



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

6

Committee International Ethics Standards Board for Accountants

Meeting Location: Mandarin Oriental, Singapore

Meeting Date: November 2-3, 2010

Responding to Suspected Fraud or Illegal Acts

Draft Project Proposal

Objective of Agenda Item

To discuss and approve a project proposal addressing how a professional accountant would respond to a suspected fraud or illegal act

Background

The IESBA discussed a draft project proposal addressing how a professional account should respond when encountering a suspected fraud or illegal act at its October 2009 meeting.

At its March 2010 meeting, CAG members discussed the draft project proposal. CAG members expressed strong support for the IESBA commencing such a project and provided input on the scope of the project. The Task Force met in early July, considered the input from CAG members, and revised the draft project proposal in response to the input received. The CAG discussed the revised project at its September 2010 meeting, and the Task Force met again in October 2010 to consider the further comment received.

Discussion

While confidentiality is one of the fundamental principles with which the professional accountant complies, Section 140 identifies three circumstances where professional accountants are required, or may be required, to disclose confidential information:

- Disclosure is permitted by law and is authorized by the client or the employer;
- Disclosure is required by law; and
- There is a professional duty or right to disclosure when not prohibited by law.

While the Code recognizes that a professional accountant may have a professional duty or right to disclose confidential information it does not provide examples or guidance to the

accountant on how to respond in such situations. The goal of the project is to provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act.

The scope of this project is to revise Section 140 and develop two new sections in Parts B and C to provide additional guidance for professional accountants in public practice and in business on how to respond in situations where they encounter a suspected fraud or illegal act. The project will focus on the actions that the professional accountant takes when encountering such a situation. It will not address actions that professional accountants should take to identify such matters.

The project will consider the following matters:

- *Legislative environment* – Many jurisdictions have “whistle blowing” legislation, some of which is quite extensive. The project will consider the extent to which the professional accountant’s response to a suspected fraud or illegal act may differ depending on the extent to which “whistleblowers” are afforded protection under the law.
- *Role of the Professional Accountant* – The task force will consider how the role of the professional accountant with affects the nature of the response, the threshold for taking action and the process for responding.
- *Nature of Items to be Addressed* – The project will consider the nature of the items to be addressed.
- *Threshold for Taking Action* – The project will consider what guidance can be provided to a professional accountant regarding the threshold for taking action. In this regard the project should consider the “probability” that a fraud or illegal act has occurred, the “effect” of such an act and who committed the act.
- *Process for Responding* – The project will develop guidance on the thought process the professional accountant would use in determining how to respond to a suspected fraud or illegal act.
- *Timing of Disclosure* – The project will consider what guidance is necessary regarding the timing of disclosure in situations when the matter cannot be resolved and the professional accountant determines that disclosure is necessary, taking into consideration the Section 100 guidance on ethical conflict resolution.
- *Documentation* – The project will consider what guidance should be given regarding the matters that should be documented by the professional accountant.

Action requested

IESBA members are asked to consider and approve the project proposal.

Material Presented

Agenda Paper 6	This Agenda Paper
Agenda Paper 6-A	Draft Project Proposal

Action Requested

1. IESBA members are asked to consider the question posed.