

EXPLORING THE IESBA CODE – Nr 1

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MODULE 1: INTRODUCTION

1. INTRODUCTION TO THE CODE

The International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code") sets out fundamental principles of ethics for professional accountants, reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behaviour expected of a professional accountant. The fundamental principles are:

- Integrity,
- Objectivity,
- Professional competence and due care,
- Confidentiality, and
- Professional behaviour.

The Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help accountants apply the conceptual framework to those topics.

In the case of audits, reviews and other assurance engagements, the Code sets out International Independence Standards, established by the application of the conceptual framework to threats to independence in relation to these engagements.

Structure of the Code

The Code contains the following material:

- Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.
- Part 2 – *Professional Accountants in Business*, which sets out additional material that applies to professional accountants in business when performing professional activities. Professional accountants in business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:
 - Commerce, industry or service
 - The public sector
 - Education
 - The not-for-profit sector
 - Regulatory or professional bodies.

Part 2 is also applicable to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.

- Part 3 – *Professional Accountants in Public Practice*, which sets out additional material that applies to professional accountants in public practice when providing professional services.
- *International Independence Standards*, which sets out additional material that applies to professional accountants in public practice when providing assurance services, as follows:
 - Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.
- *Glossary*, which contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term "audit engagement" applies equally to both audit and review engagements.

The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics.

Each section of the Code is structured, where appropriate, as follows:

- **Introduction** – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
- **Requirements** – establish general and specific obligations with respect to the subject matter addressed.
- **Application material** – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

Effective Dates

Parts 1-3

- Parts 1, 2 and 3 of the Code are effective as of **June 15, 2019**.

International Independence Standards (Parts 4A and 4B)

- Part 4A relating to independence for audit and review engagements is effective for audits and reviews of financial statements for **periods beginning on or after June 15, 2019**.
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods is effective for **periods beginning on or after June 15, 2019**; otherwise, it is effective as of **June 15, 2019**. Early adoption is permitted.

Long Association Provisions

The effective date of the Code does not override the effective date of the revised Long Association provisions in extant Sections 290 and 291 (as set out in the January 2017 long association close-off document).

Exploring the IESBA Code

The Exploring the IESBA Code is a unique and informational series developed by IFAC in collaboration with the International Ethics Standard Board for Accountants (IESBA).

It is intended to promote awareness, adoption and implementation of the International Code of Ethics for Professional Accountants (including International Independence Standards).

The publication series highlights important topics in the Code. Each instalment focuses on a specific aspect of the Code using real-world situations in a manner that is relatable and practical.

This webinar focuses on the first 2 instalments:

- The Five Fundamental Principles, and
- The Conceptual Framework, Step 1, Identifying Threats.

The material includes useful links to access relevant resources, including content in the IESBA Code.

The material also includes the South African specific references dealing with these issues.

2. SOUTH AFRICAN AMENDMENTS

The following summarise the adaptations that were made in SA:

SAICA Code of Professional Conduct (Revised 2018)

1. *South African adaptations of the IESBA International Code of Ethics for Professional Accountants are underlined and in italics.*
2. *South African adaptations include the following:*
 - *a change to the name of the Code;*
 - *a change in the definition of professional accountants to include SAICA members and associates;*
 - *additional sub-headings for clarity; and*
 - *additional words to certain paragraphs.*
3. *South African amendments, which are more substantive than adaptations, and require a change to the numbering system, are represented as follows:*
 - *South African requirements and application material will include a reference to “SA”, e.g. R115.3 SA or 350.8 A1 SA;*
 - *Paragraphs inserted between two consecutively numbered paragraphs will include an “a” in the paragraph number, e.g. R400.8a SA; and*
 - *Paragraphs that are not South African paragraphs but that have been amended to reflect a change in status (e.g. from application material to a requirement) will also include a reference to “SA”, e.g. application paragraph changed to a requirement, 350.4 A1 to R350.4a SA.*
4. *21. South African laws and regulations may impose requirements that regulate the conduct of professional accountants and their clients. These requirements may be in addition to the content of the Code, or are more restrictive than the Code. A list of such laws and regulations is not provided in this Code, but a proper identification, understanding and application of such matters, is necessary.*
5. *South African paragraphs (excluding definitions) are listed below:*

Paragraph Number	Detail
<u>R113.4 SA</u>	<u>South African requirement</u>
<u>R115.3 SA</u>	<u>South African requirement</u>
<u>R115.4 SA</u>	<u>South African requirement</u>
<u>R115.5 SA</u>	<u>South African requirement</u>
<u>R115.6 SA</u>	<u>South African requirement</u>
<u>R320.6a SA</u>	<u>South African requirement</u>
<u>R320.7a SA</u>	<u>South African requirement</u>
<u>R330.4 SA</u>	<u>South African paragraph</u>
<u>R350.4a SA</u>	<u>350.4 A1 (which is an application paragraph in the IESBA Code of Ethics) has been elevated to a South African requirement R350.4a SA</u>
<u>R350.6 SA</u>	<u>South African requirement</u>

Paragraph Number	Detail
<u>R350.7 SA</u>	<u>South African requirement</u>
<u>R350.8 SA</u>	<u>South African requirement</u>
<u>350.8A1 SA</u>	<u>South African application material paragraph</u>
<u>R350.9 SA</u>	<u>South African requirement</u>
<u>R400.8a SA</u>	<u>Part of 400.8 has been elevated to a South African requirement</u>
<u>R400.8b SA</u>	<u>South African requirement</u>
<u>R400.8c SA</u>	<u>South African requirement</u>

IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)

1. *South African adaptations and amendments to the IESBA Code of Ethics are underlined and in italics.*
2. *South African adaptations include:*
 - *A change to the name of the Code;*
 - *Replacements of terms e.g. professional accountant to registered auditor, to ensure consistency with local legislation;*
 - *Additional sub-headings for clarity; and*
 - *Additional words to certain paragraphs.*
3. *South African amendments, which are more substantive than adaptations, and require a change to the numbering system, are represented as follows:*
 - *South African requirements and application material will include a reference to "SA", e.g. R115.3 SA or 350.8 A1 SA;*
 - *Paragraphs inserted between two consecutively numbered paragraphs will include an "a" in the paragraph number, e.g. R400.8a SA; and*
 - *Paragraphs that are not South African paragraphs but that have been amended to reflect a change in status (e.g. from application material to a requirement) will also include a reference to "SA", e.g. application paragraph changed to a requirement, 120.9 A2 to R120.9a SA.*
4. *South African laws and regulations may impose requirements that regulate the conduct of registered auditors and their clients. These requirements may be in addition to the content of the Code, or are more restrictive than the Code. A list of such laws and regulations is not provided in this Code, but a proper identification, understanding and application of such matters, is necessary.*
5. *South African paragraphs (excluding definitions) are listed below:*

<i>Paragraph Number</i>	<i>Detail</i>
<u>R113.4 SA</u>	<u>South African requirement</u>
<u>R115.3 SA</u>	<u>South African requirement</u>
<u>R115.4 SA</u>	<u>South African requirement</u>
<u>R115.5 SA</u>	<u>South African requirement</u>
<u>R115.6 SA</u>	<u>South African requirement</u>
<u>120.4 A1 SA</u>	<u>Part of R120.4 of the IESBA Code of Ethics has been phrased as South African application material paragraph 120.4 A1 SA, to simplify a reference to Part 2 of the Code</u>
<u>R120.9a SA</u>	<u>120.9 A2 (which is an application paragraph in the IESBA Code of Ethics) has been elevated into a South African requirement R120.9a SA</u>
<u>300.5 A1 SA</u>	<u>Part of R300.5 of the IESBA Code of Ethics has been phrased as South African application material paragraph 300.5 A1 SA, to simplify a reference to Part 2 of the Code</u>
<u>R320.6a SA</u>	<u>South African requirement</u>
<u>R320.7a SA</u>	<u>South African requirement</u>
<u>R330.4 SA</u>	<u>South African requirement</u>
<u>R350.4a SA</u>	<u>350.4 A1 (which is an application paragraph in the IESBA Code of Ethics) has been elevated into a South African requirement R350.4a SA</u>
<u>R350.6 SA</u>	<u>South African requirement</u>
<u>R350.7 SA</u>	<u>South African requirement</u>

<i>Paragraph Number</i>	<i>Detail</i>
<u>R350.8 SA</u>	<u>South African requirement</u>
<u>350.8 A1 SA</u>	<u>South African application material paragraph</u>
<u>R350.9 SA</u>	<u>South African requirement</u>
<u>R400.8a SA</u>	<u>Part of 400.8 has been elevated to a South African requirement</u>
<u>R400.8b SA</u>	<u>South African requirement</u>
<u>R400.8c SA</u>	<u>South African requirement</u>

MODULE 2: THE FIVE FUNDAMENTAL PRINCIPLES

1. THE FIVE FUNDAMENTAL PRINCIPLES

Professional accountants are often faced with complex, real world situations that are not black and white. The revised International Code of Ethics for Professional Accountants (“the Code”), developed by the International Ethics Standards Board for Accountants (IESBA), sets out principles to guide behaviour and help accountants uphold their responsibility to act in the public interest, even in nuanced situations.

For example:

You are **Director of Accounting Policy** for an international manufacturing company:

- The CEO has outlined a new business proposal to set up operations in an emerging market. The plan is supposed to comply with local bribery and corruption laws, but you are not sure everyone would agree with this assessment.

You are an **Audit Manager**:

- Having worked for several years on the audit of a privately held retail company, you know company management well and expect to be offered an opportunity to replace the soon-to-retire Executive Vice President of Financial Planning. You are concerned the position may not be offered to you if there are problems identified during the current year’s audit.

You are the **Vice President of Finance** at a cutting-edge biotech company:

- The marketing department has just proposed a new pricing policy for patent-protected, life-saving drugs that could be viewed as taking advantage of desperate, critically ill patients. You have been asked to provide an analysis that supports the prices the marketing executives want to charge.

Five Fundamental Principles Help Accountants Navigate Ethical Dilemmas

1. INTEGRITY

Be straightforward and honest in all professional and business relationships:

As the Director, have you evaluated the spirit of the CEO’s expansion plan to determine if it effectively relies on any inappropriate influence of government officials to obtain approvals for building a factory and selling products?

2. OBJECTIVITY

Don’t allow bias, conflicts of interest, or the undue influence of others to compromise sound judgement:

As the Audit Manager, being mindful of the potential EVP job opportunity, are you able to plan and execute the audit with an appropriate level of scepticism and due diligence?

3. PROFESSIONAL COMPETENCE & DUE CARE

Always apply an appropriate level of professional knowledge, skill, and diligence:

As the Director, have you done enough work to really understand the rules and regulations governing bribery so that your CEO can make the right decision about expanding into new markets?

4. PROFESSIONAL BEHAVIOUR

Comply with all laws and regulations and don’t act in a way that could discredit the profession:

As the VP of Finance, is the analysis you prepared in support of the new pricing policy fair and accurate—such that it would hold up to professional scrutiny—and not be viewed as biased or incomplete information that “justifies” what the marketing department wants to charge?

5. CONFIDENTIALITY

Respect the confidentiality of information acquired because of professional and business relationships, subject to applicable laws: As the Director, you subsequently discover emails describing a scheme to funnel money to government officials; how should you communicate this information internally—including the CEO if necessary? What obligation do you have to notify authorities or disclose this information?

While it is not possible to define every situation, the principles-based nature of the Code is relevant to all professional accountants, regardless of whether they work for a public accounting firm or in a business. Even if there is no requirement that is directly applicable to a specific situation, the five Fundamental Principles set out in the Code help the accountants find the right path—upholding their professional responsibility to act in the public interest.

Where to get Assistance?

The Fundamental Principles are found in **Section 110** of the Code.

MODULE 3: THE CONCEPTUAL FRAMEWORK – STEP 1: IDENTIFYING THREATS

1. THE CONCEPTUAL FRAMEWORK

Professional accountants have a responsibility to always act in the public interest. Compliance with the fundamental principles help in upholding this responsibility. However, sometimes the circumstances in which an accountant operates in their day-to-day job can create impediments, or “threats,” to that accountant’s ability to comply with the fundamental principles.

What is the Conceptual Framework?

The conceptual framework is an approach that all professional accountants are required to apply to comply with the fundamental principles.

It involves **identifying, evaluating and addressing** threats. In doing so, professional accountants are required to exercise professional judgment; remaining alert for new information and changes in facts and circumstances; and using a reasonable and informed third party test.

Auditors and assurance practitioners are required to be **independent** when performing audits, reviews and other assurance engagements. In doing so, they too are required to apply the conceptual framework to identify, evaluate and address threats to independence.

What are Threats?

Threats to compliance with the fundamental principles are categorized as:

- Self-Interest,
- Self-Review,
- Advocacy,
- Familiarity,
- Intimidation.

To put these threats in context and to apply the conceptual framework to identify threats to compliance with the fundamental principles, let us revisit the role (from our first instalment) of the Director of Accounting Policy who works for an international manufacturing company.

*“You are **Director of Accounting Policy** for an international manufacturing company:*

- *The CEO has outlined a new business proposal to set up operations in an emerging market. The plan is supposed to comply with local bribery and corruption laws, but you are not sure everyone would agree with this assessment.”*
 - ✓ The CEO has a plan to set up operations in an emerging market. As Director of Accounting Policy, you are not sure the plan complies with bribery and corruption laws.
 - ✓ The company recently lost market share, and the stock has lost 10% of its market value. If earnings don’t improve soon, staff layoffs are inevitable—with the cuts targeting support functions like your team.
 - ✓ A credible new plan for entering a high-margin market will satisfy the Board of Directors and shareholders. The CEO has also promised sizable bonuses if the team can “get the job done, whatever it takes.”

- ✓ You have reviewed email communications—several of which suggest that money has been transferred to external bank accounts in the target country around the same time that the new business plan was being developed.
- ✓ The documentation supporting the payments is not clear, but there were a number of “research and business exploration expenses” paid to experts during the planning phase.

In practice, the professional accountant asks the following questions in relation to each category of threat.

SELF-INTEREST—What’s in it for me and does this impact my decision making?

- ❖ Does the promise of a large bonus make you hesitant to investigate the emails that were uncovered? Does it make you less objective?

SELF-REVIEW—Am I reviewing my own work or evaluating recommendations I previously made?

- ❖ Were you involved in the development of the plan, and if so, would that threaten objectivity in evaluating the plan going forward?

ADVOCACY—Am I at risk of promoting my client’s or employer’s position in a way that is inappropriate?

- ❖ Said another way, are you at risk of over-stating the legitimacy or value of the CEO’s position/plan in spite of concerns over the bribery issue in order to promote the interests of the company?

FAMILIARITY—Does my long-standing relationship with my client or employer threaten my decision-making or judgement?

- ❖ Are you motivated to agree with the CEO’s plan, rather than objectively applying professional judgement, out of implicit trust in the CEO and the company’s decision-making process?

INTIMIDATION—Do I feel threatened in any way with respect to performing my job in a diligent, professional or objective way?

- ❖ Does the CEO’s “whatever it takes” approach pressure you into feeling that both job and reputation are on the line if anything slows down or derails entry into the new market?

Context is important.

As part of identifying threats, professional accountants are required to understand the specific facts and circumstances, including any professional activities, interests, and relationships that might compromise compliance with the fundamental principles.

Where to get Assistance?

The conceptual framework is set out in Part 1, Section 120 of the Code. Additional provisions that are relevant to applying this framework are set out in Parts 2, 3, 4A and 4B, Sections 200, 300, 400 and 900 respectively.

MODULE 4: SA CASE STUDIES

1. 5 IRBA NEWS CASES

- **Respondent appointed Trustee of Trust and auditor of business fully owned by Trust = INDEPENDENCE breach.**
 - *The respondent was appointed as a trustee of a Trust and as the auditor of a business that was fully owned by the Trust. As a result, the respondent breached the independence rules, as set out in the IRBA Code of Conduct. The respondent was sentenced to a fine of R80,000, of which R30,000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct committed during the period of suspension, no costs order and publication by the IRBA in general terms.*
 - *Effectively fined R50 000*
- **Respondent issued unprofessional communication to audit client and failed to respond to successor audit firm = UNPROFESSIONAL BEHAVIOUR.**
 - *The respondent issued unprofessional communication to an audit client and failed to respond in a timely manner to a request from a successor audit firm of the client. The respondent was sentenced to a fine of R40 000, of which R20 000 has been suspended for three years on condition that the respondent is not found guilty of unprofessional conduct relating to work done during the period of suspension, no cost order and publication by the IRBA in general terms.*
 - *Effectively fined R20 000*
- **Non-assurance services provided to audit client and signed without disclosing name = INDEPENDENCE and UNPROFESSIONAL BEHAVIOUR.**
 - *The respondent failed to comply with the independence requirements of the code in relation to non-assurance services provided to audit clients. Furthermore, the respondent signed an audit report without disclosing his name. The respondent was sentenced to a fine of R100 000, of which R50 000 has been suspended for five years upon re-registration on condition that the respondent is not found guilty of unprofessional conduct relating to work done during the period of suspension, no cost order and publication by the IRBA in general terms.*
 - *Effectively fined R50 000*
- **Respondent failed to resign from professional appointment when requested to do so by client. Failed to transfer documentation and the SARS e-filing profile = UNPROFESSIONAL BEHAVIOUR.**
 - *The respondent failed to resign from a professional appointment when requested to do so by the client. The respondent also failed to timeously transfer documentation and the SARS e-filing profile of the client to the new accountant. The respondent was sentenced to a fine of R30 000, of which R15 000 has been suspended for five years on condition that the respondent is not found guilty of unprofessional conduct relating to work done during the period of suspension, no cost order and publication by the IRBA in general terms.*
 - *Effectively fined R15 000*
- **Respondent failed to deal with additional VAT assessments and returns, failed to correspond with client, did not declare assurance on legal practitioner's trust accounts for several years = UNPROFESSIONAL BEHAVIOUR.**
 - *The respondent, who was mandated to submit VAT returns on behalf of their client, failed to deal with additional assessments raised by SARS and failed to submit certain VAT returns, which resulted in penalty and interest charges for their client. The respondent failed to correspond with their client, withheld client documentation and failed to correspond with the IRBA. Furthermore, the respondent did not declare assurance reports issued on an attorney's trust account for several years in the annual return submitted to*

the IRBA. The respondent was sentenced to a fine of R150,000, of which R50,000 has been suspended for five years on condition that the respondent is not found guilty of unprofessional conduct relating to work done during the period of suspension; no cost order; and publication by the IRBA in general terms.

- *Effectively fined R100 000*

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