

# ICPAK CODE OF ETHICS

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## INTRODUCTION - DEFINITIONS



What is Ethics -

- i. system of beliefs that supports a particular view of morality.
- ii. It is a belief of what is right and wrong, good or bad.

Morality: refers to the standards of behaviour by which people are judged especially in their relationship with others

## INTRODUCTION- IMPORTANCE



- Why Ethics
  - It is not possible to regulate all possible situations
  - plays a key role in the delivery of services.
  - Helps to attract & maintain the public confidence in the profession
- A code of ethics.....provides a guide for all of us

## INTRODUCTION - WHY SHOULD AN ACCOUNTANT ABIDE BY A HIGH ETHICAL STANDARD



- Accountants provide a wide range of important services such as
  - ☐ Auditing,
  - ☐ Accounting and Reporting
  - ☐ Advisory
  - ☐ corporate and commercial affairs; etc

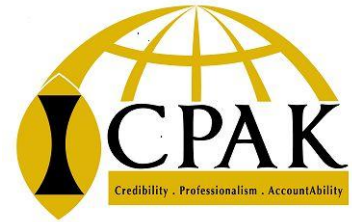
As such accountants have a responsibility to abide by high ethical standards.

## INTRODUCTION - WHY SHOULD AN ACCOUNTANT ABIDE BY A HIGH ETHICAL STANDARD



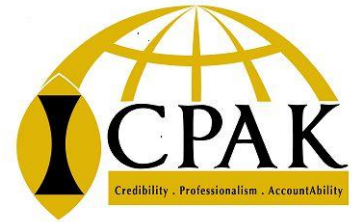
- CPAs must have the confidence of not only those who become their clients but also the confidence of the general public.
- Public confidence in the quality of the professional services is enhanced only if the accountancy profession encourages high standards of performance and conduct on the part of all professionals.

## INTRODUCTION - WHY SHOULD AN ACCOUNTANT ABIDE BY A HIGH ETHICAL STANDARD



- Of the likely impact of the decision and judgment of the accountant in the economy.
- In the midst of keen competition in the profession the public will search for CPAs who not only demonstrate high technical competence but also a high ethical standard.

## INTRODUCTION - WHY SHOULD AN ACCOUNTANT ABIDE BY A HIGH ETHICAL STANDARD



- L.J. Brooks- points out that the mastery of

*accounting or audit technique is certainly not the critical value added by CPAs. Rather, the critical value lies in the expectation that whatever, services that are offered will be based on integrity and objectivity.*

- Hence the need for a code of ethics.....provides a guide for all of us

# ICPAK CODE OF ETHICS



- The Institute developed the code so as to support the integrity of its members
- It is based on the IFAC code of Ethics for professional accountants which establishes the ethical requirements for professional accountants
- A member body of IFAC **may not apply less stringent standards** than those already in the code.



# ICPAK CODE OF ETHICS – INTRODUCTION



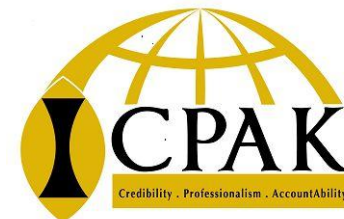
- Part A – Framework applies to all professional accountants
- Part B – Professional Accountants in Public Practice (PAIP)
- Part C - Professional Accountants in Business (PAIB) -

# ICPAK CODE OF ETHICS - DEFINITIONS



- Professional Accountant – an individual who is a member of an IFAC member body
- PAIP- An individual working in a firm that provides professional services irrespective of functional classification e.g tax, audit, or consulting . Also a firm of professional accountants in public practice
- PAIB- A professional accountant working for an organisation in an executive or non executive capacity

## PART A: APPLICABLE TO ALL PROFESSIONAL ACCOUNTANTS



- This Part of the Code lays down the fundamental principles of professional ethics and provides a conceptual framework for their application.
- Professional Accountants are required to apply the conceptual framework to identify threats to compliance with the principles, evaluate their significance and apply safeguards to eliminate them or reduce them to an acceptable level.

# CONCEPTUAL FRAMEWORK APPROACH



- Impossible to define every situation that creates threats and their corresponding mitigating action
- The nature of engagements differ hence different threats exist which requires the application of different safe guards
- Code instead requires the accountant to identify, evaluate and address the threats to compliance with the fundamental principles
- Code establishes basic fundamental principles

## PART A: ICPAK CODE OF ETHICS



- Failure to follow the guidance given by the code may not in itself constitute misconduct but the member concerned may be at risk of having to justify his actions in response to a complaint.

# FUNDAMENTAL PRINCIPLES



1. Integrity
2. Objectivity
3. Professional competence and due care
4. Confidentiality
5. Professional behaviour

A professional accountant must assess threats to these principles and apply the necessary safeguards

# 1. INTEGRITY



- Its about being straightforward & honest in professional and business relationships
- Its about fair dealings and truthfulness

## INTEGRITY - continued



- A professional accountant should not be associated with reports, returns, communications, or other information where they believe that information may
  - ❖ Contain a materially false or misleading statement;
  - ❖ Omits or obscures information required to be included where such omission or obscurity would be misleading
- One would not be considered to be in breach if he provides a modified report

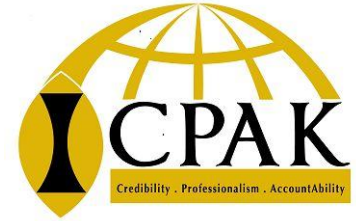


## 2. OBJECTIVITY



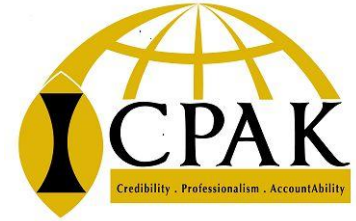
- This principle imposes an obligation to professional accountants not to compromise their professional or business judgement because of
  - ❖ bias,
  - ❖ conflict of interest or ;
  - ❖ the undue influence of others
- One should avoid relationships that bias or unduly influence ones professional judgement

### 3. PROFESSIONAL COMPETENCE AND DUE CARE



- One is required maintain professional knowledge and skill at the level required to ensure clients or employers receive competent professional services – e.g. through in-house trainings, CPDs etc
- Act diligently in accordance with technical and professional standards.
- Being diligent involves
  - ❖ acting in accordance with the assignments instructions,
  - ❖ Working carefully,
  - ❖ Being thorough
  - ❖ Working on a timely basis

# PROFESSIONAL COMPETENCE AND DUE CARE - CONT'D



- Inform clients and other users of professional services of the limitations inherent in the provision of the services

## 4. CONFIDENTIALITY



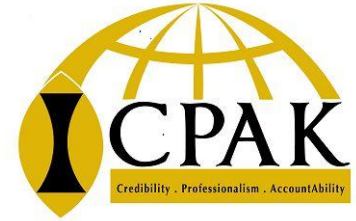
- Imposes an obligation to
  - ❖ Refrain from disclosing confidential information without proper and specific authority;
  - ❖ Refrain using confidential information acquired to their personal advantage or that of third parties;
  - ❖ Ensure that staff under the professional accountant respect the duty of confidentiality
  - ❖ Even after the end of the business relationship maintain confidentiality

# PERMITTED DISCLOSURE



- Can disclose confidential information where it is permitted and required by the law e.g production of the information during legal proceedings
- Client Agreement
- Professional Duty to disclose

# PROFESSIONAL BEHAVIOUR



- Comply with relevant laws and regulations and avoid any action that would bring the disrepute to the profession
- In marketing and promoting themselves and their work , should not bring disrepute to the profession. (ETHICAL ADVERTISING POLICY)
- Not make exaggerated claims with regard to the services they can offer or their qualifications or experiences.
- Make disparaging references or unsubstantiated comparisons to the work of others

# PERMITTED DISCLOSURE



Client Information..... No 3<sup>rd</sup> Party  
Disclosure unless.....  
1. Client Agreement 2. Professional  
Duty to disclose 3. Required by Law

# THREATS



- Circumstances that may threaten compliance with the fundamental principles fall in the following broad categories;
  - ❖ Self interest;
  - ❖ Self review;
  - ❖ Advocacy;
  - ❖ Familiarity;
  - ❖ Intimidation



# SELF INTEREST



This may occur as a result of the financial or other interests of a professional or of an immediate or close family member

Examples of circumstances creating self interest include

- ❖ A financial interest in a client or jointly holding a financial interest with a client
- ❖ Undue dependence on total fees from a client
- ❖ Having a close business relationship

# SELF REVIEW THREATS



This may occur when a previous judgment to be revaluated by a professional accountant responsible for that judgment

An example would include discovery of a significant error during re-evaluation of the work of the professional accountant

# ADVOCACY THREATS

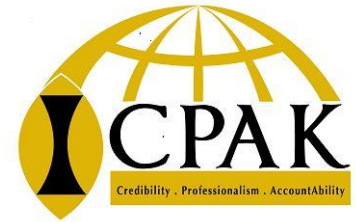


- This occurs when a professional accountant promotes a position or an opinion to the point that subsequent objectivity may be compromised e.g

## **Examples:**

- Promoting shares in a listed entity when that entity is a financial statement audit client.
- Acting as an advocate on behalf of an assurance client in disputes with third parties e.g. before the tax appeal tribunal

# FAMILIARITY THREATS



- This may occur as a result of the close relationship with the client
- Example: Having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement

# INTIMIDATION



- This may occur when the professional accountant is deterred from acting objectively by threats, actual or perceived
- E.g. Threat of dismissal or replacement in relation to a client engagement.
- Being threatened with litigation
- Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

# SAFEGUARDS



To eliminate or reduce threats to an acceptable level important to have safeguards .

Safeguards fall into basic categories

- ❖ Safeguards created by the profession, legislation or regulations e.g corporate governance regulations, professional standards
- ❖ Safeguards in the work environment e.g. leadership stressing the importance of compliance with fundamental principles

## SAFEGUARDS CREATED BY THE PROFESSION, LEGISLATION OR REGULATION



- Corporate governance regulations.
- Professional Standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by legally empowered third party, of the reports, returns communication or information produced by a professional accountant.

## SAFEGUARDS CREATED BY THE PROFESSION, LEGISLATION OR REGULATION CONT'D



- The following safeguards may increase the likelihood of identifying or deterring unethical behaviour.
- Effective and well publicised complaint system operated by employing organization, the profession or the regulator, which enables colleagues, employers and members of public to draw attention to unprofessional and unethical behaviour.
- Explicit stated duties to report breaches of ethical requirements.



### The leadership at the firm that

- stresses the importance of compliance with the fundamental principles.
- establishes the expectation that members of an assurance team will act in the public interest.
- Develops Policies and procedures to implement and monitor quality control of engagements.



- Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the identification and the application of safeguards to eliminate or reduce the threats to an acceptable level.
- Documented internal policies and procedures requiring compliance with the fundamental principles.

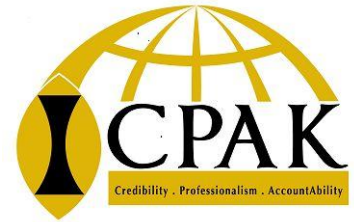


Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.

Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.

Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.

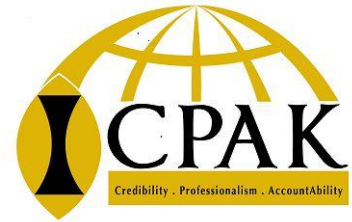
# SAFEGUARDS IN THE WORK ENVIROMENT CONT'D



When safeguards are never adequate.



# ETHICAL CONFLICT RESOLUTION



- In resolving ethical conflict of interest the professional accountant may be required to **initiate formal and informal conflict resolution process.**
- You should consider relevant facts and Ethical issues

# ETHICAL CONFLICT RESOLUTION



- ❖ Fundamental principles
- ❖ Established internal procedures.
  
- ❖ Determine whether to consult those charged with governance e.g. board of directors, audit committee or others
  
- ❖ document the substance of the issue, details of any discussions held, and the decision concerning the issue.
  
- ❖ If unresolved for a while consider obtaining professional advice from the relevant professional bodies and legal advisors.

# DESCRIPTIONS AND DESIGNATORY LETTERS



- A member may not use words or descriptions additional to Certified Public Accountant or Certified Public Accountant of Kenya implying specialization in professional work
- If any person named on the letterhead of the firm of the practicing accountants is not a member of the Institute then firm cannot describe itself on its letterhead or elsewhere as Certified Public Accountant

# GIFTS AND HOSPITALITY



- ❖ A PAIP may be offered gifts and hospitality from a client giving rise to a threat to compliance with the fundamental principles.
- ❖ Significance of such threats will depend on the nature, value and intent behind the gift.
- ❖ Should a third party seized of all the facts conclude that the threat is insignificant then the PAIP may consider that the gift is not meant to influence his decision making.



# CAN WE AUDIT OUR FAMILIES



# TRANSPORT FOR THE AUDITOR



GIFTS..... SHOULD WE TAKE  
THEM



# WE ARE FRIENDS AREN'T WE

.....



# QUOTE



- *The man of character, sensitive to the meaning of what he is doing, will know how to discover the ethical paths in the maze of possible behaviour*

Earl Warren, former Chief Justice, U.S. Supreme Court

# DISCIPLINARY PROCESS



- The Accountants Act establishes the Disciplinary committee to consider and deal with complaints against members.
- Various ways in which complaints brought to the DC
- Impose a wide range of fines
- Proposed amendments – steeper penalties
- Support to deal with illegal practitioners

# **Part C – Professional Accountants in Business**

- Potential conflicts
- Preparation and reporting of information
- Acting with sufficient expertise
- Financial interests
- Inducements

**END**



**THANK YOU**