

Review of Part C—Working Group Findings and Recommendations**Working Group Recommendations**

- A. The Working Group recommends that the IESBA give highest priority to:
- Pressure by Superiors and Others to Engage in Unethical or Illegal Acts (Sections 310, 320, and 340).
 - Preparing and Reporting of Information (Section 320)
 - Faithful representation
 - Professional and financial reporting standards
 - Dissociation
 - Earnings Management
 - Facilitation payments and bribes (Section 350: Inducements)
- B. The Working Group identified the following important issues which it would like to draw to the attention of the Board:
- Scope of Part C
 - Specific Guidance Relevant to Professional Accountants in the Public Sector
 - Applicability of Part C to Professional Accountants in Public Practice
- C. Other matters were identified which are of lower priority but which the IESBA may wish to be aware of and address in a future review:
- Conflicting Business Partner vs. Controller roles
 - Independence requirements for internal auditors
 - Advocacy threats to fundamental principles
 - Other matters raised by respondents

Background

1. At its June 2012 meeting, the IESBA discussed the preliminary recommendations of the Working Group. A number of Board members expressed support for the recommendations proposed by the Working Group and believed the document prepared by the Working Group reflected a good understanding of the practicalities and realities of issues faced by Professionals Accountants in Business (PAIBs). Certain members, however, believed that the project should be expanded to revise the entire Part C rather than just specified areas within Part C.
2. Some members expressed caution with respect to addressing the issue of “earnings management,” specifically as to when earnings management would be considered improper or unethical if the reporting of the transaction is not illegal nor contrary to GAAP (Generally Accepted Accounting Principles). It was further noted that the Working Group should be careful not to develop a framework that would be inconsistent with that of the IASB (International Accounting Standards Board). Overall, the Board was supportive of developing guidance addressing the behavior of the

PAIB when faced with improper earnings management but believed that such guidance should not address whether specific types of earnings management would be considered improper.

3. The IESBA considered whether there were any other issues that should be considered by the Working Group. One Board member recommended that Part C should include guidance specific to professional accountants in government. It was noted that while the pressures facing such accountants are probably similar to other PAIBs, the remedies available could be different. It was noted that the Working Group might also wish to seek the views of the International Organization of Supreme Audit Institutions (INTOSAI) in this regard. The IESBA agreed that the review be extended to identify any other related issues that the Board may wish to address in its Strategic Plan for 2014-16.

Further Research

4. The Working Group conducted a survey of 23 relevant stakeholders and received 15 responses. The survey listed those issues the Working Group believed would be most important to stakeholders, but also asked for additional issues. The surveys were sent to the Ethics contacts in member bodies, who were asked to consult relevant PAIB committees or boards as far as possible. The results therefore reflect the member bodies' understanding of the needs of PAIBs. In some cases the results were based on surveys of PAIBs by the member body, for example, the CGMA (Chartered Global Management Accountant) researched the relevance of ethical issues to members' organizations.
5. Based on the survey responses and its own analysis, the working group identified a number of areas where further development of the Code might be considered. The results of the surveys and analyses were presented to the Consultative Advisory Group (CAG) and further input was obtained from the IFAC Professional Accountants in Business Committee (PAIBC). Both CAG representatives and the members of the PAIB Committee concluded that there was support for the project.

Working Group Findings and Recommendations

6. The Working Group's findings and recommendations are set out in the following pages for the Board's consideration.

Pressure by Superiors and Others to Engage in Unethical or Illegal Acts (Sections 310, 320, and 340)

7. A preliminary survey of member bodies conducted by the working group revealed that the most common inquiry they receive from PAIBs concerns pressure to engage in unethical or illegal acts. It was also the highest priority issue in the survey.
8. Currently, guidance on this matter is contained in Section 310 (which has been deleted by the Conflicts of Interest project), Section 320.4-6 and Section 340 (which describes the pressure from self-interest threats).
9. The working group is of the view that Section 340 is too narrowly described. First, although many PAIBs are involved in work that may indirectly feed into the group financial statements and other reports, they may not be directly involved with financial statements of companies in which they have a financial interest nor can they directly influence the preparation of those financial

statements. For example, many PAIBs will work at a subsidiary level or with management accounts, and not in financial reporting in divisional or head offices. Second, the working group is of the view that pressure to improperly influence reported earnings is as likely to be the result of the corporate culture, bullying and threats of job loss as personal financial gain. Third, the motivations created by intimidation threats are in Section 320.

10. The Task Force recommends that the motivations in Section 340 be expanded beyond financial interests. These are closely linked to the pressure to act inappropriately in Section 320 and in extant Section 310 which would be replaced by the Exposure Draft on Conflicts of Interest. Combining these threats under one heading may make the Code clearer.
11. A senior PAIB may pressure a subordinate in relation to an accounting irregularity. Paragraph 300.5 refers to the importance of encouraging an ethics-based culture, but there is no other guidance requiring a senior PAIB not to inappropriately pressure subordinates. The Task Force recommends that the Code include guidance requiring a senior PAIB not to inappropriately pressure subordinates.
12. Guidance similar to the escalation process in proposed Section 360 (Responding to a Suspected Illegal Act) may provide safeguards to help the PAIB who is being pressured to act inappropriately and the PAIB who is in a superior position.

Preparing and Reporting of Information (Section 320)

13. The working group reported to the Board at its June meeting that the only significant recurring issue from the preliminary survey of issues raised on calls to member body help lines was being pressured by those charged with governance or supervisors into reporting misleading information. This matter was reported by most survey respondents.
14. In the August survey this matter was prioritized second by respondents with similar ratings to “pressure from superiors to engage in unethical or illegal acts.” Four of the eight respondents who commented on this matter linked it closely with “pressure from superiors.” One respondent stated that the best outcome would be to link the issue of truthful reporting with pressure from superiors and it would be difficult to deal with the issues separately. Another stated that “if the accountant is not threatened to participate in illegal and unethical actions then automatically it would follow that the information would be truthful.”

Faithful Representation

15. Much of Part B of the Code is about the auditing of financial statements, but Part A and Part C make only a brief mention of the PAIB's responsibility to prepare those financial statements. The Code mentions a PAIB's responsibility to provide information that provides a “faithful representation”¹ in three places:

¹ According to the Conceptual Framework of the International Accounting Standards Board and the Financial Accounting Standards Board, financial reports should be useful to current and potential investors and creditors. Usefulness requires that information be relevant (capable of making a difference to the users of the information). In addition, information “must faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral, and free from error.”

- 320.1: “A professional accountant in business shall prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context;”
 - 320.2 states that financial reports shall be prepared in accordance with applicable financial reporting standards; and
 - Indirectly in paragraph 110.1: “Integrity also implies fair dealing and truthfulness.”
16. The working group considered whether the Code could provide more guidance to PAIBs on the meaning of faithful representation. It noted that a CAG member and a PAIB member had advised the working group not to use the Code to resolve financial reporting problems, and the advice of the IESBA in June not to develop a framework that would be inconsistent with IFRS. It also noted that although the responsibility to produce truthful information and reports was rated highly by survey respondents, none suggested the Code should include further guidance on the meaning of faithful representation beyond clarification of the meaning of “fairness and honesty.”
17. The working group recommends that the IESBA review the guidance in the Code. The structure of a revised principle-based section would be (a) a more positive and fuller statement of the responsibility of PAIBs to prepare and report information that is a faithful representation of economic events and state of affairs, (b) a discussion of the threats to providing such depictions (including the motives for altering or manipulating the information), and (c) presentation of safeguards.
18. The working group recognizes the need to build on, but not overlap with, the work of financial reporting standard setters. It also noted that while PAIBs may find it helpful to have further guidance on concepts such as “fairly and honestly” and “earnings management” the difficulties in providing detailed guidance should not be underestimated.

Professional and Financial Reporting Standards

19. Paragraph 320.1 requires that information “shall be prepared or presented fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.” Thus, a PAIB has a responsibility to prepare financial statements in accordance with GAAP and use professional judgment in determining that the information will be understood in the context in which it is presented. Circumstances may exist where GAAP allows a presentation that does not reflect the economics of the transaction and may thus be misleading. International Financial Reporting Standards (IFRS) allow a management override and other frameworks may also allow an override.^{2,3}
20. Paragraph 320.2 requires that financial statements are presented in accordance with applicable financial reporting standards. It is unclear whether the relevant professional standards in 320.1 are

² Professor Steve Zeff’s statement to the PCAOB on October 18, 2012 included: “the Continental Vending Case is still valid law: the court said that conformity with GAAP does not ipso facto constitute fair representation in all instances.”

³ AICPA rule 203 states: “If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.”

intended to be standards other than financial reporting standards, and if so what standards these would be. However if 320.1 does not refer to financial reporting standards it is unclear why they are related to the “fairly and honestly” test.

21. The Working Group believes that the language in 320.1 could be interpreted as establishing a second test in addition to compliance with professional standards, that is, that the information is to be presented “fairly and honestly.” Specifically, it would clarify whether PAIBs are required to do something more than present information in accordance with relevant professional standards if application of a standard would result in a portrayal of, for example, the financial position and results of operations that are not fair and honest in the circumstances. The Code does not expand on the meaning of fairly and honestly in this context.
22. The working group recommends that the IESBA clarify:
 - The intent of the requirement that information be prepared or presented fairly and honestly; and
 - If and, if so, how the “relevant professional standards” in 320.1 are intended to differ from the “applicable financial reporting standards” in 320.2 and if no difference is intended, to delete one or the other.

Dissociation

23. The Code addresses a PAIB's responsibility not to be associated with misleading reports in 320.6. It is unclear how a PAIB can disassociate from misleading reports, either internal or external, other than by resigning. The working group recommends the Code provide guidance on how a PAIB can practically disassociate from misleading reports.

Earnings Management

24. Earnings management has both positive and negative connotations and ranges from acceptable to unacceptable. The only reference to it in the Code is in Section 310 which the Exposure Draft on Conflicts of Interest proposes to delete. The Exposure Draft Responding to a Suspected Illegal Act includes a reference to “improper earnings management” as an example within a conforming change to Section 300. Earnings management encompasses many kinds of activities, which range from ethically neutral, to unethical to fraudulent. Examples within this range include reducing expenditure to increase profits, prudent accounting policies and financial engineering to misrepresent results.
25. The Working Group considered whether a reference to earnings management in Section 320 (Preparation and Reporting of Information) could provide helpful guidance to PAIBs and recommends the IESBA should explore whether it is possible to describe or define earnings management but recognize the caution expressed by IESBA members, CAG representatives and PAIB members.

Facilitation Payments and Bribes (Section 350: Inducements)

26. Section 350 (Inducements) concerns receiving offers and making offers. These are described as including gifts, hospitality, preferential treatment and inappropriate appeals to friendship and loyalty. Irregularities relating to illegitimate payments appear to be a growing problem, according to a recent survey of professional accountants in business, and as reported in the world press.

27. Facilitation payments and bribes are a challenging and perennial problem area for PAIBs, especially in the context of an international code of ethics and for organizations operating across jurisdictional boundaries. The description in 350.1 is wide ranging but does not refer to “facilitation payments” or bribery.
28. Facilitation payments and bribes was rated the fourth highest priority in the survey with an importance of 2.5 (on a scale of 1 to 6, where 1 is high and 6 is low). A CAG representative was surprised that that this issue did not rank higher in the priorities. Bribery ranked third in the 2012 CGMA survey of ethical issues relevant to their organization by PAIBs working for the Chartered Institute of Management Accountants (CIMA) or the American Institute of Certified Public Accountants (AICPA). It ranked as the highest priority in an Institute of Business Ethics (UK) survey in 2010. It was not listed as an issue on which PAIBs typically ask their Ethics helpline for help.
29. The Section does address the matter, albeit in a limited manner. It is noted that while most legislation is believed to focus on, and all respondents comments focused on, inappropriate payments, Section 350 is focused on “receiving offers.” “Making offers” has less prominence.
30. Section 350 prohibits a PAIB from offering an inducement. A PAIB Committee member commented that PAIBs do not generally make bribes, although they may record them. However, the Code does not recognize the role of the PAIB in accounting for a bribe, either knowingly or not. Inducements made for example by sales or purchasing staff, or included in bid proposals may be disguised and their existence may be known or unknown to some or all PAIBs in the organization.
31. The professional accountant will need to use professional judgment in terms of what safeguards to apply. Section 350 does not refer to professional judgment, and although the section on receiving offers lists safeguards, a PAIB is more likely to encounter the making of offers and require safeguards in this regard. One respondent implied that consideration of how a matter would be perceived if it were headlines in a newspaper would be a useful safeguard. This may be similar to a third party test.
32. Section 350 does not refer to the existence of legislation on bribery and the fact that legislation takes precedence over guidance in the Code.
33. The Working Group recommends:
 - Re-focusing Section 350 to give increased emphasis to making offers, in addition to receiving them. This would align Section 350 more closely with practical challenges faced by PAIBs.
 - Considering whether additional guidance that recognizes the diversity of cultures would be helpful to PAIBs working across different cultures and jurisdictions.
 - Re-structuring Section 350 to better align it with situations faced by PAIBs.

Important Issues Identified by the Working Group on Which It Would Like to Draw the Board’s Attention

Scope of Part C

34. It was suggested at the PAIBC meeting that the working group consider where the boundaries of the Code should lie for PAIBs. It was stated that the Code is framed around accountancy and professional issues rather than the ethical issues of the employing organization. Many of the ethical issues PAIBs face appear to fall outside the remit of the Code. To identify these issues the working

group referred to a CGMA survey of PAIB members of CIMA and AICPA which identified issues relevant to their organization and therefore of relevance to the PAIB. (See Appendix 2 for the table of results.)

35. Three or four of the twelve issues listed are covered specifically by the Code: Conflicts of Interest (Sections 220 and 310), Bribery (Section 350), Whistleblowing (proposed Section 360 in relation to Reporting Suspected Illegal Acts) and potentially Security of Information (Section 140 on Confidentiality). Since the Working Group is of the view that accountancy firms are also commercial businesses, professional accountants in public practice may also face these ethical issues. It concluded that a number of the issues are business issues, rather than issues relating to the expertise of PAIBs and, as such, are beyond the scope of the Code. The Working Group also concluded that if any of the ethical issues identified in the CGMA survey are to be addressed by the IESBA they should not be specifically considered in relation to Part C.
36. Secondly, PAIBs' roles within their employing organization are often outside the finance function. The PAIB may be a CEO, Chair, banker, venture capitalist etc. The Working Group considered whether the Code should address the activities of PAIBs that fall outside the Code's description of professional services. It was of the view that as the description includes "management consultancy" which could incorporate all the potential roles of a PAIB, a professional accountant in public practice and a PAIB are equally served by the Code. Therefore any further guidance applicable to any of these roles should not be specific to Part C.
37. The Working Group is satisfied that the scope of the Code is appropriate in relation to the activities of PAIBs. However the IESBA should consider whether any of the ethical issues identified in the CGMA survey, should be addressed in the Code.

Specific Guidance Relevant to Professional Accountants in the Public Sector

38. The applicability of Part C to PAIBs in the Public Sector was prioritized 8th out of 9 in the survey of member bodies. This may reflect the fact that members working in the public sector form a small proportion of the total number of PAIBs and therefore was a low priority. However it only scored 4.15 in importance (where 1 is high and 6 low). Comments by member bodies in regard to the applicability of Part C in the public sector were diverse. CAG representatives who expressed a view were supportive of addressing Professional Accountants in the Public Sector. One CAG representative suggested that the Public Sector could be a separate section within the Code.
39. The Code defines PAIBs as employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities. It does not however identify or address any threats or safeguards which may apply to any sub-category of PAIB, for example those working in the public sector.
40. To ensure it obtained sector specific input, the working group consulted with Caroline Gardner, an IESBA member with expertise in this sector. Her advice was:

"I think the issues are pretty similar (primarily around pressure to achieve targets and present financial and other performance information in a favourable light), but the pressures tend to be politically rather than financially driven and will be applied in different ways.

I'm not sure at this stage whether it deserves a separate section of the Code, but it certainly merits a specific mention. It might be helpful to think in terms of the key judgments that need to be made by accountants (and auditors) in government, and how the threats and safeguards approach can be applied in that context.”

41. The Working Group considered the issues raised and propose that the issues facing PAIBs working in the public sector are not sufficiently different from those facing PAIBs to justify the creation of a new Section of the Code and propose to accept the advice from Ms. Gardner and recommends that all reviews of Part C issues should explicitly consider whether PAIBs working in the public sector merit special attention.

Applicability of Part C to Professional Accountants in Public Practice

42. Professional accountants in public practice may also find Part C relevant to their particular circumstances (100.3 & 100.12). Therefore, they may be bound by the requirements of Part C as well as Parts A and B. However, the Code provides no guidance or explanation of the applicability of Part C to professional accountants in public practice, in their capacity as employees of an employing organization. An example of this relevance is that professional accountants in public practice may be inappropriately pressured by superiors to compromise audit quality by working within unrealistic time budgets. This is not addressed in Part B, but is addressed in Part C. It appears that this kind of situation falls under the category of undue pressure by superiors discussed above, and that Part B does not address this issue. The Working Group recommends that the Board should provide guidance about the applicability of Part C to professional accountants in public practice. The working group also notes that PAIBs may occasionally engage in activities relating to public practice (such as preparing tax returns or performing professional services for charitable organizations). It believes that the applicability of Part B to PAIBs should be clarified in the Code.
43. The working group believes this is an important matter, but of lower priority than the three issues recommended above. It nevertheless recommends that the IESBA clarify this matter because the working group believes it can be done with little difficulty. This issue was rated 8th out of 9 priorities in the survey and was rated with an importance of 4.20 (on a scale of 1 to 6, where 1 is high and 6 low). Neither CAG representatives nor PAIBC members commented on this issue.

Other matters identified of relevance to the IESBA

44. A number of other issues were identified which may be of relevance to IESBA in relation to Part C but on which no recommendation are made. The IESBA may wish to address these issues in the future.

Conflicting Business Partner vs. Controller roles

45. The traditional role of the PAIB as controller requires skepticism and objectivity in questioning and challenging others within the employing organization. In recent years, PAIBs have been encouraged to be a “business partner” and to be part of the team which creates shareholder value. These roles overlap, and may be in conflict to some degree; they thus may provide a challenge for the PAIB who is required to be both an advocate and a skeptic. This issue was rated 6th out of 9 priorities in the survey and was rated with an importance of 3.86 (on a scale of 1 to 6, where 1 is high and 6 low).

46. The working group is of the view that the business partner v. controller role creates a self-review threat which could be included in Section 300 with examples of safeguards or be the subject of a staff alert recognising the existence of the threat and possible safeguards. It also recognised that it is beyond the remit of the Code to mandate the way a business should organize its finance function.

Independence Requirements for Professional Accountants Who Are Not in Public Practice But Who Perform Assurance Engagements (Independence Requirements for Internal Auditors)

47. Sections 290 and 291 of the Code address independence requirements for professional accountants in public practice. The Code could consider whether guidance is needed on the independence requirements that could apply to other professional accountants who perform assurance engagements, such as internal auditors in businesses or in government.
48. This issue was rated 7th out of 9 priorities in the survey and was rated with an importance of 4.46 (on a scale of 1 to 6, where 1 is high and 6 low). CAG representative Mr Pannier said that there is already a requirement for internal auditors to be independent. Mr Pannier clarified subsequently that he was referring to an Institute of Internal Auditors (IIA) requirement:
49. The Working Group noted that the Code does not include an independence requirement for Internal Auditors, and that the independence requirement in the IIA guidance was different from Sections 290 and 291 in the Code.
50. ICAEW included “Internal Auditors” as their 5th highest priority, but noted that this should focus on objectivity rather than independence.
51. The Working Group was of the view that the Code could include a new Section on Independence for Internal Auditors although it is unclear how this could be enforced as PAIBs are not regulated. Alternatively such a new section could focus on specific threats and safeguards that apply to Internal Auditors.

Advocacy Threats to Fundamental Principles

52. Paragraph 300.4 of the Code recognizes that a PAIB has a responsibility to further the legitimate aims of the employer. However advocacy may create a threat to the fundamental principles if a PAIB promotes an employer’s position to the point where objectivity is compromised. The fundamental principle of Integrity requires information should not omit or obscure information where such omission or obscurity would be misleading.
53. Further guidance could be useful on how these principles apply to commercial negotiations, the presentation of forecasts and projections, and the preparation and agreement to budgets where tactics, positioning and motivational factors may come into play which may produce a tension with the fundamental principle of objectivity.
54. This issue was rated 9th out of 9 priorities in the survey and was rated with an importance of 3.64 (on a scale of 1 to 6, where 1 is high and 6 low). Neither CAG representatives nor PAIBC members commented on this issue.
55. The comments at the PAIBC demonstrate that advocacy is both internal and external and that many internal reports are used to propose, support, defend or critique business proposals. Budgets and forecasts are often iterations in a negotiation, and often use optimistic or pessimistic assumptions

set at a group level over which the PAIB may have no control. PAIBs may also be required to provide a business case which supports a management proposal. A business plan seeking private equity funding is unlikely to be neutral but also should not be misleading.

Issues Raised by Respondents That Were Not Included in the Survey

56. The Working Group brings to the Board's attention a number of additional issues that were raised by survey respondents, but that the Board may wish to consider.
57. ICAEW have provided additional wording to assist their members using the conflict resolution process (100.18). They suggest 100.18 could usefully adopt this additional wording. ICAEW rated this issue their 3rd highest priority.
58. The UK member bodies, the Accounting Professional Ethics Standards Board (APESB) and the Association of Chartered Certified Accountants (ACCA) have produced a number of case studies to assist PAIBs facing ethical dilemmas. In addition to any changes in the Code or Q&As proposed above, the IESBA website could provide links to Case Studies produced by IFAC member bodies and APESB. ICAEW (Institute of Chartered Accountants of England and Wales) rated this, their 4th highest priority.
59. The issue of "organizational culture" was rated by NBA as their 5th highest priority. They noted that some issues are difficult to address in the organization, because of the culture. THE CGMA survey included Ethical Culture as their top Business Challenge. The report stated that "Corporate leadership appears to be less actively engaged in reviewing and taking responsibility for ethical performance compared to 2008. A weakened 'tone from the top' has potentially serious implications for the overall ethical operating culture of an organization."
60. Mr. Fleck noted in the CAG discussion that a particular challenge for PAIBs was that they work in an environment in which they may not be able to enforce the Code. The CGMA survey showed that 80% of businesses have an ethics Code.
61. IESBA could provide guidance to PAIBs on how to encourage an ethics-based culture in their organization and how to resolve conflicts between the codes of ethics of their employer and of the professional body of which they are a member. PAIBC issued a publication in 2007⁴ advising on defining and developing effective codes of conduct in an organization.
62. One CAG representative asked if aggressive tax planning, including transfer pricing, would be included within a consideration of earnings management. The level of corporation taxes paid is an ongoing issue worldwide. The ethics of tax minimization (particularly in a cross-border context) raises fundamental issues concerning the relationship between ethical and legal considerations and corporate social responsibility. As such, the working group concluded that it is beyond the remit of a review of Part C of the Code.

⁴ <http://www.ifac.org/publications-resources/defining-and-developing-effective-code-conduct-organizations>

Appendix 1

Results of the Survey of Selected IFAC Member Bodies

The priority rankings and importance scores are averages of the responses.

	Issue in order of priority	Average Priority Score (1-5)	Importance Rated on a scale of : 1 (high) to 6 (low)
A	<i>Pressure from superiors to engage in unethical or illegal acts</i>	1.57	1.29
B	<i>Responsibility to produce truthful information and reports</i>	1.92	1.50
C	<i>Requirement to disassociate from misleading information</i>	2.64	1.64
D	<i>Facilitation payments and bribes (Inducements offered and received)</i>	3.14	2.50
F	<i>Specific guidance relevant to professional accountants in the public sector</i>	3.17	3.46
E	<i>Conflicting Business Partner vs. Controller roles</i>	3.50	3.86
I	<i>Independence requirements for professional accountants who are not in public practice who perform assurance engagements</i>	4.00	4.46
G	<i>Applicability of Part C to professional accountants in public practice</i>	4.20	4.15
H	<i>Advocacy threats to fundamental principles</i>	4.50	3.64
	Additional high priority issues⁵		
	<i>Conflict resolution process</i>	3	
	<i>Need for case studies to illustrate points</i>	4	
	<i>Internal auditors (objectivity rather than independence)</i>	5	

⁵ Three issues were added by two respondents and included in their top five issues.

	Issue in order of priority	Average Priority Score (1-5)	Importance Rated on a scale of : 1 (high) to 6 (low)
	<i>Difficult to address issues in the organization</i>	5	
	Additional issues raised at PAIBC		
	<i>Information Security-listed as the top issue in the CIMA/AICPA ethics survey</i>		
	<i>The Code is primarily about accounting related matters but many ethics issues faced by PAIBs are business related.</i>		

Appendix 2

Supplementary Information in Support of the Issues in the Main Body of the Report

Appendix 2 provides comment on each issue from survey responses, CAG members and PAIBC members.

Pressure by Superiors and Others to Engage in Unethical or Illegal Acts (Sections 310, 320, and 340)

CAG representatives noted that the pressure can be even greater when the CFO is not a Professional Accountant, which is increasingly the case, and that companies should have strong internal policies which provide a “guarantee of fair treatment” for those who withstand inappropriate pressure. However the working group agreed that such matters fell outside the remit of the Code, although the introduction of safeguards may still be useful in such cases. For example, if an organization were to establish safeguards as policies, they would presumably apply to members of management who are not PAIBs.

Preparing and Reporting of Information (Section 320)

Other respondents made the following comments:

- Guidance on how to judge “fairness and honesty” would be useful.
- The terms “fairness and honesty” are not universally understood terms so additional guidance may be useful.
- Forward looking statements would be those most reviewed by banks and prospective buyers or suppliers. Here, the requirements of fairly and honestly might be more appropriate and deserving of more guidance. In this, any kind of “manipulation” to achieve a financial result that is misleading should not be allowed.
- The Code does not specifically address the situation of manipulation of data to justify management decisions. However, it would be useful for the proposed guidance to elaborate on potential threats that gives rise to a breach of the fundamental principles of the Code. By providing the PAIB with guidance on the types of threats that may lead to the preparation of misleading information, the PAIB will be better equipped to address pressures such as the manipulation of data to justify management decisions.

CAG representatives commented on addressing the issue of “faithful representation.” Mr. Waldron supported addressing this topic. Mr. Johnson cautioned against attempting to provide guidance on “earnings management” as it is difficult to define “improper” and questioned whether this would be a fruitful use of resources. Mr. Grund was interested in “earnings management” but advised that the ethics code could not be used to resolve problems in financial reporting. Mr. Fleck said that earnings management had been looked at in 1998 but it presented challenges. It would be necessary to find language that distinguished between judgment and manipulation and consideration of the motives behind the preparation of financial statements.

PAIB members made comments which appear to caution against using the Code to address perceived difficulties with existing financial reporting models. One said that if the code is too strongly worded and lacks an appreciation of uncertainties in the real world PAIBs will rely more on subjective judgment. It was

noted that earnings management can be interpreted as both appropriate and inappropriate and that guidance could be useful but one member cautioned against trying to articulate difficult concepts.

At its June meeting some IESBA members expressed caution with respect to addressing the issue of “earnings management,” specifically as to when earnings management would be considered improper or unethical. It was further noted that the Working Group should be careful not to develop a framework that would be inconsistent with that of the IASB. Overall, the Board was supportive of developing guidance addressing the behavior of the PAIB when faced with improper earnings management but believed that such guidance should not address whether specific types of earnings management would be considered improper.

Facilitation Payments and Bribes (Section 350: Inducements)

Some survey respondents noted that this is not a significant issue in some business environments. However, IFAC has members in 127 countries. Transparency International reports corruption levels in 182 countries, ranging from countries with scores close to ten (where ten is least corrupt) to countries at the other end of the range with scores around one out of ten. The need for guidance will differ amongst IFAC member bodies. While some jurisdictions already have legislation on bribery, PAIBs and stakeholders in other jurisdictions may welcome guidance.

A comment made in the working group was that the Code is western centric. However, it is noted that the description of an inducement is sufficiently open to allow, for example, for a gift, to be included or excluded from the definition. One respondent stated that while there are different norms of practice in different countries, the principles are the same as those already outlined in Section 350. Many PAIBs work in international businesses which make payments that could be considered bribes in other countries. One respondent stated that a global Code should provide guidance on how to deal with this. Another respondent stated that the Code should appropriately recognize the diversity of practices in different cultures with a view to clarifying and expanding the guidance. Another stated that “this is an issue worldwide and needs to be addressed. Culture should not be the excuse.”

Scope of Part C

The CGMA survey of PAIBs included the following table of organizational ethical issues.

Figure 8: Currently how relevant are the following ethical issues to your organisation? (Previous ranking in brackets)

	CGMA 2011/12	CIMA 2008	IBE 2010 ²
Security of information	91%	93% (1)	78% (4)
Safety and security	88%	81% (2)	74% (6)
Bribery	78%	75% (6)	83% (1)
Discrimination	75%	81% (2)	83% (2)
Conflicts of interest	74%	76% (5)	70% (7)
Environmental	73%	77% (4)	76% (5)
Supply chain	72%	69% (7)	70% (8)
Human rights	64%	55% (12)	50% (10)
Responsible marketing	64%	63% (9)	52% (9)
Whistle-blowing	63%	62% (10)	83% (3)
Fairness of remuneration	55%	65% (8)	48% (11)
Work/life balance	53%	59% (11)	37% (12)

Specific Guidance Relevant to Professional Accountants in the Public Sector

Reasons given in the survey in favor of addressing issues facing professional accountants working in the public sector are:

- Because their work directly serves the public a higher ethical standard may apply to them than applies to other accountants. CIPFA in the UK adds an additional fundamental principle of “selflessness;”
- The Global Financial Crisis, the Sovereign Debt Crisis and “recent events in Europe” demonstrate the importance of the sector; and
- In some jurisdictions fraud is prevalent in the public sector.

Reasons against focussing particularly on PAIBs working in the public sector are

- The pressures on professional accountants in the public sector do not seem to be sector specific; and
- Many of these entities have public interest oversight and/or processes in place that ensure sufficient scrutiny to discourage negative behavior.

Applicability of Part C to Professional Accountants in Public Practice

Survey respondents stated:

- If there are matters that should be addressed in respect of all Members in Public Practice it should be included within Sections 200-280.
- It is our view that professional accountants in public practice typically understand well their ethical.
- Additional guidance to professional accountants in their role as employee (versus their role as public accountant) would be useful. An additional example that may fall into this category or straddle category B and C would be the pressure by staff (not the partner) on the engagement to falsify working papers, or be associated with false and misleading information in working papers.

Conflicting Business Partner vs. Controller roles

As an example, a former DG of the European Commission, Jules Muis, stated:

“Over the last 10 years, many CFOs have carved out such a broad function for themselves that, in my view, they are combining responsibilities that are incompatible with the fundamentals of checks and balances. Many CFOs nowadays are not only responsible for the proper functioning of the controls and for the integrity of the numbers, but they are also major game makers in their financial management function. You run into a conflict of interest if you combine an obvious management function with the controlling and accounting for it, in particular when the job is strongly bonus driven.

Therefore, I would strongly favor splitting the CFO role into an officer in charge of ‘bean-making’ and an officer in charge of ‘bean counting,’ in particular for organizations that have financial management as a stand-alone profit center, such as banks and insurance companies, but also others.”

No CAG representative commented on this issue. PAIBC members had diverse views. One stated that it is reasonably important and should be addressed but also noted that although the roles could be split in a large business this was not possible in smaller businesses. Three members spoke against its being addressed noting that the analysis is too binary and simplistic.

Survey respondents provided diverse views on this issue:

- Given the significance of the role of a Controller in a company and the threats that are present where the Controller has conflicting obligations to satisfy as a business partner, guidance relating to management of such threats/conflicts would be very useful.
- Splitting the roles leads to another ‘internal control’ function. This is not the answer.

Independence Requirements for Internal Auditors

IIA requirement 1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive

has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.”

Advocacy Threats to Fundamental Principles

Comments by respondents to the survey included:

- The nature of forecasts and projections is that they are based on assumptions and estimates which commonly include a level of subjectivity and opinion. Given the potentially subjective nature of the tasks of budgeting and forecasting, guidance in this area is useful to ensure the PAIB applies principles that encourage objectivity to produce reports that are not conflicted by management manipulation.
- There are a large number of advocacy threat examples already contained within the Code which can be referenced as a resource. These provisions can be ported rather readily to professional accountants in business if such a study is undertaken by the reader. We suggest that a stop-gap measure might be to publish a companion document that provides guidance to professional accountants in business directing them to read the materials already available.

Comments at the PAIBC meeting on related issues included:

- The Code requires objectivity but management information may have a bias towards optimism or pessimism.
- There is a need to consider the motivation behind reports.
- Independence is very difficult for PAIBs but objectivity is what differentiates PAIBs from other finance professionals.
- What are the ethical implications of businesses misusing financial information as a reason for cost cutting?