

EXPLORING THE IESBA CODE

Installment 10: Pressure to Breach the Fundamental Principles



Given the broad range of professional services that Professional Accountants (PAs) provide, situations can arise where they are pressured by a client, supervisor, or other person (e.g., a vendor, customer, or lender) to breach the Fundamental Principles (FPs). In honoring their responsibility to act in the public interest, PAs must not allow pressure to result in a breach, nor can a PA pressure others to breach the FPs.

How Pressure Arises

Pressures that threaten compliance with the FPs are often due to an intimidation threat. Pressure is not always explicit—it can come from expectations and targets. Situations might relate to:

CONFLICTS OF INTEREST A PA's brother repeatedly asks the PA to award a supplier contract to the brother's company

PREPARATION AND PRESENTATION OF INFORMATION A PA feels pressure to present overstated profits to meet analyst expectations

ACTING WITH SUFFICIENT EXPERTISE A PA is being pressured by an audit partner to take on a job even though the PA does not feel qualified

COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING A PA's colleagues try to coerce the PA to report biased performance results so that staff bonuses will be larger

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY A PA is encouraged by colleagues to accept lavish hospitality offered by a vendor

NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR) A PA's employer directs the PA to under-report taxable income to evade taxes

Special Considerations for PAPPs

Professional Accountants in Public Practice (PAPPs) must also follow Part 2 of the code in certain circumstances. Facing pressure to breach the FPs is one example where Part 2 applies to PAPPs in the context of their role within their firm. For example, a PAPP might be pressured by their supervisor to not follow up on unanswered questions, to avoid angering a good client (a threat to professional competence & due care).

Consider the following scenario: An internal auditor in an insurance company is testing controls in one of the company’s divisions. The division is responsible for a geographic region of the country that has recently been devastated by tropical storms and flooding. The internal auditor finds that controls have not been as strictly adhered to, and suspects that the results for the most recent quarter are being overstated. When questioned about the lapse identified by the internal auditor, the division head responds by saying “I’m focused on trying to figure out with the lawyers some creative ways to limit payouts on claims. If you want to keep your job, you’ll get on board and pull together with the team here.”

Now Let’s Review How the Internal Auditor Responds to the Pressure That Arises

The internal auditor should identify that compliance with the FPs of professional competence and due care is threatened by the intimidating rebuke from the head of the division.

- There might also be threats to the FP of integrity and professional behavior if the division head pressures the internal auditor to accept “creative” solutions that treat policy-holders unfairly or inappropriately.
- Uncertainty and extreme time pressures inherent in crises might be exacerbating the situation and contributing to the threats.

In evaluating the level of threats when facing pressure to breach, the internal auditor should consider:

- The intent of the individual exerting the pressure and the nature and extent of the pressure
- How laws, regulations, and professional standards apply to the specific circumstances
- The extent of the ethics-based culture in the organization and whether that culture increases the likelihood of pressure that threatens the FPs
- How policies and procedures established in the organization address pressure

In the scenario above, the internal auditor should consider the organization’s culture, policies and procedures, and recognize the impact of applicable regulations. If the division head is overreacting to a short-term crisis, other checks and balances or management oversight might serve to counter-act the issues identified by the internal auditor and thereby reduce the level of threat. On the other hand, the level of threat might be heightened if checks and balances, or an ethical “tone at the top,” are not in place.

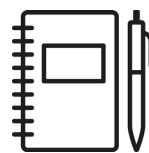
The Code emphasizes the importance of discussions and consultations to evaluate and address pressure situations, including with:

- Management and those charged with governance
- Human resources personnel
- Professional or regulatory bodies or legal counsel

For example, the internal auditor could discuss the situation further with the head of the division and/or with the head of Internal Audit. It might even be appropriate for the Audit Committee to be brought into discussions, and for legal counsel to be consulted.

These discussions can assist the PA in determining how best to address the situation, perhaps through adding oversight as a safeguard. If the threat from the pressure cannot be mitigated, it might need to be eliminated by management re-assigning the internal auditor to another division.

When facing pressure to breach the FPs, a PA is encouraged to document:



- The facts
- The communications and parties with whom these matters were discussed
- The courses of action considered
- How the matter was addressed

WHERE TO GET ASSISTANCE?



Section 270 of the Code addresses pressure to breach the fundamental principles. The eCode, which is available at www.IESBAeCode.org, is an on-line resource for accountants and other users of the Code. It provides quick and efficient access to the Code, making it easier to use, implement, and enforce.

