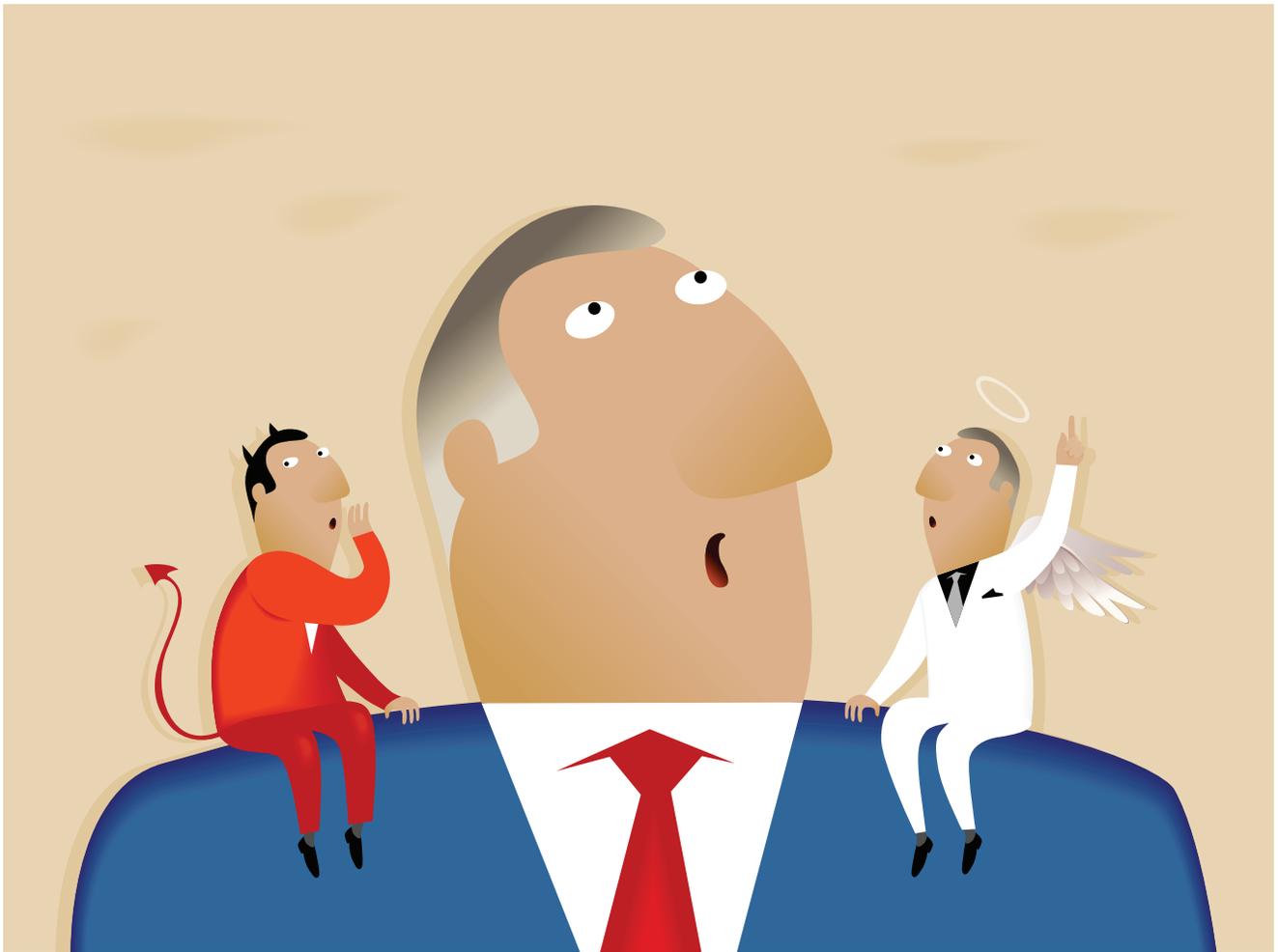


# Important updates affect obligations of professional accountants in business



**A** distinguishing mark of the accounting profession is its responsibility to act in the public interest. The requirements in the Hong Kong Institute of CPA's *Code of Ethics for Professional Accountants* help to guide a professional accountant to act in the public interest. This article provides an update on current developments on the International *Code of Ethics for Professional Accountants* issued by the International Eth-

ics Standards Board for Accountants, with which the Institute's code is converged.

## Responding to a suspected illegal act

In August 2012, the IESBA issued an exposure draft on *Responding to a Suspected Illegal Act*, proposing new requirements for both professional accountants in public practice and in business addressing their re-

sponsibilities in disclosing to an appropriate authority suspected illegal acts committed by clients or employers.

Under the proposal, an accountant providing professional services to an audit client would be required to disclose certain illegal acts to an appropriate authority; an accountant providing non-audit services to a client that is not an audit client or a professional accountant in business would be required to disclose the matter to the

entity's external auditor and, in certain circumstances, the accountant would have a right to disclose certain illegal acts to an appropriate authority and would be expected to exercise that right. The October 2012 issue of *A Plus* contains highlights of the proposals.

In December 2012, the Institute provided the IESBA with a comment, expressing substantial concern on whether the proposals will result in the imposition of fair and equitable requirements to professional accountants, especially in the absence of adequate statutory protection for whistle-blowers. The proposed requirement may also jeopardize the relationship between accountants and their clients or employers and promote mutual mistrust. The comment letter is available on the Institute's website.

The IESBA received more than 70 comment letters on the exposure draft. The Institute's comments are generally consistent with the comments expressed by most of the other commentators. The IESBA will continue its consideration of key issues and future actions of this project at its forthcoming meetings.

### Review of part C of IESBA code: Requirements for professional accountants in business

In February 2012, the IESBA established a working group to study reported accounting irregularities at certain companies and determine whether part C of the code should be strengthened to better promote ethical behaviour by professional accountants in business. In addition, the IESBA considered that part C had received less attention than other parts of the code in recent years and, therefore, considered that a review of the part C provisions would be timely.

The IESBA approved a proposal at its March meeting to start a project to review part C, addressing professional accountants in business. Phase 1 of the project will review sections 320 "Preparation and Reporting of Information," 330 "Acting with Sufficient Expertise" and 340 "Financial Interests." Phase 2

of the project will address section 350 "Inducements," which is related to facilitation payments and bribes. The IESBA will discuss this project further at forthcoming meetings.

### Definition of engagement team

In conjunction with the release of the International Auditing and Assurance Standards Board's International Standard on Auditing 610 (Revised 2013) *Using the Work of Internal Auditors*, the IESBA released amendments to the definitions of "engagement team" in the IESBA code in March.

The amendments clarify the relationship between internal auditors providing direct assistance on an external audit and the meaning of an engagement team under the IESBA code.

The Institute issued members' handbook update no. 129 on this amendment in May. The amendment will be effective for audits of financial statements for periods ending on or after 15 December 2014. Early adoption is permitted.

### Conflicts of interest

Recognizing the ethical questions and challenges that can arise from conflicts of interest, the IESBA issued an amendment to the IESBA code in March to establish more specific requirements and provide more comprehensive guidance to support professional accountants in identifying, evaluating and managing such conflicts. The revisions affect professional accountants both in public practice and in business, taking into account the different circumstances in which they work.

The amendment aims to provide a clarified explanation of what a conflict of interest means under the IESBA code. The changes are also aimed at better enabling professional accountants to identify potential conflicts of interest early for timely action to be taken by the affected parties. Moreover, the new requirements are intended to encourage professional accountants to evaluate whether they can remain objective in

those circumstances and abide by the other fundamental ethical principles in the IESBA code.

The amendment will be effective on 1 July 2014 where early adoption is permitted. The Institute plans to issue the equivalent amendment to the Institute's code this month.

### Breach of a requirement of the code

Reflecting its view that any breach of a provision of the IESBA code is a matter that must be handled seriously, the IESBA has strengthened the code with respect to a professional accountant's actions when encountering such a breach. In particular, the revisions to the IESBA code establish a robust framework for addressing a breach of an independence requirement. They include requiring a firm to:

- Terminate, suspend or eliminate the interest or relationship that caused the breach;
- Evaluate the significance of the breach and determine whether action can be taken and is appropriate in the circumstances to satisfactorily address the consequences of the breach;
- Communicate all breaches with those charged with governance and obtain their concurrence that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- Document, among other matters, the action taken and all the matters discussed with those charged with governance.

The amendment will be effective on 1 April 2014 and early adoption is permitted. The Institute plans to issue the equivalent amendment to the Institute's code this month.



This article is contributed by the Institute's standard setting department.