



Accountants Professional Ethics Forum
The Code of Ethics: An Overview of Professional Ethics

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Great people have great
values and great ethics

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Introduction

- ❑ The definition of ethics is shaped by personal, societal and professional values, all of which are difficult to specify.
- ❑ Some stress the importance of society's interests and others stress the interests of the individual.
- ❑ Is ethics a public or a personal duty?

- ❑ The word 'ethics' is derived from the Greek word 'ethos' (character) and Latin word 'moras' (customs).
- ❑ Taken together these two words define how individuals choose to interact with one another.
- ❑ Thus, ethics is about choices.
- ❑ It signifies how people act in order to make the 'right' choice and produce 'good' behaviour.
- ❑ It demands the acquisition of moral knowledge and the skills to properly apply such knowledge to the problems of daily life.
- ❑ Ethics (or moral philosophy) can be explained as the systematic effort to understand moral concept.
- ❑ It is a system of beliefs that supports a particular view of morality; or a belief of what is right or wrong, good or bad.

What is code of ethics?

- ❑ 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.
- ❑ It provides for a guide for a particular class of individuals e.g. the code of ethics for professional accountants.
- ❑ It plays a key role in the delivery of services.
- ❑ It helps to attract & maintain the public confidence in the profession.
- ❑ It solves the dire need of CPAs with unquestionable ethical profile.

The Need for Professional Ethics

- ❑ The purpose of assurance engagements is to increase the confidence of end users of information by reducing their level of risk.
- ❑ The user needs to trust the professional who is providing the assurance.
- ❑ In order to be trusted the auditor needs to be independent of their clients and be sufficiently competent and diligent to complete their assignments satisfactorily.
- ❑ The last thirty years has witnessed a number of high profile corporate scandals that have had far reaching implications for companies, economies and accountancy firms e.g. Enron and Worldcom.
- ❑ What are some of the corporate scandals in Kenya arising from lack of integrity?
- ❑ To improve the image of the profession and to restore trust between users of accountancy services and the practitioners, it is vital that accountants operate (and are perceived to operate) according to an accepted code of ethics.

A situation or dilemmas that ethics cover include:

- ☐ How to live a good life
- ☐ Our rights and responsibilities
- ☐ The language of right and wrong
- ☐ Moral decision – what is good and bad

PHILOSOPHICAL THEORIES OF ETHICS

I. Utilitarian Theory

- ❑ Ethics should be based on facts about the results of our actions upon human happiness and suffering in the real world
- ❑ Most of us act as if we count for more than others
- ❑ Do what produces the greatest net gain in happiness over unhappiness (the greatest good) for the greatest number of people.
- ❑ Actions are right to the extent that they benefit people.
- ❑ Ethical conduct by accountants based on this theory leads to consideration of all possible consequences of a decision for all parties affected by it.
- ❑ If I issue a clean opinion for a financial statement where there is reason to believe that the financial statement is misstated, the action is according to utilitarianism justifiable if the benefit is greater for most people than the harm.
- ❑ This can be considered one of the weaknesses with utilitarianism as a theory.

2. EGOISM THEORY

- ❑ Love for one-self should be the motivation through which the love for others can be developed.
- ❑ Corporate decisions that serve personal interest are good as long as they have a common good.
- ❑ The decision made by an egoist is based on the consequences for himself and the urge to maximize own self---interest.
- ❑ The question is whether it is possible to be ethical when you are only concerned with your own self-interest.
- ❑ Self-interest is individual and is defined differently from one individual to another.
- ❑ An auditor with financial interest in the company he or she is auditing will be acting out of self---interest by giving a clean opinion when there are possibilities that the opinion should be qualified.
- ❑ This might at the point serve as a good outcome for the client, but what about the other stakeholders?

3. Deontology/ Duty based theory

- ❑ The importance of personal will and intention in the process of decision making.
- ❑ An outcome is good or bad depending on the intention of the person involved.
- ❑ We are morally obliged to act in accordance with a certain set of principles and rules regardless of outcome.
- ❑ Lying is fundamentally wrong, and it is our duty to tell the truth.
- ❑ So even though someone will get hurt, lying is not justifiable according to deontologists.
- ❑ Immanuel Kant said that our primary duty is to only act in those ways in which the maxim of our acts could be made a universal law

4. Virtue Theory

- ❑ It considers what good traits of character a person should possess in order to be a good human being.
- ❑ These traits or virtues that a person should have are courage, moderation, justice and prudence – the cardinal virtues.
- ❑ Other virtues that have been added by Christians later are faith, hope and love.
- ❑ Virtues that make a person do good, is virtues that enables someone to carry out his tasks well.
- ❑ To do so, the person has to both think correctly and carry out well what we thought is correct.
- ❑ For an auditor, it is important to both possess intellectual virtue and virtues of character.
- ❑ In an auditing it is necessary to think correctly, and carry out this thought.
- ❑ The auditing profession requires objectivity, good judgment and impartiality.
- ❑ An auditor should possess the virtues of integrity, justice and courage.

THOUGHT

- ❑ So which ethical theory is suitable for professional accountants?
- ❑ All the ethical theories can be used for guidelines in the field of auditing to identify ethical dilemmas, but all theories have some shortcomings.
- ❑ They however provide insight regarding:
 - ❖ Ethical sensitivity
 - ❖ Ethical judgment
 - ❖ Ethical intention
 - ❖ Ethical action

Practical ethical dilemma

1. Monthly financial targets not likely to be met.
2. Possible manipulation of figures in financial accounts.
3. Pressure from client if an audit report needs to be signed today and there is insufficient information to know whether accounts show a true and fair view.
4. Incomplete records and the client wants you to complete the work.

WHAT IS THE IMPACT OF THESE DILEMMAS?

Code of ethics for professional accountants

1. IFAC code of ethics
 - ✓ *All professional accountants*
 - ✓ *Professional accountants in public practice*
 - ✓ *Associate members*
2. ICPAK Requirements
3. Company Acts requirements
 - ✓ *The role and responsibility of directors on financial reporting*
 - ✓ *Accounting records and financial statements*
4. CMA guidelines on corporate governance

Fundamental Principles for Professional Accountants

I. Integrity

Being straightforward and honest in all professional and business relationships.

It requires:

- ✓ Honesty
- ✓ Trustworthiness
- ✓ Uprightness, correctness, and/or soundness
- ✓ Straightforwardness
- ✓ Adhering to personal, professional, and/or moral values and professional standards.



2. Objectivity

A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other.

3. Professional Competence and Due Care

Duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques.

Requirements

- ☐ *Acting diligently*
- ☐ *Sound judgment*
- ☐ *Continuing professional developments e.g. by attending professional forums (ICPAK forums).*
- ☐ *Acting in accordance with the requirements of the assignment.*
- ☐ *Making clients aware of limitations inherent in the professional services.*

4. Confidentiality

The need to respect the confidentiality of information acquired as a result of professional and business relationships

Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

Exceptions

- ❑ Consent by the client.
- ❑ Requirement by the law e.g. in legal proceedings.
- ❑ Professional Duty to disclose e.g. to comply with quality reviews or respond to an investigation by the professional body.

5. Professional Behaviour

A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Expectations

- ❑ Courtesy and consideration towards all.
- ❑ Avoid exaggerated claims for services they are able to offer.
- ❑ Avoid unsubstantiated comparison to the work of others.
- ❑ Modest marketing of services.

Threats to Compliance with Fundamental Principles

1. Self-interest threats
2. Self-review threats
3. Advocacy threats
4. Familiarity threats
5. Intimidation threats

Safeguards to threats

A. Safeguards created by the profession, legislation or regulation

- ❑ Educational, training and experience requirements for entry into the profession.
- ❑ Continuing professional development requirements.
- ❑ Corporate governance regulations.
- ❑ Professional standards.
- ❑ Professional or regulatory monitoring and disciplinary procedures.
- ❑ External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

B. Safeguards in the work environment

- ❑ Effective leadership of the firm that stresses the importance of compliance with the fundamental principles.
- ❑ Policies and procedures to implement and monitor quality control of engagements.
- ❑ Documented internal policies and procedures requiring compliance with the fundamental principles.
- ❑ Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- ❑ Using different partners and engagement teams with separate reporting lines for the provision of non assurance services to an assurance client.
- ❑ Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement
- ❑ Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff.
- ❑ Appropriate training and education on such policies and procedures.

C. Engagement-specific safeguards in the work environment may include:

- ❑ Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- ❑ Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- ❑ Discussing ethical issues with those charged with governance of the client.
- ❑ Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- ❑ Involving another firm to perform or re-perform part of the engagement.
- ❑ Rotating senior assurance team personnel.

D. Safeguards within the client's systems and procedures.

- ❑ Competent employees with experience and seniority to make managerial decisions.
- ❑ Adequate internal procedures that ensure objective choices in commissioning non assurance engagements.
- ❑ Existence of corporate governance structure that provides appropriate oversight and communications regarding the firm's services e.g. audit committees.

Cost of unethical behavior

- ❑ Conscience-driven costs: Feelings of guilt and remorse at having failed to uphold the ethical standards
- ❑ Society-imposed cost – penalty from three sources.
 - ✓ *Court may impose penalty*
 - ✓ *Breach of professional code of ethics*
 - ✓ *Break of social standard.*
- ❑ Loss of freedom of choice: The loss of freedom of choice in future decision about whether or not to behave unethically.

Professional Accountants in Public Practice (PAIP)

- ❑ It covers individuals working in a firm that provides professional services and firms of professional accountants in public practice.
- ❑ They are required to also observe ethical behaviour in the following areas:
 - ✓ *Professional Appointment*
 - ❖ *Client acceptance – ethical factors*
 - ❖ *Engagement acceptance – competence*
 - ❖ *Changes in professional appointments.*
 - ❖ *Obligations of consultants.*
 - ✓ *Conflicts of Interest*
 - ✓ *Second Opinions*
 - ✓ *Fees and Other Types of Remuneration*
 - ✓ *Marketing Professional Services*
 - ❖ *Advertising and publicity prohibited*
 - ✓ *Gifts and Hospitality*
 - ✓ *Custody of Client Assets*
 - ✓ *Objectivity–All Services*
 - ✓ *Independence in mind and appearance.*

Paradigm shift

People are reason giving and reason demanding beings

Focus on ethical reasoning

Most of us would rather work for a company that does the right thing...most customers would rather do business with a company that does the right thing.

THANK YOU

Q & A

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