



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

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Board International Ethics Standards Board for Accountants
Meeting Location: Sofitel (February 20) AICPA (February 21-22) New York, United States
Meeting Date: February 20-23, 2006

Ethics Guidance for PAIB when Encountering Fraud or Illegal Acts

Objectives of Agenda Item

1. To receive an update on the project and to approve a extension in scope of the project

Background

At is September 2004 meeting the Ethics Committee approved a project proposal to develop ethical guidance for professional accountants in business when encountering fraud or illegal acts.

Discussion

The Task Force¹ held its first meeting in September 2005 and has a second meeting scheduled in April 2006.

The Task Force provided an update at the October 2005, IESBA meeting. However, there was little time discussion. Accordingly the Task Force wishes to present the matter again to obtain the input of the Board before its next Task Force meeting.

Public Accountants in Business

The Task Force is of the view that Part C should contain an additional section which provides guidance for professional accountants to report matters first internally within the organization. If such matters are not resolved satisfactorily, the accountant would consider the implications of reporting a matter outside of the organization. The guidance

¹ Russell Philp (chair), Christian Aubin, John Babiak, Ken Dakdduk, Pekka Luoma, David Winetroub

would also encourage accountants who can affect quality to establish policies that enable people to report wrong doing.

The Task Force discussed whether an output of the project should be a form of checklist or best practices document for a “whistle blowing” policy within an organization. The Task Force recognized that while this would be a useful document it was somewhat outside of the remit of the Ethics Committee. The Public Accountants in Business Committee has developed *Guidance for the Development of a Code of Conduct* which does not focus on Whistleblowing in detail. Staff has communicated the focus of the Ethics Committee’s Task Force to PAIB staff.

The Task Force has had some preliminary discussions as to what should be reported. The Task Force recognizes the broad range of activities that could be addressed – from fraud that is material to the financial statements to matters such as harassment and drug use. The Task Force is of the view that it is important that the Code clearly describe the nature of the matters that should be reported. The Task Force’s preliminary view is that if the Code is to impose a professional ethical obligation on professional accountants to report matters, the matter should be directly related to the company’s operations. The Task Force recognizes that a professional accountant may feel that he/she has a social obligation to report wider matters.

Public Accountants in Public Practice

While the project proposal is directed to public accountants in business, the Task Force did discuss the issue as it relates to public accountants in public practice.

When approving the project proposal, the Committee determined that the scope should be limited to professional accountants in business, recognizing that the difficulties a professional accountant in practice faces if there is no whistle blowing regulatory protection.

When the scope of the project was discussed with the Ethics Committee CAG, certain CAG members expressed concern that the project was not also dealing with professional accountants in public practice. The matter had also been raised in an IOSCO exposure draft response letter. In essence the IOSCO concern was that the ISA 240, which deals with the auditor’s responsibility to consider fraud in an audit of financial statements, states that the auditor’s professional duty to maintain the confidentiality of client information may preclude reporting fraud outside of the entity. Paragraph 140.7(c) states that the professional accountant discloses information when there is a professional duty or right to disclose, when not prohibited by law, to comply with technical standards and ethics requirements. IOSCO is of the view that given the Ethics Committee is responsible for writing ethical standards it should, in the Code, provide greater emphasis on the need to serve the public interest and provide more guidance on when the auditor should disclose outside the entity.

The Task Force discussed this matter recognizing that confidentiality is key to audit quality because there needs to be full and frank discussion between management and the

auditor. The Task Force is of the preliminary view that it might be appropriate to strengthen the Code in this area. Accordingly, the Task Force requests that the Committee amend the scope of the project so that the Task Force can explore, among other things:

- Whether the guidance in section 210 could be strengthened with respect to the communications between the incoming and existing auditor;
- Whether there are any situations where the auditor should communicate matters outside of the entity.

Action Requested

1. Ethics Committee members are asked to consider the progress of the Task Force approve the expanded scope of the project.

Material Presented

Agenda Paper 4 This Agenda Paper