



# Code of Conduct and Ethical Obligation for Accountants

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# Introduction



## What is Ethics?

The term *ethics* comes from two Greek words, *ethikos* and *ethos*, meaning custom and character, respectively.

- ” It may be defined as a system of beliefs that supports a particular view of morality; or
- ” a belief of what is right or wrong, good or bad.

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

## What is code of conduct?

- ” is a set of rules outlining the social norms and rules and responsibilities of, or proper practices for, an individual, party or organization.

**Code of Ethics** means a written set of guidelines issued by an organization to its workers and management to help them **conduct** their actions in accordance with its primary values and ethical standards.

## **Why Ethics?**

- ” A Code of Ethics provides for a guide for a particular class of individuals , for Instance, Accountants since it is not possible to regulate all possible situations.
- ” It plays a key role in the delivery of services.
- ” It helps to attract & maintain the public confidence in the profession

## **Examples of Ethical behaviour**

- ” Readiness to declare conflicts of interest;
- ” Readiness to strictly follow and enforce laid down procedures;
- ” Automatic honesty, e.g. when making financial claims;
- ” Exemplary punctuality and commitment to work even going the extra mile
- ” Moral uprightness no indulgence in immoral behavior on/off the job
- ” Refusal to participate in any form of corruption, irregularity or indecency

## Why an Accountant should abide to a high ethical standards

- ” Accountants provide a wide range of important services such as
  - ✓ Auditing;
  - ✓ Accounting and Reporting;
  - ✓ Accounting and Reporting Advisory;
  - ✓ corporate and commercial affairs; etc
- ” CPAs must have the confidence of not only their clients but also 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. Mainly because of the likely impact of the decision and judgment of the accountant in the economy of the Country.
- ” 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.

According to L.J. Brooks, he 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, 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, to provides a guide for all of us

This is Brian;  
he used to be a  
professional magician.



He is our new financial  
accountant; he has  
all the skills...



Magicking figures out of thin air,  
vanishing unpleasant liabilities,  
producing assets where none  
existed before.



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# Code of Ethics for Professional Accountants



- “ The Institute of Certified Accountants of Kenya (ICPAK) developed the ICPAK Code of Ethics based on the IFAC code of Ethics for professional Accountants which establishes the ethical requirements for all professional accountants in Kenya.
- “ A member body of IFAC may not apply less stringent standards than those already in the Code.

# ICPAK Code of Conduct for Professional Accountants



- ” **Part A** ó General application of the Code (establishes the fundamental principles)
- ” **Part B** ó Professional Accountants in Public Practice (PAIP)
- ” **Part C** - Professional Accountants in Business (PAIB)
- ” Professional Accountant ó 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: General Application of the Code



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.
- “ 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.
- “ The Code requires the accountant to identify, evaluate and address the threats to compliance with the fundamental principles
- “ The Code establishes basic fundamental principles which are:
  - ✓ Integrity
  - ✓ Objectivity
  - ✓ Professional competence and due care
  - ✓ Confidentiality
  - ✓ Professional behaviour

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



# Cont...



## ✓ Integrity

- “ Integrity is an impaired condition of existence and soundness. From a practical perspective, integrity means an adherence to a moral code.
- “ It means incorruptibility, a state of freedom from corruption, ‘cutting corners’, a quality of being complete or undivided.
- “ Integrity can be seen at two levels i.e. at the personal level and at the organizational level.
- “ At the personal level, integrity refers to the sum of positive qualities or virtues that an individual possesses. Such positive qualities include honesty, trustworthiness, steadfastness and principled behavior.
- “ At the organizational level, it refers to the legality, legitimacy, rationality, completeness and efficiency of objectives, programmes, structures, systems, processes and procedures
- “ A professional accountant should not be associated with reports, returns, communications, or other information where they believe that information may ó
  - Contain a materially false or misleading statement; or
  - Omits or obscures information required to be included where such omission or obscurity would be misleading.

# Cont...



## ✓ **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

É One should avoid relationships that bias or unduly influence ones professional judgement

## ✓ **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 ó 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 and Inform clients and other users of professional services of the limitations inherent in the provision of the services.

## ✓ **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

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## *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 Behavior**

- “ 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. They should comply with the policy on advertising and marketing of professional services.
- “ 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

# Threats to compliance with fundamental principles



“ Circumstances that may threaten compliance with fundamental principles fall in the following broad categories;

- ✓ Self interest;
- ✓ Self review;
- ✓ Advocacy;
- ✓ Familiarity; and
- ✓ Intimidation.

## ✓ **Self Interest threats**

“ 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 ó

- 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

# Cont...



## ✓ **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 Examples:
  - Promoting shares in a listed entity when that entity is a financial statement audit client; or
  - 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 for 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 For example

- Threat of dismissal or replacement in relation 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 it is important to have safeguards. These fall into basic categories;

- ✓ Safeguards created by the profession, legislation or regulations
- ✓ Safeguards in the work environment

## Cont...

- ✓ **Safeguards created by the profession, legislation or regulations**
  - 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.
- “ 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.
- ✓ **Safeguards in the work environment**
  - “ 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.

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- “ 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.



# Ethical Conflict Resolution



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

# Professional Accountants in Public Practice (PAIP)



- ” **PAIP**- An individual working in a firm that provides professional services irrespective of functional professional services irrespective of functional classification e.g tax, audit, or consulting . Also a firm of professional accountants in public practice.
- ” Professional Appointments
- ” Conflicts of Interest
- ” Second Opinions
- ” Fees and Other Types of Remuneration
- ” Marketing Professional Services
- ” Gifts and Hospitality
- ” Custody of Clients Assets
- ” ObjectivityóAll Services

# Professional Accountants in Business (PAIB)



- “ **PAIB** - A professional accountant working for an organisation in an executive or non executive capacity.
- “ Potential Conflicts
- “ Preparation and Reporting of Information
- “ Acting with Sufficient Expertise
- “ Financial Interests
- “ Inducements

# 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 ó steeper penalties
- “ Support to deal with illegal practitioners

