



ANNUAL FORENSIC AUDIT CONFERENCE

The successful forensic auditor in contemporary times

By,
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18th – 20th NOVEMBER 2015 AT THE WHITESANDS,
MOMBASA

The Topic



Professional Ethics & Dilemma in conducting forensic investigations; An Accountants Perspective

Back ground Information



- "The Topic
- "Professional ethics
- "Fraud Theories
- "Identify threats and apply safeguards to reduce threats to an acceptable level.
- "Dilemma in conducting forensic investigations
- "AQA

Definition



According to Raymond Baumhart, *Issues in Ethics* (Fall 1987). is defined as:

- ” Doing what the law requires
- ” Ethics has to do with my religious beliefs
- ” Ethics has to do with what my feelings tell me is right or wrong
- ” Ethics consists of the standards of behaviour our society accepts

Other Definitions



“The moral principles that govern a person's behaviour or the conducting of an activity

“A set of moral principles, especially ones relating to or affirming a specified group, field, or form of conduct

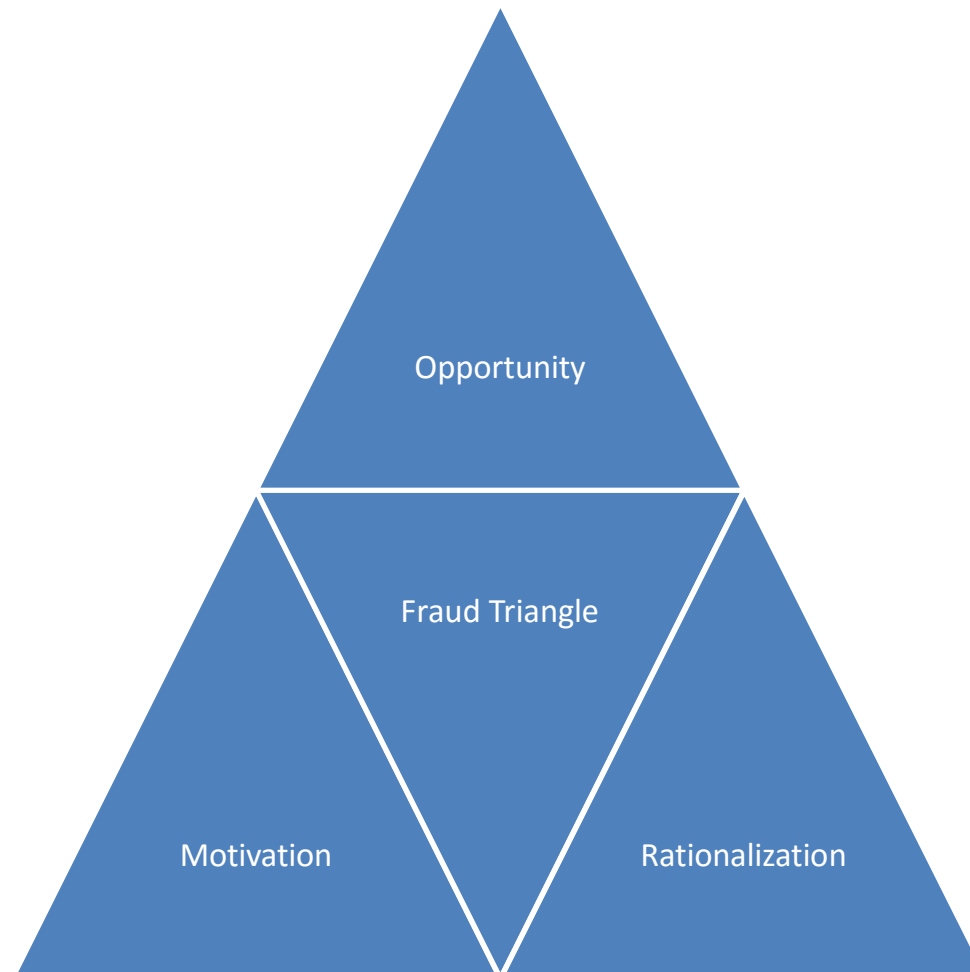
Theories; (1) Fraud Triangle Theory



1) Opportunity ó greed or need. 63% of fraud is due to greed .Hayward (2007),

2) Motivation

3) Rationalization, necessary, harmless, justified

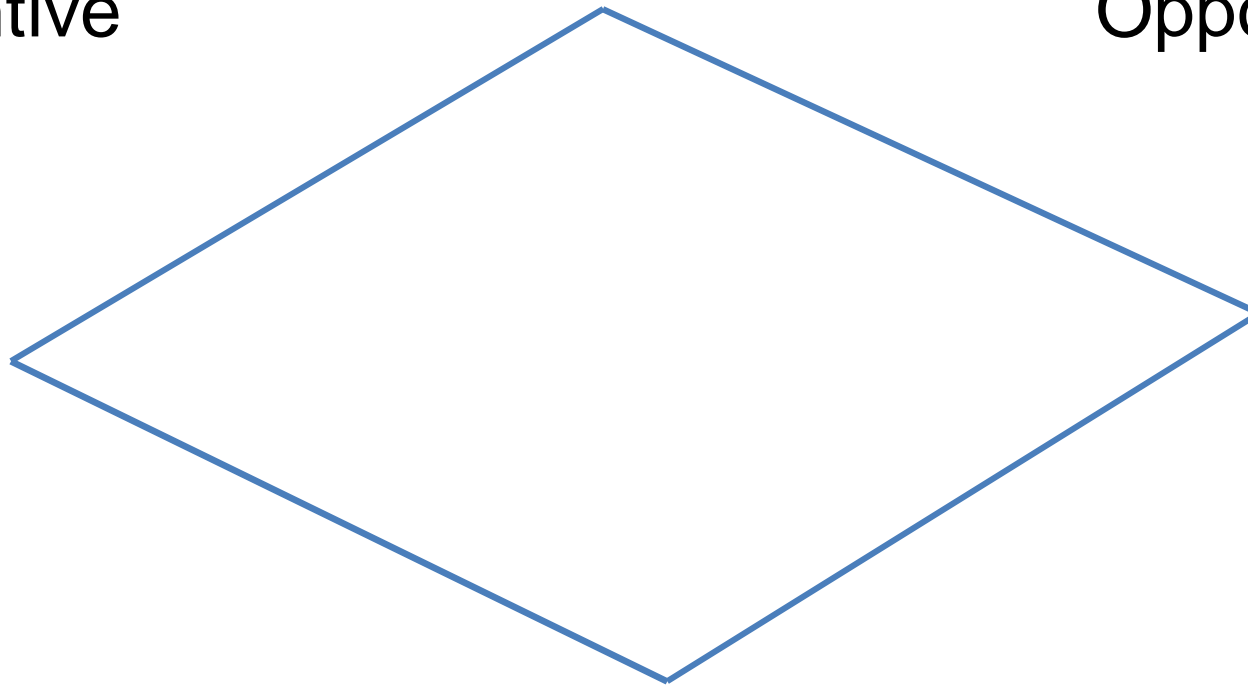


Theories;(2)Fraud Diamond Theory



Incentive

Opportunity



Rationalization

Capacity

Professional Ethics



“ICPAK code of ethics for professional accountants is based on the IESBA *Code of Ethics for Professional Accountants*

“The code establishes ethical requirements for professional accountants.

“A member body of IFAC or firm shall **not apply less stringent standards than** those stated in this Code.

“Some jurisdictions may have requirements and guidance that differ from those contained in this Code ó ICPAK code includes insertions of section 30 of the Accountants Act and the Institutes by-laws

Code of Ethics for Professional Accountants



“A distinguishing mark of the accountancy profession is its acceptance of the **responsibility to act in the public interest**.

“Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer.

“In acting in the public interest, a professional accountant shall observe and comply with the Code of Ethics.

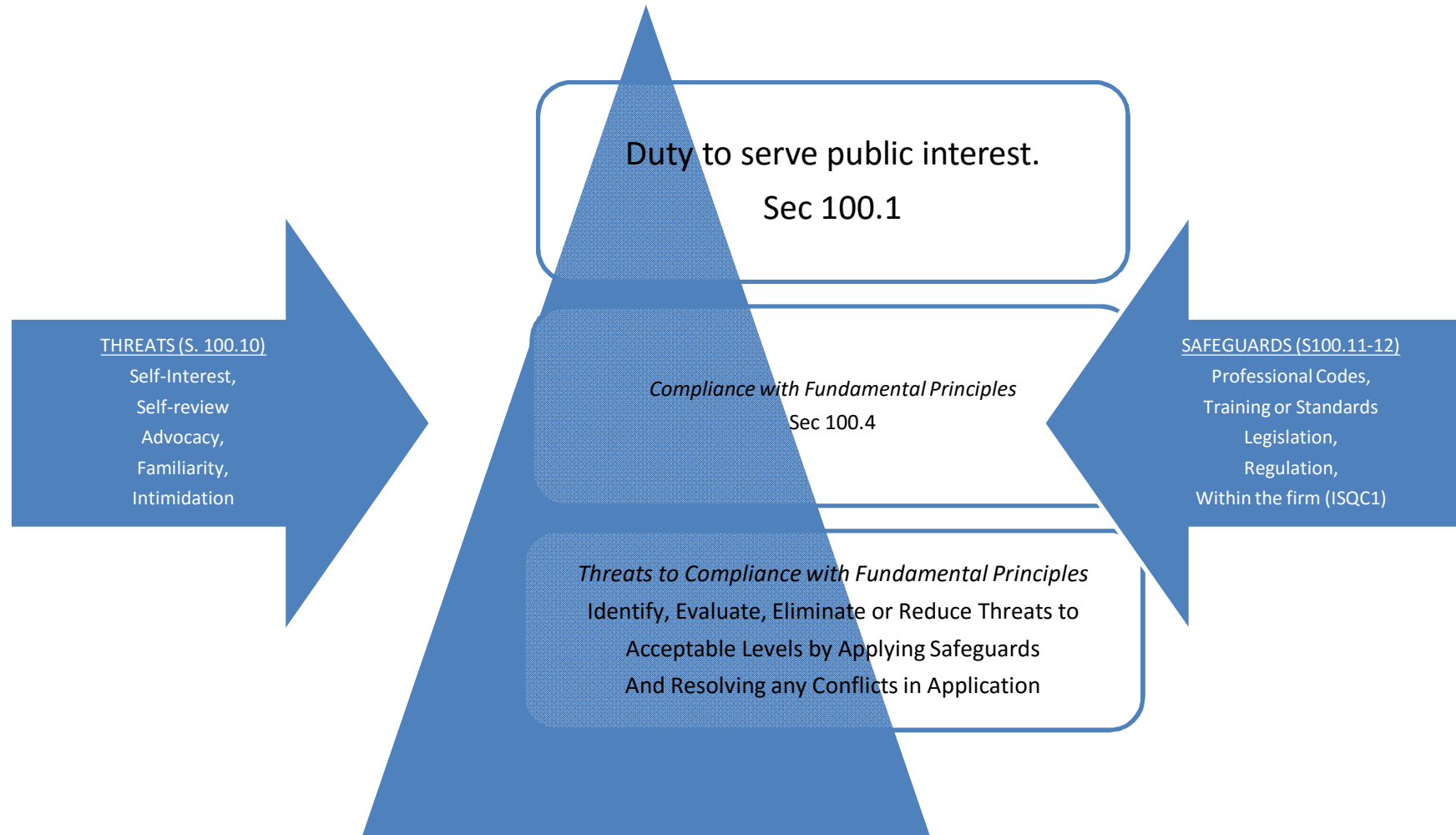
Con't ...



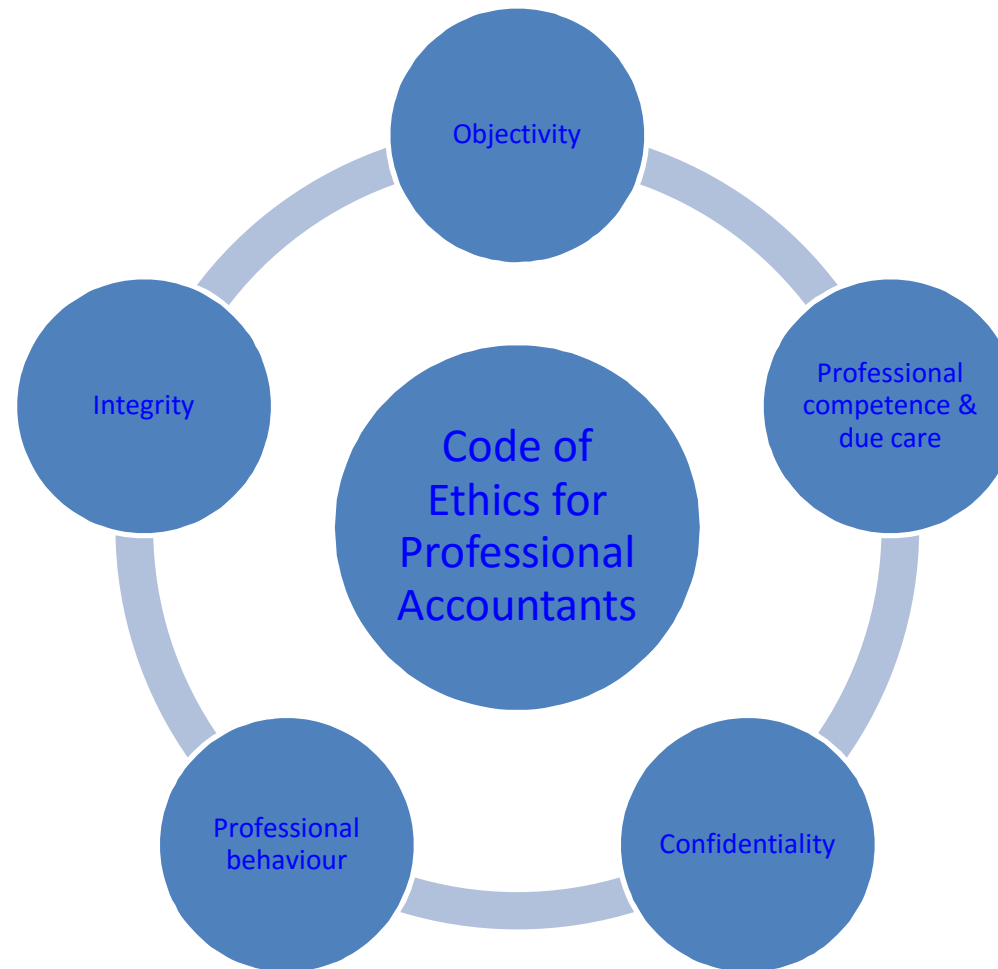
The Code contains three parts:

- “ **Part A** establishes the **fundamental principles** of professional ethics for professional accountants and provides a conceptual framework for professional accountants.
- “ **Parts B and C** describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles.

IFAC code of ethics framework



Fundamental principles of the code



Threats



” Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

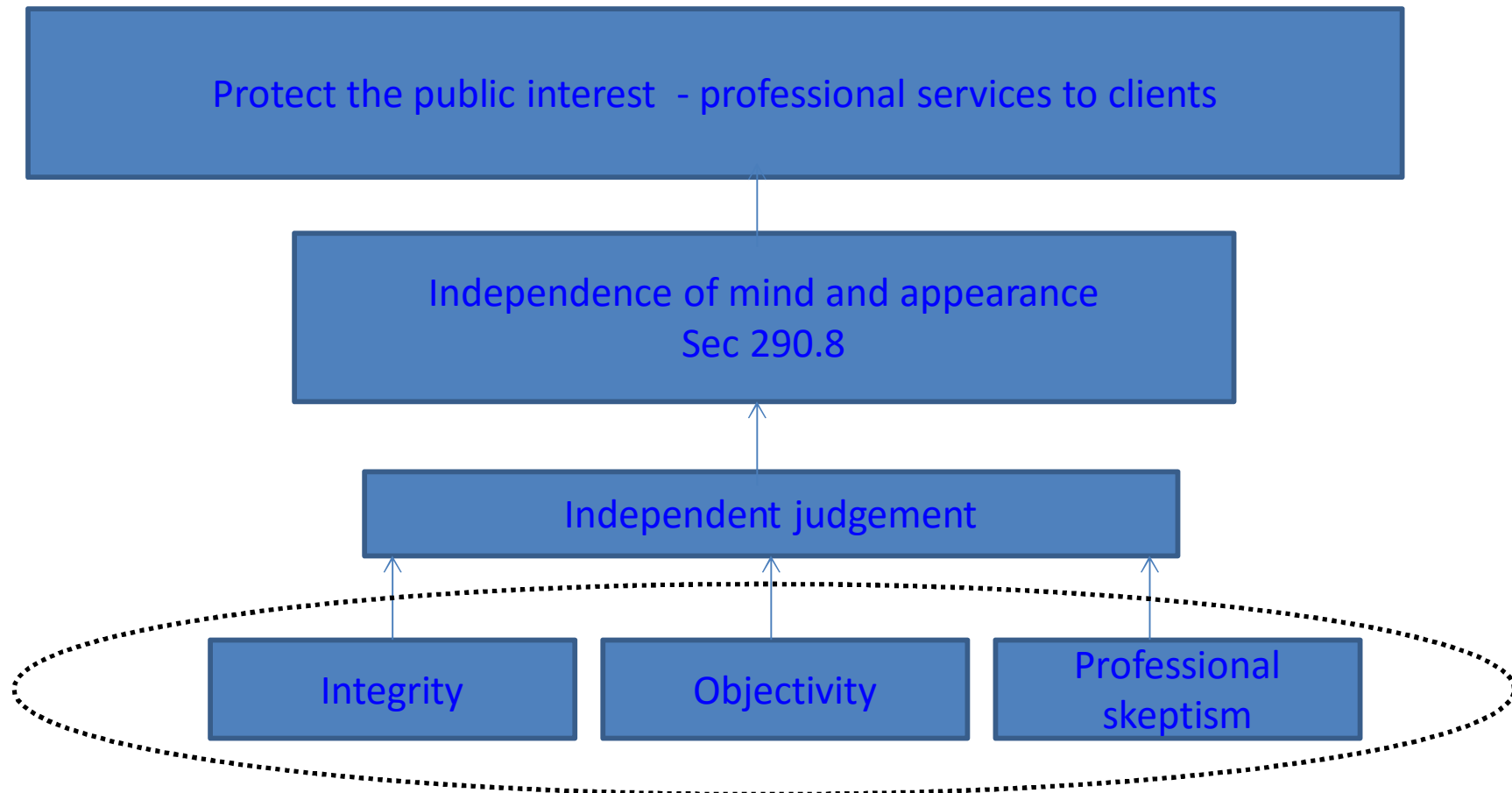
- . Self-interest threats
- . Self-review threats
- . Advocacy threats
- . Familiarity threats
- . Intimidation threats.

Ethical Conflict Resolution



- “ In evaluating compliance with the fundamental principles, a Member may be required to resolve a conflict in the application of fundamental principles.
- “ When initiating either a formal or informal conflict resolution process, a Member should consider;
 - a) Relevant facts;
 - b) Ethical issues involved;
 - c) Fundamental principles related to the matter in question, including the identification of threats to those principles;
 - d) Established internal procedures which might represent safeguards against the identified threats; and Alternative courses of action.

IFAC Code's Framework For Independent Judgment



Source: *IFAC Code of Ethics for Professional Accountants*, 2005, S 290.8 & Independence Definition

Safeguards Created by the Profession, (*IFAC Code, S 100.12*)



- “ Education, training, experience requirement for entry
- “ Continuing education/CPD
- “ Professional standards, monitoring, and disciplinary processes
- “ External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.
- “ External review of firm’s quality control system
- “ Legislation governing independence requirements of the firm

Con't ...



- ” Safeguards Within a Client (*IFAC Code, 200.15*)
 - . Appointment of auditors ratified/approved by other than management
 - . Client has competent staff to make managerial decisions
 - . Internal procedures to ensure objective choices in commissioning non-assurance engagements
 - . A corporate governance structure, such as the audit committee, that provides appropriate oversight and communications regarding a firm's services

Within a Professional Accounting Firm's Own Systems (*IFAC Code, 200.12*)



- “ Public interest aspect;
- “ Policies and procedures to implement and monitor control of assurance engagements
- “ Documented independence policies regarding the identification and evaluation of threats to independence
- “ Policies and procedures to monitor and manage the reliance on revenue from a single assurance client
- “ Using partners with separate reporting lines for the provision of non-assurance services to an assurance client

Professional Accountant in Business ó Application Guidance



- ❖ Section 300 - Introduction
- ❖ Section 310 - Conflicts of Interest
- ❖ Section 320 - Preparation and Reporting of Information
- ❖ Section 330 - Acting with Sufficient Expertise
- ❖ Section 340 - Financial Interests, Compensation, and Incentives Linked to Financial Reporting and Decision Making
- ❖ Section 350 - Inducements

Always Rememberí



- “ Courage is the additional key principle/value.
- “ Isolation - can be a problem for members in business. Less of a problem for members in larger accountancy practices.
- “ However, to do the right thing applies to all professional accountants.
- “ Seek internal and external support when required ó Your institute is there for you...

Ethical Dilemmaí real life experiences



Case Scenario I



- “ Assume that you have been appointed the CFO in a listed company based on the fact that you have financial management experience of Fifteen years and you are a good friend of the Board Chair, though you are not a member of the Institute.
- “ You are very conversant with the Kenyan legislations governing the CFOs of listed companies.
- “ Do you turn down such an offer based on the fact that you are NOT a member of ICPAK, when in the real sense you know that you can do the job?

Case Scenario II



“You are the Finance Director and has just tabled quarter three performance and clearly mentioned to the board that there is no way the loss of Kshs. 220 million will be turned around in quarter four.

“The Board has categorically stated that they will not approve any financial statements with a loss for the third year in a row, having done that in 2013 and 2014.

“What do you do?

Case Scenario III



- “ A promotional job opportunity is in the offing within your organization for members of the institute in good standing, for which you qualify.
- “ During the year 2014 you did not attain the required CPD, hence not in good standing.
- “ The letter of good standing stands between your current position that you have been serving for the last 10 years and your promotion (new job)

Important links



“ICPAK Code of ethics – www.icpak.com/resource

“IFAC Code of Ethics - www.ifac.org/ethics

Parting Short



“Accept the challenges so that you may feel the exhilaration of victory – *Anon*

“We have been living in an age of short sightedness, we haven't been looking far enough ahead to make the right decisions.

“Making money by being immoral is short sighted because you'll soon be found out.

Question & Answers



Thank You!



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