

# Agenda Item A



International  
Ethics Standards  
Board for Accountants

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**Meeting Location:** Conference Call

**Meeting Date:** 07:00-10:00 Eastern Time April 19, 2012

## Responding to a Suspect Illegal Act

### Objective of Agenda Item

1. To approve for exposure proposed Sections 225 and 360 *Responding to a Suspected Illegal Act* and conforming changes to other sections of the Code.

### Background

At its March 2012 meeting the IESBA discussed alternative approaches for a professional accountant to respond when encountering a suspected illegal act.

The IESBA agreed that an auditor and a professional accountant in public practice providing non-assurance services to an audit client should have a requirement to disclose to an appropriate authority.

A professional accountant in public practice providing non-assurance services to a client that is not an audit client should have a requirement to report the suspected illegal act to the entity's external auditor. If the suspected illegal act relates to the subject matter of the professional service the accountant is providing, and the response to the matter is not appropriate, the accountant would have a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise the right in order to fulfill the accountant's responsibility to act in the public interest.

A professional accountant in business would have a requirement to disclose a suspected illegal act to the entity's external auditor if the accountant is unable to escalate the matter and there is no established mechanism such as an ethics policy. If, having escalated the matter or disclosed to the entity's external auditor, in the professional accountant's judgment the response to the matter is not appropriate, the accountant would have a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise the right in order to fulfill the accountant's responsibility to act in the public interest.

The IESBA also agreed that in exceptional circumstances due to threats to the physical safety of the accountant or others the accountant would not be expected to make such disclosure.

The IESBA discussed proposed text of the exposure draft and provided feedback to the Task Force.

The project was discussed with the CAG at its meeting on March 5, 2012. CAG members expressed mixed views on the proposed approach. Some CAG members expressed the view that all professional accountants should have a requirement to disclose, other CAG members supported the proposed approach to require an auditor to disclose and to provide a right for other professional accountants.

The Task Force met on March 20, 2012, to consider the input from the IESBA and CAG members.

### **Exposure Draft**

IESBA members are asked to approve the proposed changes for release as an exposure draft. Due process requires the IESBA to expose changes for a period of no less than 90 days. The Task Force is of the view that the standard period of exposure is appropriate. The Task Force notes, however, that it might be appropriate to provide a little more time for respondents due to the time of year. The Task Force proposes a comment period ending in mid August. This would provide the Task Force with the opportunity to review the comments before the September 12, 2012 CAG meeting.

An affirmative vote of two-third of IESBA members (twelve) is necessary to approve an exposure draft.

Each exposure draft is accompanied by an explanatory memo. The IESBA does not vote on this memo but it is provided to Board members for comment and input. This document, which will include the impact analysis, will be circulated to Board members for their comment before the exposure draft is released.

Effective Date - The Task Force has considered the effective date. The Task Force is of the view that the proposals do not call for any changes in systems; what is required is escalating a suspected illegal act through successive levels of management, to those charged with governance if necessary and, in certain cases, disclosing the matter to an appropriate authority. The Task Force, therefore, recommends a relatively short transition period and proposes the revisions become effective approximately one year after approval of the final standard.

### **Action Requested**

IESBA members are asked to consider the revisions to proposed Sections 225 and 360 (Agenda Paper A-1) and the revisions to the other parts of the Code (Agenda Paper A-4) and to approve the document for exposure.

**Material Presented**

Agenda Paper A	This Agenda Paper
<i>Agenda Paper A-1*</i>	<i>Sections 225 and 360 Requirement (marked-up from last draft discussed in Dublin)</i>
Agenda Paper A-2	Sections 225 and 360 Requirement (clean)
Agenda Paper A-3	Proposed Changes to other Sections (mark-up from Code)
<i>Agenda Paper A-4*</i>	<i>Proposed Changes to other Sections (mark-up from last draft discussed in Dublin)</i>

\* Agenda Papers A-1 and A-4 will be used for the discussion on the conference call.

**Action Requested**

1. IESBA members are asked to address the questions set out in the agenda paper.