



**IESBA Exposure Draft:  
Proposed Changes to Part C of the Code  
Addressing Presentation of Information and Pressure  
To Breach the Fundamental Principles**

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## INTRODUCTION

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS welcomes the opportunity to comment on the IESBA Exposure Draft: 'Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles'. The ICAS Ethics Committee has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to James Barbour, Director, Technical Policy.

## Key Points

We support IESBA's review of certain parts of Part C of the Code of Ethics with a view to improving the drafting and substance of the content where appropriate.

We support the retention of a principles-based code. Therefore, we would highlight that it is essential that the linkage between the use of principles such as "*fair and honest*" and the fundamental principles is made clear. This is important to retain the integrity of the current conceptual approach.

We are not convinced that use of "*Presentation of Information*" as the title for section 320 broadens the scope as is intended – it should be "*Preparation and Presentation of Information*". One could argue that "*capturing and filtering*" should also be included, but we are content that "*preparation*" would capture these.

There is a need to consider potential cross references to NOCLAR (once finalised) – for example, the last bullet point in paragraph 370.4.

## Specific Responses

### Proposed Revised Section 320

#### **1. Is the enhanced guidance on applying the "fair and honest" principle in Section 320 helpful?**

##### *Need for Improved Linkage to Fundamental Principles*

We believe that on balance the proposed enhanced guidance is helpful; however, we question whether the linkage back to the fundamental principles could be improved. At the moment it refers to "*in accordance with the fundamental principles*". Due to the use of the term "*Fair and honest*", we believe it may be appropriate to refer specifically to the fundamental "Integrity" principle, for example, reference to section 110 of the Code would provide a more explicit reference to the fundamental principles.

110.1 *The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.*

*It follows that a professional accountant's advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.*

110.2 *A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the professional accountant believes that the information:*

- (a) *Contains a materially false or misleading statement;*
- (b) *Contains statements or information furnished recklessly; or*

- (c) *Omits or obscures information required to be included where such omission or obscurity would be misleading.*

*When a professional accountant becomes aware that the accountant has been associated with such information, the accountant shall take steps to be disassociated from that information.*

*Title of Section 320*

We are not convinced that the heading “*Presentation of Information*” is better than “*Preparation and Reporting of Information*”. We have concerns that use of the word “*presentation*” alone conveys a narrowing in scope, which we appreciate is not what is intended.

*Section 320.2*

The wording in the second bullet point of paragraph 320.2 could be improved – “*information*” is used twice – this could provide a problem of ambiguity and may lead to issues in translation.

***2. In particular, do respondents support the guidance in paragraph 320.3 addressing the issue of misuse of discretion in a manner that is intended to mislead? If not, please explain why. Are there any other considerations relating to this issue that should be addressed in Section 320?***

We believe the examples in paragraph 320.3 are helpful; however we question whether the consistency of the material could be improved by seeking to align this with wording from the ISAs which are mentioned in the explanatory memorandum, that is, the need for neutrality – freedom from bias – when it comes to judgements and decisions made by management in making accounting estimates (ISA 540).

We also believe that the wording at certain points needs to be stronger. That is, where there is the intention to mislead, management bias is fraudulent in nature – and that fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates (ISA 240). Use could be made of the ISA 540 example re “*using an entity’s own assumptions for fair value accounting estimates when they are inconsistent with observable marketplace assumptions.*”

***3. Paragraph 320.4 provides guidance as to what PAIBs are expected to do ethically in order to prepare or present fairly and honestly information that does not have to comply with a relevant reporting framework. Is this guidance sufficient? If not, what further guidance could Section 320 usefully provide?***

We are not convinced that the actual proposed paragraph 320.4 fully conveys the concerns raised in the explanatory memorandum that the PAIB needs to be aware of the purpose, context and audience of the information they prepare and present – that the PAIB needs to be aware of the risk that the audience might not be financially aware and interpret the information to meet their own purposes, or the fact that the information might ultimately go to an audience that that they had not originally intended it for.

As such, we believe paragraph 320.4 could go further to address the point made in the “*Scope of the Section*” on page 6 of the exposure draft, where it states that “*the requirements of this section then apply consistently to all information, partly because a PAIB may not know whether his or her work may end up within external financial information.*”

***4. Do respondents agree that where a PAIB relies on the work of others, the PAIB should be required to take reasonable steps to be satisfied that such work enables the PAIB to comply with the overarching principle in paragraph 320.2?***

Yes, we believe that if the PAIB relies upon the work of others, he or she should be required to do so.

***5. Do respondents agree with the guidance proposed in paragraphs 320.6 and 320.7 regarding disassociation with misleading information? Are there other actions that could be specified?***

Yes, we generally agree with the guidance proposed in paragraphs 320.6 and 320.7.

We also agree with the substance of paragraph 320.9 – but question whether “encourage” is the right word? We would prefer the use of something stronger, for example, “advise” / “shall”? Likewise, for paragraph 370.8.

### **Proposed Section 370**

#### ***1. Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?***

Yes, we agree with the overarching requirements. However, the last sentence of paragraph 370.1 may not be possible for the PAIB to comply with, at least in the shorter-term.

We would remove the last sentence of paragraph 370.3 as such deadlines are a very common source of pressure and hence a threat to a breach of the fundamental principles.

#### ***2. Are the illustrative examples of types of pressure that could result in a breach of the fundamental principles in paragraph 370.4 helpful?***

Yes, we believe they are helpful. There is, however, a need to state that this list is not exhaustive.

“Pressure from superiors to process expenditures that are not legitimate business expenses”. Should this not be “approve” or “Pressure from superiors..... to incorrectly record the nature of such expenses”?

#### ***3. Is it sufficiently clear that Section 370 addresses pressure that could result in a breach of fundamental principles, as opposed to the routine pressures that exist in the workplace? In particular, does paragraph 370.5 provide sufficient guidance to assist the PAIB in making that distinction? If not, what other considerations should the PAIB take into account?***

We are not convinced that these two types of pressures can be separated. Routine pressures that exist in the workplace may well be a threat to the fundamental principles, so safeguards have to be put in place to mitigate such threats.

#### ***4. Do respondents find the guidance in paragraph 370.6 on responding to pressure that would result in a breach of the fundamental principles helpful? Are there other actions that should be considered?***

We do believe this to be generally helpful. However, in relation to the second bullet point of paragraph 370.6 – “Request restructuring or segregation of certain responsibilities and duties so that the professional accountant is no longer involved with the individual or entity exerting the pressure” – we are not convinced that this proposed action solves the issue – it may do so for the professional accountant concerned but the actual underlying issue probably remains. Is such a suggested approach in the public interest?

#### ***5. Are the references to other sections of Part C of the Code, in paragraph 370.9, helpful?***

We believe that the links are helpful but that it would better to do this from section 370.4, when each of these is discussed, rather than having a separate paragraph at paragraph at 370.9 with the links.

There is no link for pressure related to non-compliance with laws and regulations. This might be something worth inserting when the NOCLAR work is complete.