

SENT VIA E-MAIL

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Dear Mr Siong

Exposure Draft, Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach Fundamental Principles

CIMA welcomes the opportunity to respond to this exposure draft. IESBA has asked to be made aware where respondents particularly agree with proposals so to begin with we wish to state that where we have made no comment on a particular proposal, we are in agreement with it.

We begin with some general comments:

In general the intentions of the proposals are welcomed and the substance of the proposed draft go a good way towards their achievement. Quality of governance and the tone from the top is essential for ensuring that undue pressure is not placed upon professional accountants. These revisions, we believe, would increase the effectiveness of the Code in a practical sense, i.e. when the PAIB is confronted with these scenarios. The additions would also be helpful to those attempting to influence the tone from the top.

The additions will be valuable in helping all stakeholders to understand the position of the professional accountant when an ethical stance is taken. We believe that the sections are applicable more widely than PAIBs. IESBA may consider, repositioning the provisions to make them more explicitly applicable to all professional accountants, perhaps via the current work being carried out on reviewing the structure of the Code.

In addition to removal of inconsistencies, we would recommend a plain English review. This will help those that wish to translate into other languages. As just one example, "*Determining disclosures. For example, omitting or obscuring information so that materially different items are not distinguished in order to mislead.*" This sentence (p 16 – 320.3) is difficult to understand and could perhaps be simplified so that the meaning and intent are not lost in any translated version. Feedback and reflection on IFAC and IESBA guidance which is currently available in translation might be useful in this regard.

Lists of examples are helpful in a principles based Code but could be interpreted as substantive checklists or as the *only* items that are forbidden—i.e., if it is not explicitly forbidden, it is

allowed. We suggest that an appropriate explanation is included which clarifies that such lists are not exhaustive.

At present some inconsistencies in drafting remain:

For example:

- There should be more clarification that these 'overarching principles' are in support of the fundamental principles.
- There are references to "professional accountant" and "professional accountant in business". We suggest that it is also important to ensure that these helpful principles apply more widely e.g. to professional accountants in the public sector and in SMEs.
- There should be consistency and clarity when using the term "preparation and presentation of information"
- The use of "may" and "shall" seems inconsistent. "May" is a suggestion whereas "shall" is a requirement. It should be clear in each and every case whether "may" or "shall" should be used in order to manage the expectations of professional accountants who are guided by the code.

Finally, many of our comments have been considered with regard to their applicability to the professional accountants that are members of the developing PAOs and others who may be facing excessive pressure in this area. CIMA's Ethics helpline has many examples of accountants in isolated positions facing the kind of pressure described and we have added some practical suggestions as to how the fundamental principles may be upheld in these situations. They may seem obvious to the reader but it is important to attempt to guide professional accountants in these very difficult positions.

Proposed Revised Section 320

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

320.1: rather than "relevant" we believe that the operative word is "applicable" (or even most applicable). Relevant is subjective – an accountant's superior may use this to argue that a particular reporting standard might be used with the intention of manipulating information. More than one standard may be relevant but not necessarily the most applicable.

Sometimes information needs to be heavily summarised for legitimate purposes in a clearly understood context. It should be made clear that summary presentation should be based on honest preparation of information that can be accessed and scrutinized.

Finally, the implication of this section seems weighted towards the reporting of historical information. For PAIBs, it is just as applicable to budgets and forecasts and we would recommend inclusion of a reference to this.

Question 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?

Discretion is a part of the professional accountant's role to present accurate information fairly and honestly and we would therefore recommend that further explanation is provided relating to when discretion is used with the intention to mislead. Additionally we would suggest the use of the word "judgment" (or "professional judgment") over "discretion" or alternatively in conjunction with it.

We believe that the term "manipulating income" is not sufficiently clear and could be expanded to "intentionally manipulate in order to mislead". Also we would suggest that the issue is broader than just the potential manipulation of income but rather of any information or data which the PAIB may be required to provide within the reporting framework.

Question 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?

Paragraph 320.3 addresses the point that all the information which a PAIB discloses should be fair and honest, and, therefore, paragraph 320.4 would seem to be superfluous. However, a further bullet point could be added at 320.3 relating to the importance understanding of the context of the information being prepared and how it is intended to be used.

We suggest "The professional accountant should make every effort to be aware of and understand the context and intended use and stipulate that in his/her report. In this way if the information they prepare and present is subsequently shared more widely, with the intent to mislead, it cannot be attributed to unethical action on the part of the professional accountant".

Question 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?

We acknowledge the intention of this paragraph however, there must be some limit around the extent of those reasonable steps; the PAIB would need to exercise professional judgment to reach a view on how far the work of others can be relied on.

Question 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?

Mainly yes, however in order to safeguard becoming associated with information without their knowledge, we would recommend the addition of some wording around making it clear, in writing, exactly what the professional accountant is concerned about and that the information they have provided is based upon the information which they had access to at the time.

As a minor point, in 320.7 "after exhausting all possible options" could be perhaps enhanced by a reference to escalating or disassociating in stages. Cross referencing would also be helpful here – for example to the reference to "those charged with governance". Please see our response to Proposed Section 370 – Q 4 below.

Proposed Section 370***Question 1. Do respondents agree with the overarching requirements in paragraphs 370.1 and 370.2?***

Yes, we agree with the requirements set out in paragraph 370.1. We would, however, “flag” the relevance of these important provisions across the profession and suggest that this should be made more explicit.

Similarly, we agree with the requirements in paragraph 370.2, but query whether “with particular reference to the fundamental principle of integrity” might be usefully added.

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

This is an example of our concern that lists of examples may be interpreted as finite checklists. We would suggest that most professional accountants would be able to identify or be aware of non-routine pressure and the focus should be upon helping them to deal with the type of pressure designed to solicit misleading information.

Question 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?

Whilst we are aware that other respondents have questioned whether paragraph 370.3 is needed, CIMA questions the positioning and description of “routine pressure” – what is regarded as routine pressure by one PAIB may be regarded differently by another; likewise the scale and pace of escalation of routine pressure, or the purposeful inaction by others to engineer a particular outcome could see routine pressure shifting to become something more serious.

Question 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?

Yes, the guidance is helpful. Please see our answer to Proposed Revised Section 320- Q 5 above.

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

Yes.

Request for General Comments

With particular reference to Section 370, whilst we recognize it is impossible to address all possible scenarios where a PAIB might experience pressure to breach the fundamental principles of the code, the Task Force may consider recommending to IESBA that additional guidance materials – separately from the code itself - might usefully be prepared for PAIBs e.g. in the early stages of their careers; or working in family businesses, where pressure may be perceived to differing degrees and in differing ways.

Yours sincerely,



Professional Standards and Conduct
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