

EXPLORING THE IESBA CODE – Nr 6

WEBINAR MATERIAL: 7 APRIL 2021

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MODULE 1: RECAP

1. WELCOME TO NR 6 IN THIS WEBINAR SERIES

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 6th and final webinar in the series will provide an overview of the last 2 instalments (numbers 11 and 12) in the Exploring the IESBA Code Series, and will highlight the effects that bias can have and the role and mindset expected of PAs in meeting public expectations, as well as the “building blocks” structure of the Code and its interconnected nature.

The Code sets out the fundamental principles of our ethics and is applicable to all Public Accountants – in Practice (PAPPs) and in Business (PAIBs) – irrespective of their roles and responsibilities.

The Code (Revised in October 2020) sets out the fundamental principles of ethics for professional accountants (PAs), reflecting the profession’s public interest responsibility. The principles apply to all PAs irrespective of their roles and responsibilities. Together with the Code’s conceptual framework, the principles provide a strong foundation for ethical decision-making.

One important aspect (among others) of the new provisions is a strengthening of the fundamental principle of objectivity, which requires PAs to exercise professional judgement or business judgement without being compromised by bias, conflict of interest, or undue influence or reliance

The first 5 webinars focused on:

- The Five Fundamental Principles, and The Conceptual Framework, Step 1, Identifying Threats;
- The Conceptual Framework, Step 2, Evaluation Threats and Step 3, Addressing Threats;
- Independence, and Conflicts of Interest;
- Inducements, and NOCLAR for PAIBs; and
- NOCLAR for PAPPs, and Pressure to Breach the Fundamental Principles.

We continue with the series in this webinar, focusing on:

- **The Role and Mindset Expected of Accountants – A Focus on Bias**
- **The Building Blocks installment**

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.

Where did we stop with the previous webinar in this series?

We ended with **Pressure to Breach the Fundamental Principles**.

Now we will focus on **the Role and Mindset expected of Accountants – a focus on bias**, and also refer to the **Building Blocks installment**.

2. SUMMARY: INTRODUCTION TO THE CODE

Here is the summary again of the introduction and background material set out in the previous five webinars of this series – for your convenience:

<https://www.iesbaecode.org/>

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 last instalment:

- The Role and Mindset expected of Accountants.

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.

3. SOUTH AFRICAN AMENDMENTS

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:

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>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>

Paragraph Number	Detail
<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 ROLE AND MINDSET EXPECTED OF ACCOUNTANTS – A FOCUS ON BIAS

1. INTRODUCTION

In order to meet their obligations under the Code and support the profession's responsibility to act in the public interest, professional accountants (PAs) need to understand the expectations that come with their role and adopt the appropriate mindset.

The IESBA's Role and Mindset project clarifies these obligations in new provisions that become effective on 31 December 2021, with early adoption permitted.

One important aspect (among others) of the new provisions is a strengthening of the fundamental principle of objectivity, which requires PAs to exercise professional judgement or business judgement without being compromised by bias, conflict of interest, or undue influence or reliance. This instalment highlights the effects that bias can have and the role and mindset expected of PAs in meeting public expectations.

Professional judgment (from the Glossary): *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

2. WHAT ARE THE KEY ROLE AND MINDSET REVISIONS TO THE CODE?

1. Refinement of the Fundamental Principles:

- a. PAs must be aware of the central role that compliance with the Code plays, especially with respect to the principles of integrity, objectivity, professional competence and due care, and professional behaviour.

2. Awareness of Bias and Importance of Organizational Culture:

- a. PAs are expected to have a mindset that encapsulates an awareness of the potential adverse influence of bias on judgements and decisions. They are also expected to promote an ethics-based culture within their organization.

3. Having an Inquiring Mind:

- a. Applying the conceptual framework requires that a PA have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This includes asking the right questions, for example, about the source, relevance and sufficiency of information for judgments and decisions.

Professional scepticism and an inquiring mind

The requirement to have an inquiring mind when applying the conceptual framework applies to all PAs regardless of the professional activity undertaken. Under auditing, review, and other assurance standards—including those issued by the IAASB— accountants must also exercise professional scepticism, which includes a critical assessment of evidence.

Consider how bias might be illustrated in the following scenario:

An audit manager chooses the engagement team for an upcoming audit.

The manager asks the audit partner to approve the team.

The partner points to a name on the list and says “I’m not sure it’s a good idea to have him on the team. I think that might pose too much of a familiarity threat.” “Really?” the manager asks “Does he have a connection to the client?” The partner replies “I have no idea, but you know there are lots of indigenous employees at that client, including some of the senior staff – I wouldn’t want our team member to be in an awkward position because of pressure from his own people.”

Conscious or unconscious bias

This affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles. Mitigating the effects of bias can be challenging because we often fail to see our own biases and mistakenly believe we are acting objectively.

PAs should be alert for biases, including these **eight common examples**:

TYPE OF BIAS	DESCRIPTION	FOR EXAMPLE ...
Anchoring	The tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed	An auditor’s judgment is clouded by the first impression they have of a client or of management
Automation	The tendency to favour output generated from automated systems, even when human reasoning or contradictory information challenges whether such output is reliable or fit for purpose	A PA acts on the output of an AI-enabled system without questioning the results
Availability	The tendency to place more weight on events or experiences that immediately come to mind or are readily available	A PA undertaking “what-if” analysis models alternative scenarios only using the most common ideas of what might happen
Confirmation	The tendency to place more weight on information that corroborates an existing belief than on information that contradicts or casts doubt on that belief	An auditor develops a theory about why certain account balances have changed. Evidence supporting their theory is given more weight than contradictory evidence
Group think	The tendency for a group of individuals to discourage individual creativity and responsibility — resulting in decision making without sufficient critical reasoning or consideration of alternatives	A board and management team that lacks adequate diversity approves the use of an AI-enabled loan application approval system without closely examining its underlying decision factors
Overconfidence	The tendency to overestimate one’s own ability to make accurate assessments of risk or other judgments or decisions	An auditor fails to adequately evaluate independence threats based on their confidence that their own judgment is beyond reproach
Representation	The tendency to base one’s understanding on a pattern of experiences, events, or beliefs that is assumed to be representative	A forensic auditor’s assessment of the risk of money-laundering occurring is swayed by the ethnicity of the owners of firms
Selective perception	The tendency for a person’s expectations to influence how the person views a particular matter or person	A PA who believes their team is happy at work perceives all of the team’s responses as more positive than they actually are

BE AWARE: In carrying out their roles, PAs comply with the Code, giving appropriate regard to the aim and intent of its specific requirements. But compliance does not mean that PAs will have always met their responsibility to act in

the public interest. There might be unusual or exceptional circumstances in which a PA believes that complying with the requirements might not be in the public interest or would lead to a disproportionate outcome.

In those circumstances, the PA is encouraged to consult with an appropriate professional or regulatory body.

Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input,
- Consulting with others to ensure appropriate challenge as part of the evaluation process,
- Receiving training related to the identification of bias as part of professional development.

In applying the conceptual framework in the context of the Role and Mindset provisions, the audit manager in the scenario earlier should:

- Recognize that allowing discrimination in workplace decisions does not reflect behaviour that is consistent with the profession's responsibility to act in the public interest,
- Consider whether and how the audit partner's bias might be impacting objectivity,
- Have the strength of character to engage in further discussions with the audit partner, even if doing so is challenging,
- Discuss the situation with others to ensure that perceived biased thinking is appropriately challenged.

Longer-term, education and training on bias and decision-making could benefit the partner, audit manager and their team — in order to better promote an ethics-based culture. In this situation, that might take the form of diversity, equity and inclusion training.

3. EFFECTIVE DATE

The effective date is as of 31 December 2021, with early adoption permitted.

4. WHERE TO GET ASSISTANCE IN THE CODE?

IESBA Final Pronouncement & Basis for Conclusions
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The new Role and Mindset provisions, including the explanatory Basis for Conclusions, are available.

The Final Pronouncement for Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants was released in October 2020.

The following sections of the Code have been amended:

- Section 100 – Complying with the Code,
- Section 110 – The Fundamental Principles,
- Section 111 – Integrity,
- Section 112 – Objectivity,
- Section 113 – Professional competence and due care,
- Section 114 – Confidentiality,
- Section 115 – Professional Behaviour,
- Section 120 – The Conceptual Framework,
- Section 200 – Applying the Conceptual Framework – PAIBs,

- Section 220 – Preparation and presentation of Information,
- Glossary, including list of Abbreviations – Professional judgment.

IESBA Fact Sheet

The IESBA released a **FACT SHEET** with regards to the Role and Mindset in November 2020.

Key features include:

1. What is it?

- In October 2020, the IESBA released the final pronouncement, Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants (Role and Mindset Revisions).

2. Why the Role and Mindset Revisions?

- In recognizing the breadth and significance of the accountancy profession's impact in businesses, governments and society at large, the profession and its members accept a responsibility to act in the public interest. However, doing so can be challenging, especially in times of economic, societal and technological change.
- The Role and Mindset Revisions aim to reinforce the importance of the profession's public interest responsibility by stimulating professional accountants to better demonstrate the role, mindset and behavioural characteristics expected of them, thereby allowing them to meet public expectations in their various roles and fields of endeavour.

3. What outcomes are the Revisions seeking to Achieve?

- More clearly recognizing the central role compliance with the Code plays in helping professional accountants and the profession meet their responsibility to act in the public interest,
- A renewed mindset that encapsulates certain expected behavioural characteristics applied to all professional activities, including having an inquiring mind and standing one's ground or challenging others in difficult situations,
- A greater awareness by professional accountants of the potential adverse influence of bias in their judgments and decisions, and an affirmation that they have an important role in promoting an ethical culture within their organizations

4. What are the key changes?

5. Acting in the public interest -

- Highlight the importance of compliance with the fundamental principles in helping professional accountants to meet their responsibility to act in the public interest,
- Explain that compliance with the Code means not only compliance with the letter of the Code but also with its spirit,
- Clarify that compliance with the Code does not mean a professional accountant will have always met their responsibility to act in the public interest

6. Having an enquiring mind -

- A new requirement for professional accountants to have an inquiring mind when applying the conceptual framework,
- Differentiate having an inquiring mind from the exercise of professional scepticism when performing audits, reviews and other assurance engagements

7. Enhancements to the Fundamental Principles -

- Strengthen the fundamental principle of integrity by emphasizing the importance of having the strength of character to act appropriately,
- Strengthen the fundamental principles of objectivity, professional competence and due care and professional behaviour, including some enhancements that reflect the impact of technology

8. Awareness of Bias & Importance of Organisational Culture -

- Emphasize the importance of being aware of one's bias in the exercise of professional judgment and include a list of 8 common examples,
- Highlight the importance that a positive internal organizational culture has on the effective application of the conceptual framework,
- Explicitly recognize that professional accountants have a role in promoting ethical behaviour and culture in their organizations.

THE BUILDING BLOCKS INSTALLMENT

1. INTRODUCTION

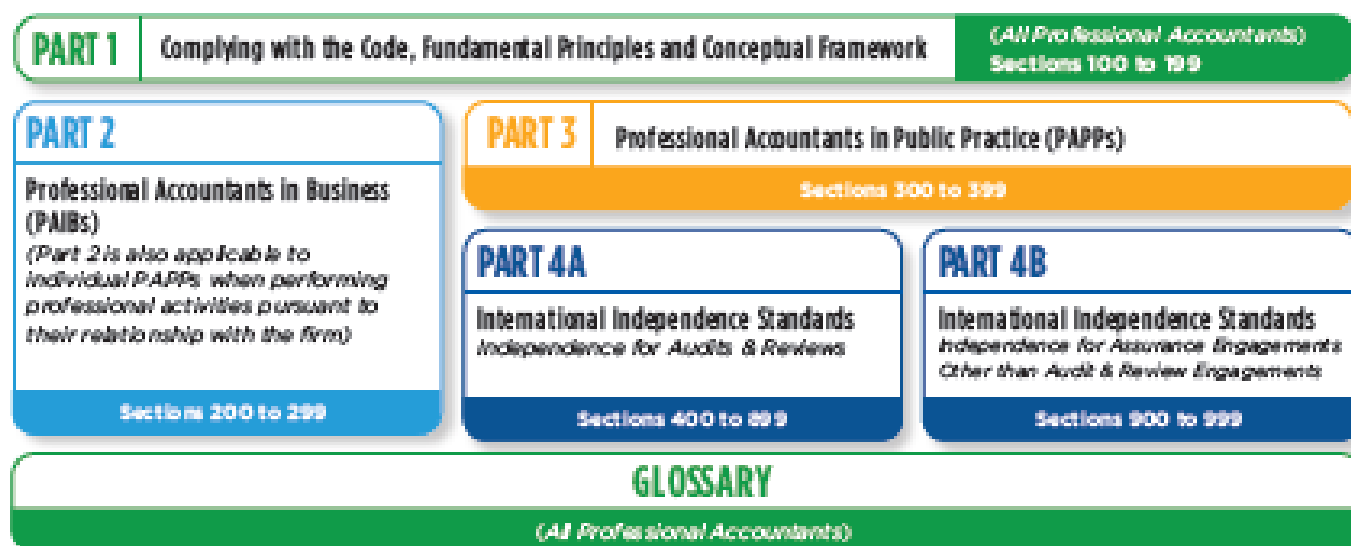
Published by IFAC on 1 March 2021

The International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) sets out the fundamental principles of ethics for professional accountants (PAs), reflecting the profession's public interest responsibility.

The principles apply to all PAs irrespective of their roles and responsibilities. Together with the Code's conceptual framework, the principles provide a strong foundation for ethical decision-making.

The building blocks approach demonstrates the interconnected structure of the Code.

2. STRUCTURE OF THE IESBA CODE



- Part 1 = The Conceptual Framework applies equally across all professional activities, so this content is not repeated in Parts 2, 3 and 4.
- Instead, the other parts build on material covered in Part 1.
- This approach demonstrates the scalability of the Code's provisions and emphasizes the overarching principles-based provisions in Part 1 that apply to all PAs in all situations.
- Subsequent parts of the Code provide context-specific information relevant to specific facts and circumstances encountered by PAIBs and PAPPs. Complying with the Code requires an understanding of the relevant provisions in a particular section in the context of Part 1, together with the applicable provisions in Sections 200, 300, 400 and 500 (i.e., the general sections).
- Finally, the Code's Glossary includes definitions and descriptions of terms.

The conceptual framework specifies an approach for all PAs to:

- Identify threats to compliance with the fundamental principles (Installment 2)
- Evaluate the threats identified (Installment 3)
- Address the threats that are not at an acceptable level (Installment 4)

Independence vs the Fundamental Principles

- As discussed in **Installment 5**, independence is not a fundamental principle, but the same threats to compliance with the principles can also threaten independence.
- The International Independence Standards include requirements and application material to explain how to apply the conceptual framework when performing audits, reviews and other assurance engagements

PAPPs vs PAIBs

- A PAPP is a PA, irrespective of function or classification (e.g., audit, tax or consulting) in a firm that provides professional services. Any PA not in public practice is deemed to be “in business” (i.e., PAIB) and are required to comply with Parts 1 to 2.
- In addition to Parts 3 and 4, PAPPs must also follow Part 2 in certain circumstances.
 - *For example, if a PAPP sees questionable or inappropriate actions by a client, they would follow Section 360 from Part 3.*
 - *If they see such actions by their own firm, they would follow Section 260 from Part 2.*

PAIB Scenario

A PAIB is under pressure from the CEO to take an aggressive approach to recognizing revenues for the current reporting period, which could cause the financial statements to be misleading.

- The PAIB consults Part 2 of the Code and finds that:
 - Financial information needs to be presented in accordance with the appropriate financial reporting framework and cannot intentionally be misleading (see R220.4).
 - Pressure from others inside or outside the organization cannot result in a breach of compliance with the fundamental principles (see R270.3).

PAPP Scenario (on an Assurance engagement)

A PAPP has been offered the opportunity to attend a major sporting event with an audit or review client.

- The PAPP consults Parts 3 and 4A of the Code and finds that:
 - A gift cannot be accepted from a client if the client is attempting to improperly influence their behavior (see R340.7).
 - A gift cannot be accepted from a client unless the value is trivial and inconsequential (see R420.3).

In combination, the Code makes it clear that, even if the value is trivial and inconsequential, before deciding to accept the gift, the PAPP would need to evaluate the client's intent.

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