



PROFESSIONAL CODE OF ETHICS FOR ACCOUNTANTS

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Saturday, 11 February 2017

OUTLINE



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What is Ethics?



What is ethics?



In a research by the famous sociologist Raymond Baumhart, the response by business people when asked "What does ethics mean to you?" - the most common answers where;

"Being ethical is doing what the law requires."

"Ethics has to do with my religious beliefs."

"I don't know what the word means."

"Ethics has to do with what my feelings tell me is right or wrong."

"Ethics consists of the standards of behaviour our society accepts."

What is ethics?

- ❑ The following are well accepted definitions of ethics;

“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”

Introduction



- ❖ 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 – 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 this Code of Ethics.

- ❖ 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



The Five Fundamental principles of Ethics

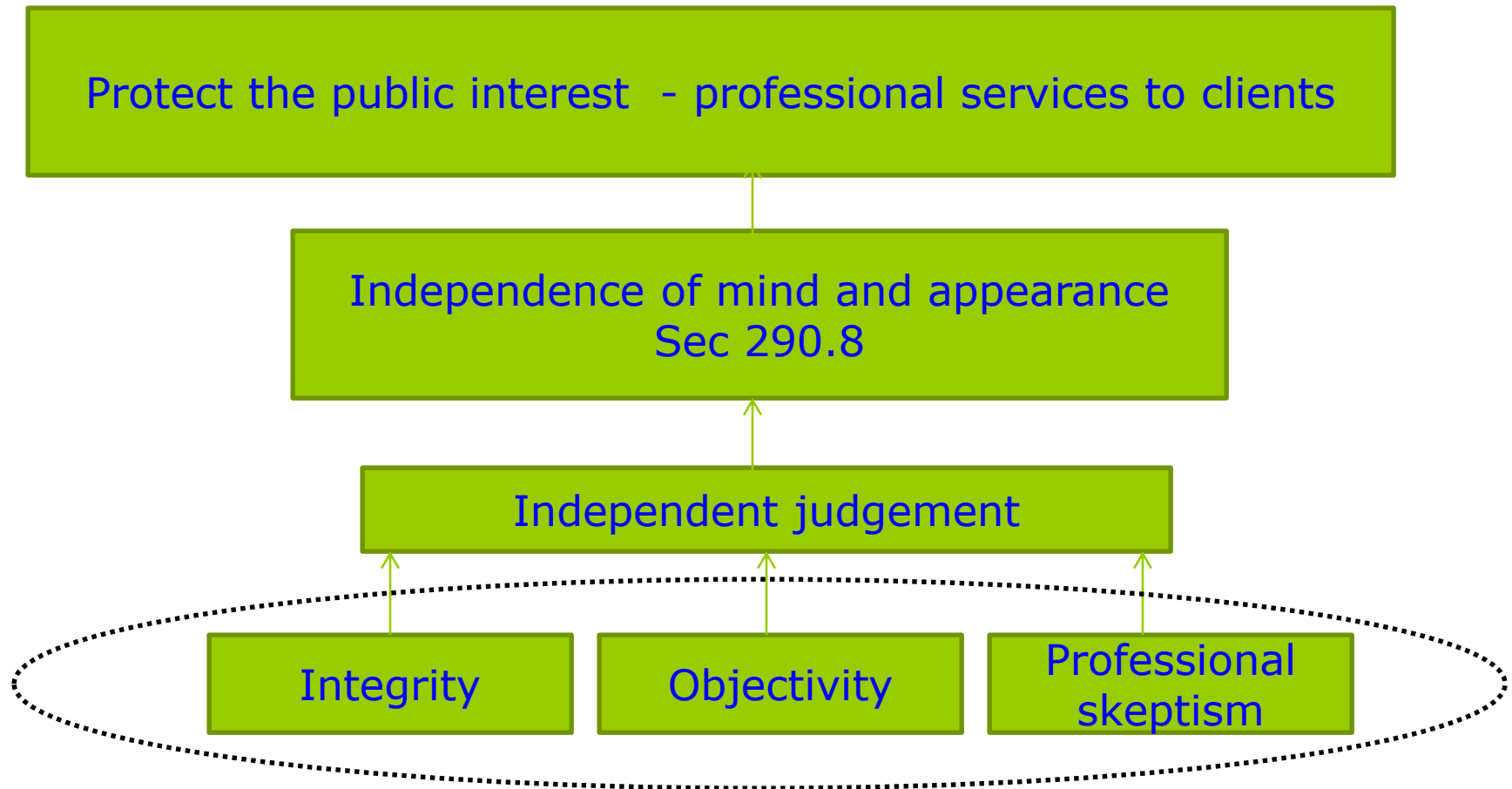


- Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
 - Self-interest threats
 - Self-review threats
 - Advocacy threats
 - Familiarity threats
 - Intimidation threats.

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 the following, either individually or together with others, as part of the resolution process:
 - 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
 - e) Alternative courses of action.

IFAC Code's Framework For Independent Judgment



Independence – Mind and Appearance



290.6 Independence comprises:

- a. Independence of Mind - The state of mind that **permits the expression** of a conclusion **without being affected by influences** that **compromise professional judgment**, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- b. Independence in Appearance - The **avoidance of facts and circumstances** that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

Safeguards reducing the risk of conflict of interest situations



- ❑ Safeguards Created by the Profession, Legislation, or Regulation (*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

Safeguards reducing the risk of conflict of interest situations (continued)



- ❑ 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

Safeguards reducing the risk of conflict of interest situations (continued)



- ❑ Safeguards Within a Professional Accounting Firm's Own Systems and Procedures (*IFAC Code, 200.12*)
 - Leadership stressing importance of independence, and expectation of service/action in the public interest
 - Policies and procedures to implement and monitor control of assurance engagements
 - Documented independence policies regarding the identification and evaluation of threats to independence; applications of safeguards to eliminate or reduce those threats to an acceptable level
 - 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

Materiality when applying safeguards

- ❑ IFAC Code requires more judgement
- ❑ The test on what would be unacceptable:

“.... what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable”.
- ❑ Safeguards must address threats, unless “clearly insignificant” (trivial and inconsequential).
- ❑ Proposed that some specific thresholds be retained

Professional Accountant in Business – 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

Case I

- ❑ You have been appointed the CFO in a listed company based on the fact that you have an financial management experience of fifteen years and is a good friend of the Board Chair, and 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 II



You are a financial controller in a medium sized company.

The financial director asks you to follow an accounting policy for certain types of transactions which is not in accordance with the accounting requirements.

In year 1 these transactions are immaterial.

What do you do?

Case II (continued)

Assume that you did as you were told.

In year 2 these transactions are now material
– what do you now do - have you willingly
approved the accounting treatment – can you
reverse the decision?

Note

1. 'Creeping up' effect – small breaches can lead to greater breaches.
2. Auditor has to be careful – item could be immaterial to begin with.
3. Pay attention to the possible longer-term consequences of current business decisions.

Case III

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. 128 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???

Case IV

- ❑ Am stuck in a quagmire as a finance controller of a mid sized company. The Director's (owner) son wants some official documents from me to use for his own personal reasons behind his dad's back. Professionally speaking; I cannot give them to him even if he means well with the information.
- ❑ What's the best way to this across to him without rubbing shoulders?

Case V

- ❑ You are employed as a Senior accountant in a state corporation. Payment vouchers for a procurement that was done outside the PPOA regulations has been brought to you to process payments and the head of procurement specifically tell you that payment must be processed urgently as the state agency is not ready to sever relations with the supplier, and your boss has confirmed the same.

- ❑ What do you do?

Case VI...

- ❑ As a member of ICPAK, you did not attain the CPD required for the year 2014, hence not in good standing. You decide to obtain a letter from your HR confirming that you attended some training that “was never held” and use the letter to update your CPD...



Once
you've
started it's
like a
runaway
train...

Always remember...

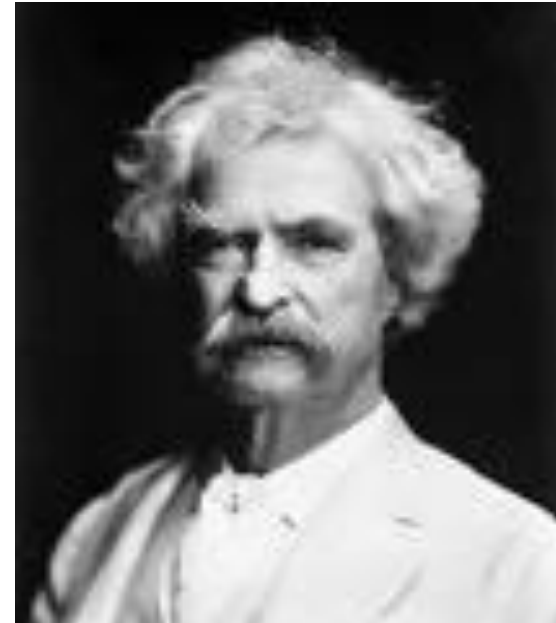
- Courage is the additional key principle/value.
- Isolation - can be a problem for members in business. Less of a problem for members in larger accountancy practices.
- However, to do the right thing applies to all professional accountants.
- Seek internal and external support when required
 - Your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

Ethical Dilemma... real life experiences



Mark Twain on Ethics

"Always do right. This will gratify some people and astonish the rest."



- *“making money by being immoral is short sighted because you’ll soon be found out. Making money by being moral will mean you’ll succeed long term”.*
- *We have been living in an age of short sightedness, we haven’t been looking far enough ahead to make the right decisions.*

THE END

Thank You!

