Promoting the Role and Mindset Expected of Professional Accountants

Proposed Text

(Mark-up)

Note to Meeting Participants

The proposed text set out the Task Force’s preliminary views about how the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the “revised and restructured Code” or the “Code”) should be revised to:

(a) Add an Introduction to the Code that will be positioned before Part 1 of the Code; and

(b) Expand on the material in Section 100 of the Code, including to bring forward the aspects of the material relating to professional judgement, which is currently positioned in Section 120, paragraphs 120.5 A1 and 120.5 A2.

This paper is organized as follows:

- Section A illustrates the proposed placement for the Introduction to the Code.
- Section B includes the proposed text for the Introduction to the Code.
- Section C includes proposed revisions to Sections 100 and 120 of the Code.

A. Proposed Placement for Introduction (Mark-up of IESBA Handbook, first page)

**HANDBOOK OF THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)**

**2018 EDITION**

**How This Handbook is Arranged**

The contents of this Handbook are arranged by section as follows:

- Introduction to the International Ethics Standards Board for Accountants®
- The International Federation of Accountants’ Role
- Scope of This Handbook
- Changes of Substance from 2017 Edition
- **Guide to the Code**
- **Table of Contents**
  - Preface
  - *Introduction to the Code*
  - Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework
  - Part 2 – Professional Accountants in Business
  - Part 3 – Professional Accountants in Public Practice
  - Part 4A – Independence for Audit and Review Engagements
  - Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements
  - Glossary, Including Lists of Abbreviations
B. Proposed Text for the New Introduction

INTRODUCTION TO THE CODE

The Role of the Accountancy Profession in Serving the Public Interest

1. For over 160 years, businesses, governments and other institutions have involved members of the Profession in an ever broadening range of matters. They do so because they recognize the value that professional accountants bring to the work they undertake through their expertise and judgment, by applying an objective and diligent mindset and, most importantly, by adhering to the fundamental principles of behavior enshrined in their codes of ethics.

2. For the same reasons, other stakeholders, including investors, creditors, government and members of the public have general confidence in, and attach importance to, the work undertaken by professional accountants.

3. This is the position whether the individual is a professional accountant working within an organization, or providing external services, advice or other types of assistance to an organization.

4. Recognizing the breadth and significance of the Profession’s impact in both business and society, the Profession and its members accept a responsibility to act in the public interest.

5. Nonetheless, the professional accountant’s role in serving the public interest remains constant:

   “to apply an objective and diligent mindset, together with knowledge, experience and judgment, so that others can have confidence that the professional accountant’s advice or other output is fit for the purpose for which it was provided”

6. To achieve this, professional accountants use professional judgment to determine the nature and scope of the work to be undertaken, the extent to which they need to question the information they are given and the basis upon which they reach [an impartial/objective] conclusion on the work undertaken.

7. Confidence in the work of professional accountants is the basis on which public trust in the Profession is achieved. It is critical that confidence and trust in the Profession is maintained so that it can continue to support the orderly running of society and, in particular, commerce.

Professional Accountants

8. The term ‘professional accountant’ is generally understood to refer to those individuals who are members of a professional accountancy body or who comply with the requirements of an administering body (usually established by law or regulation). In order to earn and maintain membership in such a body and, therefore, distinguish oneself as a ‘professional accountant’, an individual has to:

   (a) Achieve a prescribed level of expertise - which is acquired by education and training and demonstrated through examinations and related qualification procedures;

   (b) Commit to observe a code of ethics and professional behavior;

   (c) Recognize a responsibility to act in a manner that maintains public confidence in the profession;

   (d) Maintain professional competencies through continuing professional development; and

   (e) Be subject to disciplinary action for non-compliance with membership or other regulatory requirements.
9. The process by which an individual qualifies as a professional accountant is overseen by a professional association or administering body, which usually has procedures to oversee and enforce compliance with the requirements it has established.

10. In a number of jurisdictions, professional associations require their members to confirm periodically (by a statement or oath) their commitment to the values of the Profession, believing this to be an effective way of reinforcing the importance of the commitment that every professional accountant assumes by being a member of that organization.

The Code

11. The International Ethics Standards Board for Accountants (IESBA) has developed The International Code of Ethics for Professional Accountants (including International Independence Standards (the Code) to provide high quality ethical standards for adoption by those professional associations which are members of the International Federation of Accountants (IFAC) or the Forum of Firms.

12. The Code sets out the ethical principles and requirements that all professional accountants whose member organizations have adopted the Code are required to observe. The Code also sets out the International Independence Standards that auditors and assurance practitioners are required to comply with when performing audit and other assurance engagements.

13. The accountancy profession operates worldwide in environments with different cultures and legal and regulatory requirements. The provisions of the Code take account of these differences and recognize that professional accountants may be subject to, and therefore must comply with, legal and regulatory requirements that differ from the provisions of the Code.

14. Compliance with the Code lies at the heart of building and maintaining public confidence and trust in the Accountancy Profession.

C. Proposed Revisions to Sections 100 and 120

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

General

100.1 A1 The Code applies to all individuals who are members of an IFAC member body (professional accountants), irrespective of their role, the nature of their work (e.g. accounting, tax or consulting) and the capacity in which they are engaged (e.g. as employees, contractors, partners, directors, or volunteers).

100.1 A2 Additionally, where those who are subject to the Code work in a firm providing professional services that firm is subject to and required to comply with the Code.
Organizational Culture

100.1 A3 Individuals, firms and employing organizations may encounter circumstances where their responsibilities may conflict, in fact or appearance, with their immediate self-interest or their duty or loyalty to their employers or clients.

100.1 A4 The ability to achieve compliance with the Code will be enhanced if

- In the case of firms of professional accountants, there is an established culture that consistently promotes and supports the importance of the Code and the profession’s ethical values
- In the case of other organizations, there are procedures in place to promote the ethical values of the organization and the values that its employees are required to observe.

In all cases, success depends upon the leaders and managers promoting an organization’s ethical principles and supporting the achievement of those principles [with appropriate management processes, performance criteria and consequences when ethical principles are not upheld.] (To be further considered in the light of ISQC 1)

Exercise of Professional Judgment

100.1 A5 The exercise of professional judgment is essential to achieving compliance with the fundamental principles and other requirements set out in the Code.

120.5 A1 100.1 A6 Professional judgment involves the application of relevant training, professional knowledge, skill and experience to commensurate with the facts and circumstances, including the nature and scope of the work the professional accountant has been employed or engaged to perform particular professional activities, and the interests and relationships arising from that work involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 100.1 A7 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Professional judgment. Determining the actions necessary to obtain this understanding and then coming to a conclusion about whether the Code is being complied with also requires the exercise of professional judgment.

Fundamental Principles and Conceptual Framework

100.1 A8 The Code establishes five fundamental principles to be complied with by all professional accountants and a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence.

100.1 A9 The remainder of the Code applies the fundamental principles and the conceptual framework to a range of circumstances that professional accountants may encounter, whether in business or in public practice.

Requirements and Application Material

100.24 A1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to
satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

100.2 A24 The requirements in the Code, designated with the letter “R”, impose obligations.

100.2 A32 Application material, designated with the letter “A,” provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

SECTION 120
THE CONCEPTUAL FRAMEWORK

Requirements and Application Material

General

... R120.5 When applying the conceptual framework, the professional accountant shall:

(a) Exercise professional judgment;
(b) Remain alert for new information and to changes in facts and circumstances; and
(c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

Exercise of Professional Judgment

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment.

120.5 A3 In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant’s expectations.
• The accountant’s expertise and experience are sufficient to reach a conclusion.
• There is a need to consult with others with relevant expertise or experience.
• The information provides a reasonable basis on which to reach a conclusion.
• The accountant’s own preconception or bias might be affecting the accountant’s exercise of professional judgment.
• There might be other reasonable conclusions that could be reached from the available information.