

Review of Part C Phase 1—Issues and Proposed Text to Clarify the Applicability of Provisions for PAIBs to PAPPs

Introduction

1. This paper addresses matters pertaining to the applicability of the requirements and application material in extant Part C (restructured Part 2) to professional accountants in public practice (PAPPs).

Applicability of the Provisions in Extant Part C to PAPPs – Applicability Paragraph

2. The IESBA previously agreed with the Task Force's conclusion that it is possible for PAPPs to find themselves in ethically problematic circumstances and situations that do not involve clients and agreed to the Task Force's proposal to include an "applicability paragraph" in the Code to explain the applicability of the requirements and application material set out in Part C to PAPPs.
3. At its September 2016 meeting, the IESBA considered a revised "applicability paragraph", amended based on feedback received at its June 2016 meeting. Changes are shown in mark-up below:

R120.4 When facing an ethical issue, a professional accountant in public practice shall consider the context within which the issue has occurred. Where the accountant is performing professional activities pursuant to the accountant's employment or ownership relationship with the firm ~~employing organization, for example a firm~~, there might be guidance in Part ~~2-C~~ that is applicable to those circumstances. If so, t ~~The~~ accountant shall comply with ~~consult~~ relevant provisions ~~and comply with them~~.

120.4 A1 For example, where a professional accountant in public practice is faced with pressure from an engagement partner to perform a task without sufficient skills or training, or with unrealistic deadlines, the requirements and application material guidance is set out in Section 270 might be relevant.

4. In addition to editorial suggestions, the following key feedback on the example of how Part C might be applicable to PAPPs was received:
 - An IESBA member felt that the example was not suitable as an audit firm would be expected to provide PAPPs with sufficient skills and training to perform the roles expected of them. Another respondent agreed, noting that auditing standards have quality control requirements mandating audit team members to have the appropriate skills for the engagement being performed.
 - An IESBA meeting participant respondent suggested that a more appropriate example could relate to a senior partner pressurizing a more junior partner to accept a client's preferred accounting treatment in order to appease the client.
 - An IESBA member agreed with the concerns raised above and suggested that an example of detailing how pressure could affect a PAPP's judgment might be more appropriate.
5. In acknowledging the views expressed and drafting suggestions received, the Task Force presented a revised example at a later session of the meeting. The changes made to the original "applicability paragraph" are shown in mark-up below:

R120.4 When facing an ethical issue, a professional accountant in public practice shall consider

the context within which the issue has occurred. Where the accountant is performing professional activities pursuant to the accountant’s employment or ownership relationship with the firm, there might be requirements and application material guidance in Part 2 that ~~is~~ are also applicable to those circumstances. If so, the accountant shall comply with the relevant provisions.

120.4 A1 For example, where a professional accountant ~~in public practice is placed under faced with~~ pressure ~~by~~ from an engagement partner to ~~perform a task without sufficient skills or training~~ accept a client’s questionable accounting treatment in a specific financial reporting issue in order to retain the client, or with unrealistic deadlines the requirements and application material set out in Section 270 ~~would~~ might be relevant.

6. The following feedback to the revised example was considered by the Task Force at its October 2016 meeting:

IESBA Member Feedback		Task Force Response
1.	<p>As relates to application of the proposed example in an audit scenario, a member expressed concern over the revised wording as a partner should not place pressure on audit staff to accept a client’s preferred accounting treatment in order to retain the client. Such a situation would indicate inadequate governance within the firm.</p> <p>In response, a respondent repeated his view expressed on the initial example that it is conceivable for a client to pressure the firm’s CEO to apply pressure on the audit partner to accept the client’s accounting treatment. Such a scenario would be beyond the boundaries of the audit engagement and hence outside the scope of auditing standards.</p> <p>A few members disagreed with these views, indicating that the situation outlined in the revised example could also arise in non-audit scenarios, such when preparing financial information for an advisory client.</p> <p>Another member expressed a view that he did not read the example from an audit engagement standpoint, but acknowledged that if it were interpreted to relate to audit engagements it might conflict with auditing standards.</p>	<p>The Task Force feels that the scenario being depicted within the example would not be limited to audit situations. It should apply to all situations where a PAPP might face pressure from within a firm to accept a client’s accounting treatment.</p>
2.	<p>A member suggested that an example that related to the fundamental principles might be more appropriate, as it would remind the reader of the need to consider the fundamental principles in their actions and not conflict with auditing standards.</p>	<p>The Task Force is of the view that the proposed example relates to the principle of professional competence and due care and hence addresses this view.</p>

7. In addition to the views above, some members indicated that they approved of the revised example, with a few adding that the scenario outlined in the example did occur in practice even though it is

against the fundamental principles of the Code and hence unethical. The Task Force thus concluded the revised example was adequate and is not proposing any additional changes to either paragraphs.

Exposure of the “Applicability Paragraph”

8. At its September 2016 meeting, the IESBA considered the merits of possibly exposing the final agreed wording for the “applicability paragraph” as part of the Structure Phase 2 exposure draft (Structure ED-2). However, after the meeting, this option was reconsidered since the addition of the “applicability paragraph”, because of concerns raised by the Structure Task Force, that the proposal would be a substantive change that would go beyond the remit of the Structure of the Code Project. It has been suggested that the Task Force’s proposals (“applicability paragraph”) be exposed in a separate ED at the same time as Structure ED-2.
9. Since the Structure ED-2 will not include section 250, *Inducements* the Task Force has reconsidered its earlier views and would prefer that the “applicability paragraph” be exposed with the revised Section 250 in the Part C Phase 2 ED (Part C ED-2), due in March 2017. This would allow stakeholders, when responding to the Task Force’s proposals to consider all provisions that the Board proposes to be included in Part 2, and as such, be applicable to PAPPs as well.

Matters for IESBA Consideration

1. IESBA members are asked:
 - (a) About their views on the revised “applicability paragraph”.
 - (b) Whether the “applicability paragraph” should be exposed alongside Structure ED-2 or with Part C ED-2.

Title of Part C

10. With it being acknowledged that Part C might be applicable to PAPPs, the inclusion of the “applicability paragraph” into the Code would render the current title of Part C, *Professional Accountants in Business* inconsistent with the broadened scope of the provisions in that part.
11. In considering these issues and the possibility of revising the title, the Task Force noted that changing the title might have wider ramifications as:
 - Changes might also have to be made to the title of Part 3 (extant Part B) in order to clarify that the scope of provisions in that part relates specifically to relationships between PAPPs and clients.
 - A possible solution to this could be to include a subheading under the title of both Part B and C, describing the situations/relationships that this specific Part focuses on.

Matter for IESBA Consideration

2. IESBA members are asked for their views on whether the discrepancy between the extant title and the broadened scope of Part C needs to be addressed and if so how?