practice (PAPPs).
4. At its November/December 2015 meeting, the IESBA approved the “close-off” document for Phase I of the project under the extant structure and drafting conventions. This is provided for information as **Agenda Item D-3.1.**

¹ Phase I involves a review of Section 320, *Preparation and Reporting of Information*, and consequential and conforming amendments to Section 300, *Introduction*; Section 310, *Conflicts of Interest*; Section 330, *Acting with Sufficient Expertise* and Section 340, *Financial Interests* of the extant Code.

5. At its March 2016 meeting, the IESBA will consider:
 - (a) A preliminary restructured version of the close-off document developed using the proposed new structure and drafting conventions of the restructured Code;² and
 - (b) The Task Force's proposals pertaining to the issue of the applicability of Part C to PAPPs.
6. For information, **Agenda Item D-1.1** includes a forward timeline for Phases I and II of the project.
7. The Appendix to this paper provides a project history.

Report Back on September 2015 CAG Discussion

8. Below are extracts from the draft minutes of the September 2015 CAG meeting³ and an indication of how the project Task Force and/or IESBA has responded to the CAG's comments.

Matters Raised	Task Force/IESBA Response
GENERAL MATTERS	
Mr. Dalkin wondered how PAIBs had been represented in the responses.	<p>Mr. Gaa noted that the Part C initiative had started with research into what are the most prevalent issues among PAIBs. He indicated that the Board has historically received a limited number of responses on its EDs directly from PAIBs. Task Force member Ms. Ighodaro added that reaching out to PAIBs as an individual stakeholder group was difficult due to the range of organizations they could work for. Hence, to obtain input from PAIBs, reliance tends to be placed on the views of IFAC member bodies, especially those with a large number of PAIBs as members.</p> <p>Mr. Siong highlighted that the Part C Task Force included two PAIBs, including a member of the IFAC PAIB Committee.</p>
Mr. Koltvedgaard wondered about the geographical spread of respondents.	<p>Mr. Gaa noted that responses had come from a range of regions, including developed and developing jurisdictions.</p> <p>Mr. Siong and Ms. Ighodaro noted that several of the organizations that provided responses were themselves global, notably the IFAC PAIB Committee and the Chartered Institute of</p>

² In December 2015, the IESBA release an Exposure Draft titled, [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure ED-1).

³ The draft September 2015 minutes will be approved at the March 2016 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	Management Accountants (CIMA).
PROPOSED SECTION 320	
Mr. Ahmed wondered whether the Task Force planned to revise paragraph 320.3 to highlight that misuse of discretion is linked to the fundamental principles of integrity and objectivity	Mr. Gaa explained that the Task Force was of the view that virtually all the fundamental principles are applicable to the issue of misuse of discretion. Accordingly, it was unnecessary to redraft the provision.
Mr. Ahmed also wondered whether respondents had commented on the distinction between unethical behavior and illegal acts.	Mr. Gaa indicated that the exposed wording had been written taking into account the fact that the proposed standard on responding to non-compliance with laws and regulations (NOCLAR) would address illegal acts.
Ms. Singh complimented the Task Force on the revised draft of Section 320.	Support noted.
PROPOSED SECTION 370 ⁴	
Ms. Miller informed participants that in research carried out by the Institute of Internal Auditors (IIA) regarding the nature of pressure IIA members have faced, pressure to suppress adverse information in internal audit reports had been the predominant response. She therefore suggested that consideration be given to including this as another example of pressure in proposed Section 370.	Point accepted. The proposed guidance was amended to accommodate an additional example of pressure to suppress adverse findings in internal audit reports. (See paragraph 370.3 in Agenda Item D-3.1.)
Ms. Molyneux expressed support for the proposed guidance and the need for standards to address pressure placed on PAIBs. She commented that once the standard is approved, it would be important that stakeholders who are often the source of pressure on PAIBs (such as senior management and audit committees) understand that PAIBs have responsibilities under the Code. In order to achieve this, she suggested that consideration be given to working with	Support noted and point noted. Mr. Gaa acknowledged the suggestion but noted that the Board has limited ability to address this as individuals who are not PAs are not required to abide by the Code. He was of the view that the best the Board would be able to achieve is to require PAIBs not to exert pressure on others.

⁴ Proposed Section 370, *Pressure to Breach the Fundamental Principles*

Matters Raised	Task Force/IESBA Response
professional associations to raise awareness of the responsibilities of PAIBs under the Code.	

Matters for CAG Consideration

9. The Representatives are asked to note the report-back.

Material Presented

Agenda Item D-3.1 Part C Phase 1 – Close-Off Document

Appendix

Project History

Project: Part C, Phase I and Phase II

Summary

	CAG Meeting	IESBA Meeting
Project commencement		March 2013
Development of proposed international pronouncement for Phase I (up to exposure)	April 2013 September 2013 March 2014 September 2014	June 2013 September 2013 December 2013 April 2014 July 2014 October 2014
Phase I Exposure	November 2014 – April 2015	
Consideration of respondents' comments on exposure and development of revised proposals for Phase I	September 2015	June/July 2015 September 2015 October 2015 (via teleconference)
Approval of close-off document for Phase I		November/December 2015
Development of proposed international pronouncement for Phase II (up to exposure)		January 2015 April 2015 March 2016