

ICPAK CODE OF ETHICS

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What is Ethics -

- i. system of beliefs that supports a particular view of morality.
- i. 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.

NEW DEVELOPMENT SFROM ISB

The International Ethics Standards Board has reviewed the Code of Ethics that was last updated in the year 2005.

The revised Code, which became effective on January 1, 2011, but has been adopted by accounting bodies with amendments with effect from August 1

2009 includes the following changes to strengthen independence requirements:

- Extending the independence requirements for audits of listed entities to all public interest entities;
- Requiring a cooling off period before certain members of the firm can join public interest audit clients in certain specified positions;
- Extending partner rotation requirements to all key audit partners;

NEW DEVELOPMENTS FROM ISB

- Strengthening some of the provisions related to the provision of non-assurance services to audit clients;
- Requiring a pre- or post-issuance review if total fees from a public interest audit client exceed 15% of the total fees of the firm for two consecutive years; and
- Prohibiting key audit partners from being evaluated on or compensated for selling non-assurance services to their audit clients.
- The revised Code maintains the principles-based approach supplemented by detailed requirements where necessary, resulting in a Code that is robust but also sufficiently flexible to address the wide-ranging circumstances encountered by professional accountants

Part A of the code: Introduction

- 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.

Part A of the code: Introduction

- Professional Accountant is an individual who is a member of an IFAC member body.
- The individual could be working for an organization in an executive or non-executive position in which case he is referred to as a Professional Accountant in business (PAIB) or he could be a partner or sole practitioner in a firm that provides professional services irrespective of functional classification (e.g., audit, tax or consulting) (PAPP)
- 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.

Part A of the code: Introduction

- In some jurisdictions a legal frame work such as The Accountants Act Provisions on what constitutes professional misconduct is part of the code and should be observed as indicated.

Unethical conduct includes;

- Professional misconduct which is conduct that amounts to a disciplinary offence
- Unprofessional conduct which does not amount to a disciplinary offence but can be considered reprehensible e.g. issuing a bouncing cheque.
- Breach of etiquette which is a breach of professional good manners e.g. sending a letter of professional clearance or failing to respond to one.

Fundamental Principles

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional Behaviour

The framework must be applied to assess threats to these principles and apply safeguards.

Integrity

- A professional accountant should be straightforward and honest in professional and business relationships.
- Implies fair dealing and truthfulness.
- Professional accountant should not be associated with reports, returns, communications or other information where they believe that the information;
 - > Contains a materially false or misleading statement;
 - > Contains statements or information furnished recklessly; or
 - > Omits or obscures information required to be included where such omission or obscurity would be misleading.

Objectivity

Professional accountants should not compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others

Professional Competence and due care

- Professional accountants have an obligation;
- to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service (through CPE, in-house training e.t.c)
- To act diligently in accordance with applicable technical and professional standards when providing professional services. (careful, thorough and timely professional service)
- Make clients and other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

Confidentiality

Professional accountants have an obligation to refrain from:

>disclosing outside the firm confidential information acquired as a result of professional and business relationships without proper and specific authority unless there is a legal or professional right or duty to disclose; and

>Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

Professional Behaviour

A professional accountant should comply with relevant laws and regulations and avoid any action that may bring discredit to the profession.

In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. In particular they should not:

- > Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or belittle their colleagues

- > Make disparaging references or unsubstantiated comparisons to the work of others.

Threats to code of ethics

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

Self-Interest threats

Examples that apply to professional accountants in public practice:

- Financial interests in a client or jointly holding a financial interest with a client
- Undue dependence on total fees from a client
- Concern about the possibility of losing a client
- Potential employment with a client
- Loan to or from an assurance client.

Self-review Threats

Examples:

- Discovery of a significant error during a re-evaluation of the work of the professional accountant in public practice
- Reporting on the operation of financial systems after being involved in their design or implementation
- Having prepared the original data used to generate records that are the subject matter of the engagement
- A member of the audit team being or having recently been a director

Advocacy Threats

Example

- 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

Examples of circumstances that may create familiarity threats include, but are not limited to:

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client
- Member of engagement team 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
- A former partner of the firm being a director or officer of the client or an employee In a position to exert direct and significant influence over the subject matter of the engagement.
- Long association of senior personnel with the assurance client
- Acceptance of a gift or preferential treatment from client, unless the value is clearly

Intimidation Threats

Examples of circumstances that may create intimidation threats include, but are not limited to:

- 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 the above threats

Safeguards that may eliminate or reduce to an acceptable level the threats faced by PAPPs fall into two broad categories:

- Safeguards created by the profession, legislation or regulation; and
- Safeguards in the work environment

Safeguards in the work environment

These include, but are not restricted to:

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

Safeguards in the work environment

- 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.
- For firms that perform assurance engagements, documented policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the evaluation and 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.

Safeguards in the work environment

- 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, and appropriate training and education on such policies and procedures

Safeguards in the work environment

- Designate a member of senior management to be responsible for overseeing the adequate functioning of the firms quality control system
- Advising partners and professional staff of those assurance clients and related entities from which they must be independent.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principals that concerns them

Engagement-specific Safeguards

- Involving an additional professional accountant to review work done
- Consulting an independent third party e.g. professional institute or another member
- Discussing ethical issues with those charged with governance of client
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Rotating senior assurance team personnel

PROFESSIONAL APPOINTMENT

- PAPP who is asked to replace another or who is considering tendering for an engagement currently held by another should determine whether there are any reasons professional or other for not accepting the engagement
- The significance of the threats should be evaluated and where this requires direct communication with the existing accountant, the consent of the client should be obtained.
- In the absence of specific instructions by client, an existing accountant should not ordinarily volunteer information about client affairs
- A PAPP who is asked to undertake work that is complementary or additional to the work of the existing accountant should notify existing accountant of the proposed work

Conflicts of Interest

- A PAPP should take reasonable steps to identify circumstances that could pose a conflict of interest e.g. competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client.

Safeguards should ordinarily include:

- Notifying client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances.
- Notifying all relevant parties that the PAPP is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or >Notifying the client that the PAPP does not act exclusively for any one client in the provision of proposed services (e.g. in a particular market sector) and obtaining their consent to so act.

Conflicts of Interest

Additional safeguards

- > Use of separate engagement teams
 - > Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing)
 - > Clear guidelines for members of the engagement team on issues of security and confidentiality
 - > Use of confidentiality agreements signed by employees and partners of the firm; and
 - > Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- > Where conflict of interest poses a threat to one or more of the fundamental principles, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the PABB should decline the engagement or resign from one or more of the conflicting engagements as required.

Second opinions

- Situations where a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may give rise to threats to compliance with the fundamental principles.
- There may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence.
- Safeguards may include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.

Fees and other types of Remuneration

- A self interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
- Contingent fees which are widely used for certain types of non-assurance engagements may give rise to a self-interest threat to objectivity .
- Safeguards against this these threats may include;
 - > an advance written agreement with the client as to the basis of remuneration
- > Disclosure to intended users of the work performed by the PAPP and the basis of remuneration
- Quality control policies and procedures
 - > Review by an objective third party of the work performed by PAPP.

Conclusion



- 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.

Conclusion



- 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.

END



THANK YOU