



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344
Fax: +1 (212) 856-9420

Agenda Item

C

Committee: Ethics Consultative Advisory Group
Meeting Location: Crowne Plaza St James, London, United Kingdom
Meeting Date: September 13, 2010

Responding to Suspected Fraud or Illegal Acts

Draft Project Proposal

Objective of Agenda Item

To discuss and comment on the draft project proposal addressing how a professional accountant would respond to a suspected fraud or illegal act

Background

At its Barcelona meeting, CAG members discussed a draft project proposal addressing how a professional accountant should respond when encountering a suspected fraud or illegal act. CAG members expressed support for the IESBA commencing such a project and provided input on the scope of the project.

The Task Force met in early July, considered the input from CAG members, and revised the draft project proposal. The project proposal will be presented to the IESBA at its November 2010 meeting for approval.

Discussion

While confidentiality is one of the fundamental principles with which the professional accountant complies, Section 140 identifies three circumstances where professional accountants are required, or may be required, to disclose confidential information:

- Disclosure is permitted by law and is authorized by the client or the employer;
- Disclosure is required by law; and
- There is a professional duty or right to disclosure when not prohibited by law.

The Code does not contain any guidance on when there is a profession duty or right to disclose confidential information when not prohibited by law. The goal of the project is to provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act.

The scope of this project is to revise Section 140 and develop two new sections in Parts B and C to provide additional guidance for professional accountants in public practice and in business on how to respond in situations where they encounter a suspected fraud or illegal act. The project will focus on the actions that the professional accountant takes when encountering such a situation. It will not address actions that professional accountants should take to identify such matters.

The project will consider the following matters:

- *Legislative environment* – Many jurisdictions have “whistle blowing” legislation, some of which is quite extensive. The project will consider the extent to which the professional accountant’s response to a suspected fraud or illegal act may differ depending on the extent to which “whistleblowers” are afforded protection under the law.
- *Role of the Professional Accountant* – The task force will consider whether the role of the professional accountant with respect to the entity in which the suspected fraud or illegal act exists is a factor to be considered in determining the nature of the items to be addressed, the threshold for taking action and the process for responding.
- *Nature of Items to be Addressed* – The project will consider the nature of the items to be addressed.
- *Threshold for Taking Action* – The project will consider what guidance can be provided to a professional accountant regarding the threshold for taking action. In this regard the project should consider the “probability” that a fraud or illegal act has occurred, the “effect” of such an act and who committed the act.
- *Process for Responding* – The project will develop guidance on the thought process the professional accountant would use in determining how to respond to a suspected fraud or illegal act.
- *Timing of Disclosure* – The project will consider what guidance is necessary regarding the timing of disclosure in situations when the matter cannot be resolved and the professional accountant determines that disclosure is necessary, taking into consideration the Section 100 guidance on ethical conflict resolution.
- *Documentation* – The project will consider what guidance should be given regarding the matters that should be documented by the professional accountant.

Action requested

CAG members are asked to review the content of the project proposal and comment on the major problems and key issues that will be addressed.

Material Presented

Agenda Paper C	This Agenda Paper
Agenda Paper C-1	Draft Project Proposal

Action Requested

1. CAG members are asked to consider the question posed.