PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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PART 2 - PROFESSIONAL ACCOUNTANTS IN BUSINESS

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SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization’s state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Sustainability information.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.
220.3 A3 For the purposes of this section, preparing or presenting information includes collecting, recording, measuring, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

(b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;

(c) Exercise professional judgment to:

(i) Represent the facts accurately and completely in all material respects;

(ii) Describe clearly the true nature and impacts of business transactions or activities; and

(iii) Collect, classify and record and measure information in a timely and proper manner;

(d) Not omit anything with the intention of rendering the information misleading to others or of influencing contractual or regulatory outcomes inappropriately;

(e) Avoid undue influence of, or undue reliance on, individuals, including experts [Placeholder for wording TBC in collaboration with Experts TF], organizations or technology; and

(f) Be aware of the risk of bias.

220.4 A1 An example of misleading others is intentionally giving a false impression about how well an organization or an investment is aligned with its sustainability goals by omitting relevant information or by placing excessive emphasis on certain information while understating others.

220.4 A2 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.

- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
• Selecting or changing standards or measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework to misrepresent material information regarding impacts, risks or opportunities.

• Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.

• Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.

• Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.

• Determining forward-looking information by relying on assumptions that may be unrealistic or inconsistent with management’s decisions or intent.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

(a) The purpose for which the information is to be used;

(b) The context within which it is given; and

(c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting sustainability information or pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

R220.7 A professional accountant who intends to use the work of others, whether internal or external to the employing organization, or other organizations, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider when a professional accountant intends to use the work of others include:

• The reputation and expertise of, and resources available to, the other individual or organization.

• Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

Using the Output of Technology

R220.8 A professional accountant who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional
judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization’s oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant’s superior and/or the appropriate level(s) of management within the accountant’s employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - Having the information corrected.
  - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
A relevant professional body.

- The internal or external auditor of the employing organization.
- Legal counsel.

- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

**R220.10** If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

**220.10 A1** In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

**Documentation**

**220.11 A1** The professional accountant is encouraged to document:

- The facts and assumptions.
- The accounting principles, sustainability reporting standards or other relevant professional standards involved.
  - The accountant’s analysis, the courses of action considered, the judgments made and the decisions taken in preparing and presenting the information.
  - The assessment of the experts’ [Placeholder for wording TBC in collaboration with Experts TF].
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the accountant attempted to address the matter(s).

**Other Considerations**

**220.12 A1** Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or sustainability reporting and decision making, the requirements and application material set out in Section 240 apply.

**220.12 A2** Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

**220.12 A3** Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

**220.12 A4** When a professional accountant is considering using the work of others or the output of technology, a consideration is whether the accountant is in a position within the employing organization to obtain information in relation to the factors necessary to determine whether such use is appropriate.
SECTION 230
ACTING WITH SUFFICIENT EXPERTISE

Introduction

230.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R230.3 A professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

230.3 A1 The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a professional accountant has:

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The extent to which the professional accountant is working with others.
- The relative seniority of the accountant in the business.
- The level of supervision and review applied to the work.

230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, a professional accountant shall determine whether to decline to perform the duties in question. If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when a professional
accountant is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

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