

December 15, 2012

Response submitted to www.ifac.org/ethics

RE: Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Responding to a Suspected Illegal Act*

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to offer our members' perspectives on the IESBA's Exposure Draft on Responding to a Suspected Illegal Act.

The proposed additions and changes to the Code of Ethics for Professional Accountants (the Code) are of particular interest to The IIA. Much like the auditing and assurance standards set by the IAASB and the Code of Ethics for Professional Accountants set by the IESBA, The IIA has codified the International Professional Practices Framework (IPPF) for internal audit professionals worldwide. The Code of Ethics, the Definition of Internal Auditing and the International Standards are the mandatory components of the IPPF.

We strongly encourage professional accountants (PAs) to utilize the internal audit function; an internal audit function which complies with the IPPF is independent of management, has a formal charter, and reports to senior management and/or those charged with governance (TCWG). This is especially important if the PAs have doubts about the integrity or honesty of management, or suspect that management is involved in the suspected illegal acts (SIAs).

Our comments are based on a thorough analysis and discussion, utilizing a core team of governance, compliance and audit experts who serve on The IIA's Professional Issues Committee (PIC). The team consists of Certified Internal Auditors, Certified Public Accountants, Chartered Accountants and Certified Risk Management Assurance professionals who have served as partners in public accounting firms, as chief audit executives, CFOs, controllers and audit executives in Fortune 500, multinational companies and other organizations.

This cover letter includes our principal comments. Responses to the questions posed and other suggested clarifications and changes for consideration (see Response #19) are summarized in Appendix A.

Definition of Public Interest

We support IESBA's continuous effort to raise ethical standards for PAs, as exemplified by the proposed additions and revisions to the Code. We appreciate the issuance of IFAC Policy Position 5, A Definition of The Public Interest, in June 2012. Since "Public Interest" is a key driver for the revision of the Code, we recommend making a reference to this document.

Implementation Challenges and Issues

We would like to acknowledge the significant practical challenges in implementing the additions (sections 225 and 360) given the diverse legal, regulatory, cultural, corporate, and professional environments in which PAs worldwide operate and exacerbated by varying experience levels among PAs.

If a professional accountant in public practice (PAIPP) or a professional accountant in business (PAIB) identifies a SIA, the proposal requires the PA to:

- Comply with applicable legal and regulatory requirements.

Countries have different laws and regulations that govern PAIPPs and whistleblowing activities. Audit firms and many entities have their own codes of ethics which may align with IESBA's Code. Accounting and auditing professional organizations also have their licensing requirements, codes of ethics and professional standards and regulatory bodies have various expectations. Entities have contractual agreements with PAIPPs and code of conduct for PAIBs that govern integrity and confidentiality of information. It is a complex process to prioritize these requirements, especially when there are conflicts. There may even be a risk of committing an illegal act by reporting a SIA.

- Take reasonable steps to confirm or dispel that suspicion.

SIAs are serious matters; the suspicion should be confirmed or dispelled by professionals with the appropriate experience in order to deal with the SIA and protect the entity and the PA. Some activities may even be conducted under attorney-client privilege.

Often, a PA will not be equipped to confirm or dispel the SIA. They may not have the requisite skills, expertise, and experience. They typically do not have the authority, resources, or access to people, information and systems. Requiring PAs to confirm or dispel the suspicion could put the PA and/or others, including the entity itself, at risk.

While 225.14, 225.20, and 360.10 address exceptional circumstances under which PAIPPs or PAIBs are not required to disclose the SIAs, exceptional circumstances do not explicitly contemplate the personal and civil liability of the PAs and financial resources required in the likely scenarios of lawsuits. These risks are far more significant than the commercial risk of losing one client.

The Code should include additional discussion and guidance on how PAs should identify and manage these implementation challenges.

Smaller Entities

PAs at entities with no external auditor or internal auditor would need additional guidance. Page 10 of the Explanatory Memorandum acknowledged that some entities, especially smaller ones, do not have an external auditor. IESBA is of the opinion that due to smaller size, there is a low probability of occurrence of illegal acts with public interest consequence. If the response is not appropriate, the PA would have a right to disclose the SIA to an appropriate authority.

We are of the view that PAs may be more vulnerable in a smaller entity because the management team may be more tightly controlled or lack many safeguards available to more mature or larger organizations. In addition, due to the informality of governance, risk management and control, the risk of violation may also be higher. Some privately held entities' products and operations have important public interest implications.

Scope of the SIAs

The proposed Code focused on three types of SIAs: those that directly or indirectly affect financial reporting, subject matter that falls within the PA's expertise, and those related to the subject matter of the professional services provided. PAs have a wide range of experience levels. We believe that all SIAs recognized by the PA should be reported. The scope should not be limited to these three types. It is important to bring SIAs to the attention of an appropriate internal party such as senior management and TCWG; they have primary responsibilities for confirming or dispelling SIAs, taking corrective actions and evaluating disclosure requirements for confirmed SIAs, and making appropriate disclosures.

Primary Methods of Handling SIAs

We believe that while the Code applies to PAs, overall responsibility for conformance should be vested with the audit firms and the entities. It appears that the proposed changes would bypass structures put in place to deal with SIAs. For example, many

organizations have “whistleblower” procedures and policies and audit firms have established processes to handle SIAs observed on engagements. These structures provide the context to ensure compliance with the Code.

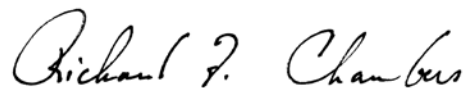
We recommend that SIAs be handled through existing SIA reporting (e.g., whistleblower procedures), investigation, escalation and resolution processes established by the entities and the audit firms to the extent possible; the processes should be adjusted where necessary. If those do not exist or are not operating effectively, then the PA should report the SIA to internal audit. An internal audit activity which complies with the IPPF should possess the experience and resources to take the proper next steps to address the SIA. If these options are not available, TCWG should be informed directly by the PA. Any of the aforementioned would be responsible for designating appropriate investigation resources to confirm or dispel the SIAs.

We believe the requirement to report SIAs to the external auditor by PAIPP providing services to a non-audit client and PAIB is not appropriate. External auditors are not charged with the responsibility of managing all SIAs for an entity. We have recommended alternatives in our detailed responses.

We agree, as a last resort, that the audit firms and PAIBs should have a right to escalate SIAs that meet public interest disclosure criteria to TCWG. The audit firms and PAIBs should override the fundamental principle of confidentiality and disclose a SIA to an appropriate authority if the entity has not made an adequate disclosure within a reasonable period of time. However, protections for various potential violations (e.g., confidentiality requirements) need to be afforded to the PA that took the appropriate actions.

We appreciate the opportunity to provide input. We welcome further discussion on any of these recommendations and offer our assistance in the continued development of the proposed changes to the Code of Ethics for Professional Accountants.

Best regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 107 Institutes in 190 countries that serve members at the local level.

1. Do respondents agree that if a professional accountant identifies a suspected illegal act, and the accountant is unable to dispel the suspicion, the accountant should be required to discuss the matter with the appropriate level of management and then escalate the matter to the extent the response is not appropriate? If not, why not and what action should be taken?

Response: Suspected illegal acts (SIAs) are serious matters, the suspicion should be confirmed or dispelled by professionals with the appropriate experience in order to deal with the SIA, and protect the entity and the professional accountant (PA); some activities may even be conducted under attorney-client privilege.

Often, PAs will not be equipped to confirm or dispel the SIA. They may not have the requisite skills, expertise, and experience. They typically do not have the authority, resources, or access to people, information and systems. Requiring PAs to confirm or dispel the suspicion could put the PAs and/or others, including the entity itself at risk.

PAs should generally report SIA using established reporting structures and processes (e.g., whistleblower processes) and if these do not exist or not operating effectively, then Internal Audit should be informed. Absent these avenues, those charged with governance should be informed. Any of the aforementioned would be responsible for and designate appropriate investigation resources to confirm or dispel the SIAs.

We do not believe the requirement for Professional Accountants in Public Practice (PAIPP) providing non-audit services and Professional Accountants in Business (PAIB) to report SIAs to the external auditor is appropriate. External auditors are not charged with the core governance responsibility of addressing SIAs. We should not expand the responsibilities of external auditors into this area when other parties are more appropriate.

We therefore recommend that:

1. For PAIPPs Providing Audit Services to an Audit Client

The PA should report SIAs to the Audit Engagement Partner (AEP) who has the experience and responsibility to handle SIAs. AEP's role is defined in regulations in various countries and generally includes responsibility to inform appropriate parties of SIAs and improprieties. AEP has the responsibility for safeguarding public interest, the authority to allocate resources, and access to those charged with governance, management, people, system, information and resources to confirm or dispel the SIA. All SIAs related to financial reporting should be confirmed or dispelled as part of the audit engagement; resolution of the matters should follow the audit process.

SIAs not related to financial reporting should be reported to management in accordance with a process agreed upon with the entity, to Internal Audit, or to those charged with governance (as a last resort).

2. For PAIPPs Providing Non-Audit Services to an Audit Client

The PA should report SIAs related to financial reporting to the EP. The EP should then report the SIAs to the AEP, who will confirm or dispel the SIAs as part of the audit engagement; resolution of the matters should follow the audit process.

SIA's not related to financial reporting should be reported to management in accordance with a process agreed upon with the entity, to Internal Audit, or to those charged with governance (as a last resort).

3. For PAIPPs Providing Non-Audit Services to a Non-Audit Client

The PA should report SIA's to management in accordance with a process agreed upon with the entity, to Internal Audit, or to those charged with governance (as a last resort). Management of the entity is responsible for reporting allegations related to financial reporting and those with financial reporting implications to the AEP.

4. PAIBs

The PAIB should first report the SIA's within the reporting lines of the entity to a superior. If, in the PAIB's judgment, the responses are not appropriate or adequate, or the PAIB suspects that the superior or management is involved, the PAIB should report the SIA's in accordance with company protocol for potential violation of Ethics (e.g., Hotline, Whistleblower processes), or to Internal Audit.

We recommend reporting SIA's to Internal Audit for the following reasons:

- Internal Audit offers an alternative conduit for reporting if the PAs have doubts about the integrity or honesty of management or suspect that management is involved in the SIA's.
- An Internal Audit function which complies with the IPPF is independent of management, has a formal charter, and reports to senior management and/or those charged with governance.

Resolving the SIA's

An Investigation Team should be responsible for confirming or dispelling the SIA's and reporting confirmed SIA's to senior management, Internal Audit, and those charged with governance. Senior management develops and reviews action plans with Internal Audit. Internal Audit provides an independent assessment of whether: the matters have been adequately investigated; appropriate remedial actions have been taken; effective steps have been taken to reduce the risk of re-occurrence, and; management has made appropriate disclosure. If the AEP or EP is not satisfied with the response, they should be required to escalate the matter to those charged with governance.

2. Do respondents agree that if the matter has not been appropriately addressed by the entity, a professional accountant should at least have a right to override confidentiality and disclose certain illegal acts to an appropriate authority?

Response: Based on our response to Q.1, the PAIPPs would report SIA's to the AEP or EP; SIA's related to financial reporting will be confirmed or dispelled during the course of the audit. SIA's not related to financial reporting would be reported to management in accordance with a process agreed upon with the entity, to Internal Audit, or to those charged with governance (as a last resort).

As the last resort, the audit firms and PAIBs shall or have a right to escalate to those charged with governance, and if not satisfied with the response, override the fundamental principle of confidentiality and disclose a SIA to an appropriate authority if the entity has not made an adequate disclosure within a reasonable period of time, after being advised to do so. However, protections for various potential violations (e.g., confidentiality requirements) need to be afforded to the PAs that took appropriate actions.

3. Do respondents agree that the threshold for reporting to an appropriate authority should be when the suspected illegal act is of such consequence that disclosure would be in the public interest? If not, why not and what should be the appropriate threshold?

Response: Yes, we agree that the threshold for reporting to an appropriate authority should be when the SIA is of such consequence that disclosure would be in the public interest. The assessment would require professional judgment and consideration of the legal and regulatory requirements; nature, severity and magnitude of the matter; availability of sufficient, reliable evidence on the issue; and an obligation to balance a need for wider disclosure with due confidentiality. The assessment should be consistent with IFAC Policy Position 5, issued in June 2012 on A definition of Public Interest.

Accordingly, “the public interest is defined as the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy. Implicit in this definition is the need for assessing the cost benefits, the extent to which, for society as a whole, the benefits of the action, decision or policy outweigh the costs, and the process. the extent to which the manner of considering the action, decision, or policy was conducted with the qualities of transparency, public accountability, independence, adherence to due process, and participation that includes a wide range of groups within the society. There is a need for proportionality in both assessments. It is important that the application of these assessments be proportional to the importance of the matter under consideration.”

4. Do respondents agree that the standard for a professional accountant in public practice providing services to an audit client should differ from the standard for a professional accountant in public practice providing services to a client that is not an audit client? If not, why not?

Response: Yes, we agree that the standard (Code of Ethics) for a PAIPP providing audit services to an audit client should differ from the standard for a PAIPP providing non-audit services to an audit client or a non-audit client because:

- A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act “in the public interest”. In an audit, the public accounting firm is hired specifically for public interest, to issue an opinion on its audit of the financial statements. PAIPP are required to comply with external audit standards, which include obligations to report SIAs and access to those charged with governance is a general trait of a PAIPP providing audit services. Additionally, public accounting firms generally have established reporting and escalation processes for SIAs.
- PAIPPs providing non-audit services to a non-audit client are hired to perform various services that may not directly relate to “public benefit or interest”.

5. Do respondents agree that an auditor should be required to override confidentiality and disclose certain suspected illegal acts to an appropriate authority if the entity has not made adequate disclosure within a reasonable period of time after being advised to do so? If not, why not and what action should be taken?

Response: We assume that “auditor” refers to the entity’s external auditor for its financial reporting audit. For SIAs that meet the disclosure requirements, the audit firm should follow the protocols and first discuss the SIAs with those charged with governance if the entity has not made adequate disclosure within a reasonable period of time, after being advised to do so. If those charged with governance do not make adequate disclosure within a reasonable period of time, then the audit firm should be required to override confidentiality and disclose these SIAs to an appropriate authority.

6. Do respondents agree that a professional accountant providing professional services to an audit client of the firm or a network firm should have the same obligation as an auditor? If not, why not and what action should be taken?

Response: Yes, where the audit client is providing audited financial statements to parties outside the entity (for example a listed company), we agree, the professional accountant's primary responsibility is to provide audit services and thus, should have the same responsibilities and obligations as the auditor. We have delineated elsewhere in our response what we believe those responsibilities and obligations.

7. Do respondents agree that the suspected illegal acts to be disclosed referred to in question 5 should be those that affect the client's financial reporting, and acts the subject matter of which falls within the expertise of the professional accountant? If not, why not and which suspected illegal acts should be disclosed?

Response: The SIAs to be disclosed referred to in question 5 should be those that affect the client's financial reporting, fraud, and those of such consequence that disclosure would be in the public interest, in accordance with IFAC Policy Position 5, issued in June 2012 on A definition of Public Interest.

Also, PAs around the world have a wide range of knowledge, skills, experience, and expertise. Therefore, "acts related to the subject matter of which falls within the expertise of the professional accountant" need to be better defined.

8. Do respondents agree that a professional accountant providing professional services to a client that is not an audit client of the firm or a network firm who is unable to escalate the matter within the client should be required to disclose the suspected illegal act to the entity's external auditor, if any? If not, why not and what action should be taken?

Response: No, as noted in our response to Q.1, PAIPPs providing non-audit services to a non-audit client should report SIAs to the EP who has the experience and responsibility to handle SIAs. The EP should report the SIAs in accordance with agreed upon process in the agreement with the entity, or to Internal Audit. Management of the entity is responsible for informing AEP on allegations related to financial reporting or those with financial reporting implications.

9. Do respondents agree that a professional accountant providing professional services to a client that is not an audit client of the firm or a network firm should have a right to override confidentiality and disclose certain illegal acts to an appropriate authority and be expected to exercise this right? If not, why not and what action should be taken?

Response: As noted in the proposal, the term used is SIAs because whether a matter constitutes an illegal act is ultimately a matter for legal determination. We assume that this question refers to SIA, not illegal acts.

No, as noted in our response to Q.1, PAIPPs should report SIAs to the EP. The audit firm should have a right to override confidentiality to disclose certain SIAs (those that meet disclosure requirements) to an appropriate authority and be expected to exercise this right, only after the audit firm has reported the SIAs to those charged with governance, and concluded that the responses were not appropriate or adequate, and the required/appropriate disclosures have not been made within a reasonable time.

10. Do respondents agree that the suspected illegal acts to be disclosed referred to in question 9 should be those acts that relate to the subject matter of the professional services being provided by the professional accountant? If not, why not and which suspected illegal acts should be disclosed?

Response: No, we do not agree that the SIAs to be disclosed referred to in question 9 should be restricted to the subject matter of the professional services being provided by the professional accountant. The SIAs to be disclosed should be those of such consequence that disclosure would be in the public interest, in accordance with IFAC Policy Position 5, issued in June 2012 on A definition of Public Interest.

Please also see our response to Question 3.

11. Do respondents agree that a professional accountant in business who is unable to escalate the matter within the client or who has doubts about the integrity of management should be required to disclose the suspected illegal act to the entity's external auditor, if any? If not, why not and what action should be taken?

Response: No. The PAIB who is unable to escalate the SIA within the client or who has doubts about the integrity of management should report the SIA to internal audit or to those charged with governance.

An Internal Audit function which complies with the International Professional Practices Framework (IPPF) is independent of management, has a formal charter, and reports to senior management and/or those charged with governance. This is especially important if the PAs have doubts about the integrity or honesty of management, or suspect that management is involved in the SIAs.

12. Do respondents agree that a professional accountant in business should have a right to override confidentiality and disclose certain illegal acts to an appropriate authority and be expected to exercise this right? If not, why not and what action should be taken?

Response: As noted in the proposal, the term used is suspected illegal acts because whether a matter constitutes an illegal act is ultimately a matter for legal determination by a court of law. We assume this to mean SIAs and not illegal acts.

In the case of SIAs, the PAIB should have a right to override confidentiality to disclose certain SIAs to an appropriate authority and be expected to exercise this right only after the PAIB has reported the SIAs to those charged with governance, and concluded that the responses were not appropriate or adequate, and the required/appropriate disclosures have not been made within a reasonable time. However, protections for various potential violations (e.g., confidentiality requirements) need to be afforded to the PAs that took appropriate actions.

13. Do respondents agree that the suspected illegal acts to be disclosed referred to in question 12 above should be acts that affect the employing organization's financial reporting, and acts the subject matter of which falls within the expertise of the professional accountant? If not, why not and which suspected illegal acts should be disclosed?

Response: No, we do not agree that the SIAs to be disclosed referred to in question 12 above should be limited to acts that affect the employing organization's financial reporting, and acts the subject matter of which falls within the expertise of the professional accountant. The SIAs to be disclosed should be those of such consequence that disclosure would be in the public interest, in accordance with IFAC Policy Position 5, issued in June 2012 on A definition of Public Interest.

PAs around the world have a wide range of knowledge, skills, experience, and expertise. Therefore, “acts related to the subject matter of which falls within the expertise of the professional accountant” need to be better defined.

Please also see our response to Question 3.

14. Do respondents agree that in exceptional circumstances a professional accountant should not be required, or expected to exercise the right, to disclose certain illegal acts to an appropriate authority? If not, why not and what action should be taken?

Response: We agree that in those rare, exceptional circumstances, a PA should not be required, or expected to exercise the right, to disclose certain SIAs to an appropriate authority, for example in some countries, the “appropriate authority” may not be trustworthy or one’s life could be threatened, or the risk of law suits, imprisonment and financial liabilities may be very high.

Based on our recommendation, the PAIPP is required to report the SIAs to the engagement partner. In most cases, it is the audit firm, not the PA who would have to make the disclosure as the last resort.

15. If respondents agree that in exceptional circumstances a professional accountant should not be required, or expected to exercise the right, to disclose certain illegal acts to an appropriate authority, are the exceptional circumstances as described in the proposal appropriate? If not, how should the exceptional circumstances be described?

Response: Yes, however, we recommend adding other examples of exceptional situations, such as: in some countries, the “appropriate authority” may not be trustworthy or corrupted; or the risk of lawsuits, imprisonment and financial liabilities may be very high.

16. Do respondents agree with the documentation requirements? If not, why not and what documentation should be required?

Response: We recommend that the documentation also includes: the rationale for consulting the person(s) selected and the assessment and disposition of the responses and the advices.

We also recommend providing guidance on documentation storage and retention in order to protect the PA. For example: Should a dated copy be kept by an independent person or by the audit firm at the time the decision was made? Is the PA or the audit firm required to reassess the situation periodically to determine if the decision not to disclose is still valid? How long should the documentation be kept?

If the PA did not disclose the matter in exceptional circumstances, 225.23 also requires documentation on the rationale for:

- Not disclosing the matter;
- Not terminating the professional relationship;
- Not resigning from the employing organization; and,
- Continue providing professional services to an audit client of the firm or a network firm.

17. Do respondents agree with the proposed changes to the existing sections of the Code? If not, why not and what changes should be made?

Response: We agree with the proposed changes to the existing sections of the Code.

18. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?

Response: We support the concept of providing impact analysis. However, this impact analysis is not reader-friendly because:

- The rating of high, moderate and low are not aligned with the points. For example, on p.29, it is not clear if Low and One off is intended to be aligned with the last point in Public Interest or the first point in Professional Accountant.
- Impact analysis is not consistently provided for each point; it is not clear whether the impact analysis for the previous point is also applicable to the next point. (see example on p.29)
- Duration is missing for two impact analyses. (see p.30, p.32)

Management and those charged with governance are also stakeholders that should be considered. They have the primary responsibilities for establishing processes for reporting (commonly known as Whistleblowing), confirming or dispelling (commonly known as investigating), evaluating and disclosing SIAs to meet legal and regulatory requirements. There are also several references in the proposed Code about escalating the SIAs to management and those charged with governance. Entities need to have a Code of Ethics for employees, board members, and applicable service providers, suppliers, distributors, agents, representatives, etc. that governs integrity, confidentiality, compliance, SIA/impropriety reporting, etc. requirements.

Our suggested changes, if adopted would affect the impact analyses.

19. Other Suggested Clarification and Changes for Consideration

Our suggested changes are intended to clarify the requirements if the IESBA elects to move forward with the proposed additions.

1. Illegal act is defined as “Acts of omission or commission, intentional or unintentional, committed by a client, or those charged with governance, management or employees of a client or its service providers engaged to provide relevant services, which are contrary to prevailing laws or regulations.”

In the era of outsourcing, we recommend that the definition also includes outsourced service providers in the extended entity. There should be discussion on the oversight and disclosure responsibilities regarding SIAs related to outsourced service providers.

2. One category of SIAs is “Subject matter of which falls within the expertise of the PA.” Another category is “Related to the subject matter of the professional services being provided by the PA,” these terms need to be clearly better defined.
3. The revised Code requires that PAs take reasonable steps to confirm or dispel SIAs. However, there is no definition or guidance of what constitute reasonable steps.
4. There are documentation retention requirements for PAIBs (360.15), however, there is no documentation requirement for PAIPPs (225.23).

5. 225.10 states: “If the professional accountant or the engagement partner for the audit determines that the suspected illegal act is of such consequence that disclosure to an appropriate authority would be in the public interest, there is an appropriate authority to receive the disclosure, and the matter has not been disclosed, the accountant or the engagement partner for the audit shall advise the entity that the matter should be disclosed to the appropriate authority.”

However, 225.11 states: “In making the determination as to whether disclosure would be in the public interest, the professional accountant shall take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances, would be likely to conclude that the suspected illegal act is of such consequence that disclosure would be in the public interest...”

225.13 states: “If the entity has not made an adequate disclosure within a reasonable period of time, after being advised to do so, the professional accountant or the engagement partner for the audit shall disclose the following to the appropriate authority...”

It is not clear under what circumstances the PA would be responsible for making the determination on the disclosure and under what circumstances it is the responsibility of the EP. Also, the EP is referenced in 225.10 and 225.13 but not in 225.11.

6. The proposal addresses SIAs, suspected is missing in 225.19 (see underlined), “...If the professional accountant determines that the suspected illegal act is of such consequence ...and the subject matter of the suspected illegal act falls within the expertise of the professional accountant...”
7. Throughout sections 225 and 360, there are many common sections that are applicable to all types of PAs, such as the definition of illegal acts, definition of appropriate authority, reasonable steps expected to dispel or confirm the suspicion, factors to determine if the response is appropriate, factors to consider in determining if the disclosure will be in the public interest, caution when making disclosure to an appropriate authority, documentation requirements, termination of relationship with the client, etc. (See 225.1 - 3; 225.5; 225.9; 225.11 - 15; 225.17; 225.20 - 23; 360.1 - 4; 360.7 – 15.) Some sections are identical some are almost identical verbatim with some subtle differences. Excessive repetition could distract attention.

To make it more user-friendly and concise, we recommend creating a general section that is applicable to all types of PAs. Sections 225 and 360 should then be used to highlight distinctive requirements for different types of PAs.

8. To facilitate review, we also recommend using a decision tree structure to show the decision making process under different scenarios for different types of PAs and using a table to show the applicability of each type of SIAs.