

Basis for Conclusions
Prepared by the Staff of the IESBA®
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*International Ethics Standards Board
for Accountants®*

**Revisions to Clarify the
Applicability of Provisions in Part
C of the Extant Code to
Professional Accountants in
Public Practice**



International
Ethics Standards
Board for Accountants®

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**BASIS FOR CONCLUSIONS:
REVISIONS TO CLARIFY THE APPLICABILITY OF PROVISIONS IN
PART C OF THE EXTANT CODE TO PROFESSIONAL ACCOUNTANTS
IN PUBLIC PRACTICE**

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I. Introduction

1. Professional accountants in public practice (PAPPs) might face similar issues and ethical dilemmas as professional accountants in business (PAIBs). Accordingly, the IESBA believes that it is in the public interest that the Code be clear about the circumstances in which the provisions in Part C of the extant Code¹ should also apply to PAPPs. At its December 2017 meeting, the IESBA approved revisions to clarify the applicability of the provisions in Part C of the extant Code to PAPPs with the affirmative votes of 15 out of 16 IESBA members present and one abstention. The revised provisions are drafted under the new structure and drafting conventions of the restructured Code.
2. This Basis for Conclusions relates to, but does not form part of the revised provisions set out in paragraphs R120.4² and R300.5³ to 300.5 A1 of the restructured Code, *International Code of Ethics for Professional Accountants (including International Independence Standards)* (hereinafter referred to as the applicability paragraphs).

II. Background

3. Informed by the survey responses of a number of IFAC member bodies with large proportions of PAIBs in their memberships about the issues on which PAIBs contact their member bodies' ethics help lines, as well as the feedback of its Consultative Advisory Group (CAG), the IESBA approved the [Review of Part C of the Code Project](#) (Part C project) in early 2013. The objective of this project was to strengthen the provisions in the extant Code that are applicable to PAIBs and to promote ethical behavior among PAIBs. The IESBA agreed to approach the review of extant Part C in two phases:
 - (a) Phase 1 of the project addressed mainly the topics of pressure to breach the fundamental principles, and the preparation and presentation of information (see extant Sections 320⁴ and 370⁵). The IESBA approved a close-off document⁶ titled, [Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles](#) (Part C Close-off document) at its November/December 2015 meeting. The Part C Close-off document was drafted in accordance with the structure and drafting conventions of the extant Code.
 - (b) Phase 2 of the project involved a review of the provisions in the extant Code relating to inducements. The IESBA issued an Exposure Draft, [Proposed Revisions to the Code](#)

¹ The extant Code as used in this document refers to the provisions in the [2016 IESBA Handbook](#), *Code of Ethics for Professional Accountants* as revised by the final provisions arising from the IESBA's recently completed NOCLAR, Revision of Part C of the Code and Long Association projects. Throughout this document, reference is made to extant Part B – Professional Accountants in Public Practice and Part C – Professional Accountants in Business as well as the restructured Code, Part 2– Professional Accountants in Business and Part 3 – Professional Accountants in Public Practice.

² Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

³ Part 3, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

⁴ Extant Part C, Section 320, *Preparation and Reporting of Information*

⁵ Extant Part C, Section 370, *Pressure to Breach the Fundamental Principles*

⁶ A “close-off document” refers to new or revised provisions developed under the extant structure and drafting conventions. As part of the project, restructuring changes were made to these new and revised provisions to reflect the new structure and drafting convention for the Code. The new and revised provisions in the restructured Code also reflect conforming amendments arising from the Safeguards projects as applicable.

[Pertaining to the Offering and Accepting of Inducements](#) (Inducements ED) in September 2017 with 90-day comment period that ended on December 8, 2017. The IESBA plans to consider the responses to the Inducements ED during its March and June 2018 meetings with a view to approving the final provisions in June 2018.

Restructuring Part C of the Extant Code

4. As part of its Structure of the Code (Structure) project which involved restructuring the provisions in the Code for greater understandability and usability, the IESBA issued for exposure in January 2017, *inter alia*, the proposed restructured text for the revised extant Part C provisions. These January 2017 proposals are set out in Part 2 of the January 2017 Exposure Draft, [Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2](#) (Structure ED-2). The January 2017 proposals also incorporated proposed conforming amendments arising from the IESBA's Safeguards project (see Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2)).
5. The IESBA finalized its Structure and Safeguards projects in December 2017 and approved the restructured Code, which includes the revisions to Structure ED-2 and Safeguards ED-2 based on respondents' feedback (see the [Basis for Conclusions documents relating to the Structure and Safeguards](#) projects).

Applicability Project

6. During the IESBA's deliberations in Phase 1 of the Part C project, questions were raised about whether the provisions in Part C of the extant Code should apply to PAPPs. The extant Code contains statements that could be interpreted as if the Code contains two distinct parts (i.e., extant Part B and Part C) directed at two different categories of professional accountants.⁷ However, the extant Code also notes that in certain circumstances the provisions for PAIBs may be relevant to PAPPs. Paragraphs 100.3 and 100.12 of the extant Code each states that "...professional accountants in public practice *may* also find Part C relevant to their particular circumstances." The IESBA acknowledged that questions that have been raised about the intended meaning of this statement in paragraphs 100.3 and 100.12, and how a professional accountant should apply it. For example, the use of the word "may" rather than "shall" in the sentence might lead a PAPP to conclude that compliance with the provisions in extant Part C of the Code is optional. The IESBA also acknowledged that the lack of clarity was exacerbated by the relatively low prominence given to this statement in the extant Code. Accordingly, the IESBA determined to clarify the applicability of the provisions in extant Part C to PAPPs.
7. In January 2017, the IESBA published an Exposure Draft, [Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice](#) (Applicability ED). Forty comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies, and firms. There was widespread support from respondents for the objective of proposals to clarify the circumstances in which the provisions in Part C of the extant Code should apply to PAPPs.

⁷ Extant paragraph 200.1 states that "This part [Part B] of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in public practice." Similarly, extant paragraph 300.1 states that "This part [Part C] of the Code describes how the conceptual framework contained in Part A applies in certain situations to professional accountants in business."

8. The IESBA revised its proposals to address the significant matters raised by respondents to the Applicability ED, taking into account the input provided by its CAG.

III. Applicable Circumstances

Considering the Context

9. As part of the Structure project, the IESBA emphasized that the provisions in the Code should be considered and applied in a holistic manner. Accordingly, the IESBA is of the view that it is a PAPP's responsibility to consider the context within which an ethics issue has occurred, and then consult the relevant provisions in the Code, irrespective of where those provisions are located within the Code.
10. A respondent questioned the clarity of the statement "When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred" in paragraph R120.4 of the Applicability ED. The respondent felt that the phrase "...facing an ethical issue..." was unclear because it implied that a professional accountant has already encountered a specific ethics issue that needs to be addressed. Some respondents suggested that the statement could be enhanced by instead requiring professional accountants to consider the provisions in the entire Code (including extant Part C) and comply with all the requirements applicable to the particular circumstances.

IESBA Decisions

11. The IESBA is of the view that all matters relating to threats to compliance with the fundamental principles are ethics issues. Responsive to respondents' requests for clarity, the IESBA agreed to revise the first sentence in paragraph R120.4 to state: "When dealing with ethics issues, the professional accountant shall consider the context in which the issue has arisen or might arise." This revision makes it clear that it is the professional accountant's responsibility to consider an ethics issue irrespective of whether it has already taken place or not, and to take proactive action to address it.
12. In finalizing the restructured Code, the IESBA considered the suggestion to revise the applicability paragraphs so that they explicitly require all professional accountants to consider the provisions in the entire Code. In this regard, the IESBA determined that doing so would be redundant as it would repeat the requirement in paragraph R100.4 of the restructured Code.⁸ The IESBA also reaffirmed that the revised requirements in R120.4 and R300.5 should have the same objective as the proposals set out in the ED, which is to ensure that PAPPs consider the requirements and application material in Part 2 of the restructured Code and apply the relevant provisions.

Applicability of Provisions in Part 2 of Restructured Code to Client Services and Relationships

13. A respondent suggested that the proposals should clarify the circumstances that might trigger the applicability paragraphs. The respondent pointed out that the phrase "pursuant to the accountant's employment" in the proposals may be interpreted as applying to all professional activities that PAPPs undertake in the context of their work for firms. The respondent was of the view that PAPPs' employment and client relationships are interdependent and should be considered holistically.

⁸ Unchanged from paragraph 100.2 of the extant Code, Part 1, Section 100, paragraph R100.4 states that:

"**A professional accountant shall comply with the Code [emphasis added]**. There might be circumstances when laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code."

IESBA Decisions

14. The IESBA agreed that matters relating to a PAPP's client engagement and employment relationship in a firm are often interrelated. However, the IESBA believes that the proposed paragraphs in the Applicability ED sufficiently cover this point and that further clarification is not warranted.
15. After extensive deliberations, the IESBA determined that the provisions in Part C of the extant Code may be applicable to circumstances where PAPPs perform professional services for clients and to their client relationships. The IESBA determined that these circumstances should not be excluded from the scope of the applicability paragraphs. The IESBA noted that, although the provisions in Part 2 of the restructured Code deal primarily with matters that are relevant to professional activities that occur internally within the employing organization, there are situations where those provisions will also be relevant to a PAPP when the PAPP performs professional services for clients or to the PAPP's client relationships. For example, the IESBA believes that the provisions in Part 2 of the restructured Code relating to preparing and presenting information⁹ and pressure to breach the fundamental principles,¹⁰ which are not dealt with in the other parts of the Code (i.e., Parts 1, 3, 4A and 4B) should be relevant to all professional activities that PAPPs perform irrespective of whether they are internal to their firm or relate to professional services provided to their clients.
16. The IESBA therefore determined to make this clear in the examples in paragraph 300.5 A1.

Professional Accountants Performing Multiple Roles

17. Some respondents questioned whether the proposals in the Applicability ED cover situations where a professional accountant serves in multiple roles as both a PAPP and PAIB. For instance, a respondent noted that in some situations a professional accountant might provide professional services to clients of the professional accountant's firm as well as serve as a volunteer on the board of directors of an organization. It was suggested that the IESBA consider clarifying the applicability of Part C in such circumstances.

IESBA Decision

18. The IESBA determined that such clarification is not warranted and would be redundant because professional accountants performing the role of a PAIB are already subject to the provisions in Part 2 of the restructured Code and required to understand and comply with them.

IV. Type of Professional Accountants in Public Practice

Individual Professional Accountants

19. Some respondents have commented that the scope of the proposed requirements in the Applicability ED may have the unintended consequence of being overly expansive due to the Code's definition of a PAPP. These respondents pointed out that the current definition of a PAPP¹¹ includes "a firm of professional accountants in public practice." The respondents were of the view that, without any express limitation to the contrary in the Code, an individual who is not a professional accountant

⁹ Part 2, Section 220, *Preparation and Presentation of Information*, paragraph 220.4 A1

¹⁰ Part 2, Section 270, *Pressure to Breach the Fundamental Principles*, paragraph 270.3 A1

¹¹ The Glossary to the restructured Code includes the following description of PAPP: "A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. *The term 'professional accountant in public practice' is also used to refer to a firm of professional accountants in public practice.*"

working in a firm will also be obligated to apply the proposals in the Applicability ED, which may result in unintended and administratively burdensome consequences.

IESBA Decision

20. The IESBA agreed that an individual who is not a professional accountant should not be required to comply with Part C of the extant Code when working in a firm. Further, the IESBA noted that the focus of the provisions in paragraphs R120.4, R300.5 and 300.5 A1 must align with that of the provisions in Part C of the extant Code, which is on the individual PA.
21. To avoid confusion, the IESBA determined to revise the applicability paragraphs to clarify that their scope includes only individual PAPPs.

Contractors

22. A few respondents highlighted that the explanatory memorandum to the Applicability ED had mentioned that professional accountants can act as contractors of organizations. Those respondents were of the view that this type of relationship should also be within the scope of the proposals in the Applicability ED. They suggested that the IESBA consider revising the proposals to expressly include a reference to contractors.

IESBA Decision

23. Responsive to respondents' comments, the IESBA agreed to revise paragraphs R120.4 and R300.5 so that they now state: "Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances."
24. The IESBA acknowledges that while the current definition of a PAPP does not expressly refer to contractors or other types of work arrangement that might exist in a firm, the engagement of contractors by firms is common in some jurisdictions and an increasingly common practice in others. As such, the IESBA determined that this type of work arrangement should be included within the scope of the applicability paragraphs.
25. Questions were raised about whether the inclusion of the word "contractor" in paragraphs R120.4 and R300.5 would indirectly change the definition of a PAPP, and whether this would mean that the provisions in Part 3 are applicable to contractors that are engaged by firms. In response, the IESBA concluded that the objective of the Applicability project would be met by clarifying that the applicability of the provisions in Part 2 to individual PAPPs should encompass professional accountants regardless of their relationship with the firm (whether as a contractor, employee or owner).
26. The IESBA noted that there are varying views about whether the provisions in Part 3 of the Code and the International Independence Standards (Parts 4A and 4B) should apply to contractors, and determined that further consideration of the issue warrants a broader review of the definition of a PAPP, which is outside the scope of the Applicability project.

V. Illustrative Examples

27. The IESBA believes that the objective of the applicability paragraphs would be better understood if it were accompanied by application material to illustrate a specific situation where a PAPP might face an ethical dilemma in the context of their employment and to which the provisions in Part 2 of the

Code would be relevant. Accordingly, the Applicability ED included an example focused on how the provisions in Section 270 relating to pressure might be relevant to a PAPP when the PAPP is being pressured by a superior to underreport chargeable hours.

28. Respondents were generally supportive of the example. A few respondents provided refinements while others suggested that the IESBA provide additional examples to assist professional accountants better understand how to apply the revised provisions. For example, it was suggested that the IESBA include examples that relate to conflicts of interests and the preparation and presentation of information such as engagement budgets.

IESBA Decision

29. The IESBA agreed that having additional examples would be helpful to clarify how professional accountants should apply the requirement in paragraphs R120.4 and R300.5. Accordingly, the IESBA resolved to provide four examples in paragraph 300.5 A1 to illustrate a range of circumstances and issues where the provisions in Part 2 might be applicable to PAPPs. The IESBA felt it important that the examples be sufficiently broad to illustrate the diverse situations in which the provisions in Part 2 might apply to PAPPs. Therefore, the four examples focus on the various scenarios that are dealt with in Part 2, including conflicts of interest, preparing or presenting financial information, inducements (including gifts and hospitality), and pressure.
30. The examples, however, are not intended to be an exhaustive list of circumstances or types of ethics issue PAPPs might encounter. The IESBA nevertheless believes that the examples will enrich the material in the Code to help guide PAPPs in dealing with ethics issues during the course of their work.

VI. Location of the Applicability Paragraphs

31. The conceptual framework set out in Section 120 has been given greater prominence in the restructured Code and is the essential starting point for assessing an ethics issue and determining how best to address it. On that basis, the IESBA proposed that the applicability paragraphs be positioned in Part 1, Section 120, immediately after paragraph 120.3 A1.¹² The IESBA also repeated the proposed applicability paragraphs in Part 3, Section 300,¹³ immediately after paragraph R300.4 in order to reduce the risk of their being overlooked by PAPPs.
32. In general, respondents either expressed support or did not raise any concerns about the proposed location of the applicability paragraphs. A few respondents, however, suggested that they should be located elsewhere in Part 1 and Part 3, while others questioned the need for having them in both Parts 1 and 3.

IESBA Decisions

33. With the objective of optimizing the clarity and understandability of the provisions in the Code, as part of its Structure project, the IESBA considered the placement of the requirement relating to the applicability paragraphs and reaffirmed its view as to its placement.
34. However, responsive to respondents' concerns about unnecessary repetition, the IESBA agreed that

¹² Paragraph 120.3 A1 includes application material outlining the content of each part of the Code and notes that the conceptual framework applies to all professional accountants.

¹³ Part 3 – Professional Accountants in Public Practice, Section 300, *Application of the Conceptual Framework for Professional Accountants in Public Practice*

the specific examples in the supporting application material are best positioned in Part 3. Accordingly, these examples are not repeated in Part 1.

35. The IESBA also agreed to conforming amendments as appropriate, which had implications for paragraph 200.4 of the restructured Code and the Guide to the Code.

VII. Other Matters

Titles of Part 2 and Part 3

36. Some respondents questioned whether the provisions in Parts 2 and 3 of the restructured Code would be clearer and more understandable if the material were presented in a manner that does not focus on professional accountants' roles and responsibilities. The alternatives suggested included the following:

- Revise the titles of Parts 2 and 3 of the restructured Code to provide additional context in which ethics issue(s) might arise.
- Change the title of Part 2 to encompass all professional accountants so that it becomes clear that all professional accountants should consider the provisions therein. Those respondents were of the view that such a change would not have a significant impact on the content in Part 2.
- Consider how best to merge the relevant material in Parts 1 and 2 into one section and place the specific requirements for PAPPs and independence for audit and review engagements into a separate section.

IESBA Decision

37. The IESBA carefully considered the suggestions made and ultimately determined that the approach taken in the restructured Code was appropriate. The IESBA resolved that the titles of Part 2 and Part 3 of the restructured Code should be retained because reorganizing the material in the Code as suggested or changing the titles of Part 2 and Part 3:

- May result in the unintended consequence of de-emphasizing the provisions in the Code for PAIBs.
- Would require broader consideration of the applicability of material in Part 3 of the restructured Code and its applicability to PAIBs, which is a matter outside the scope of the project.

VIII. Effective Date

38. The effective date for the restructured Code, of which the applicability paragraphs are a part, is discussed in the [Basis for Conclusions for the Structure](#) project.

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