

ETHICS AND GOVERNANCE FOR AUDITORS

Presentation by:

Catherine Muema
Senior Officer Compliance and Standards ICPAK
Friday, 24th March 2017

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



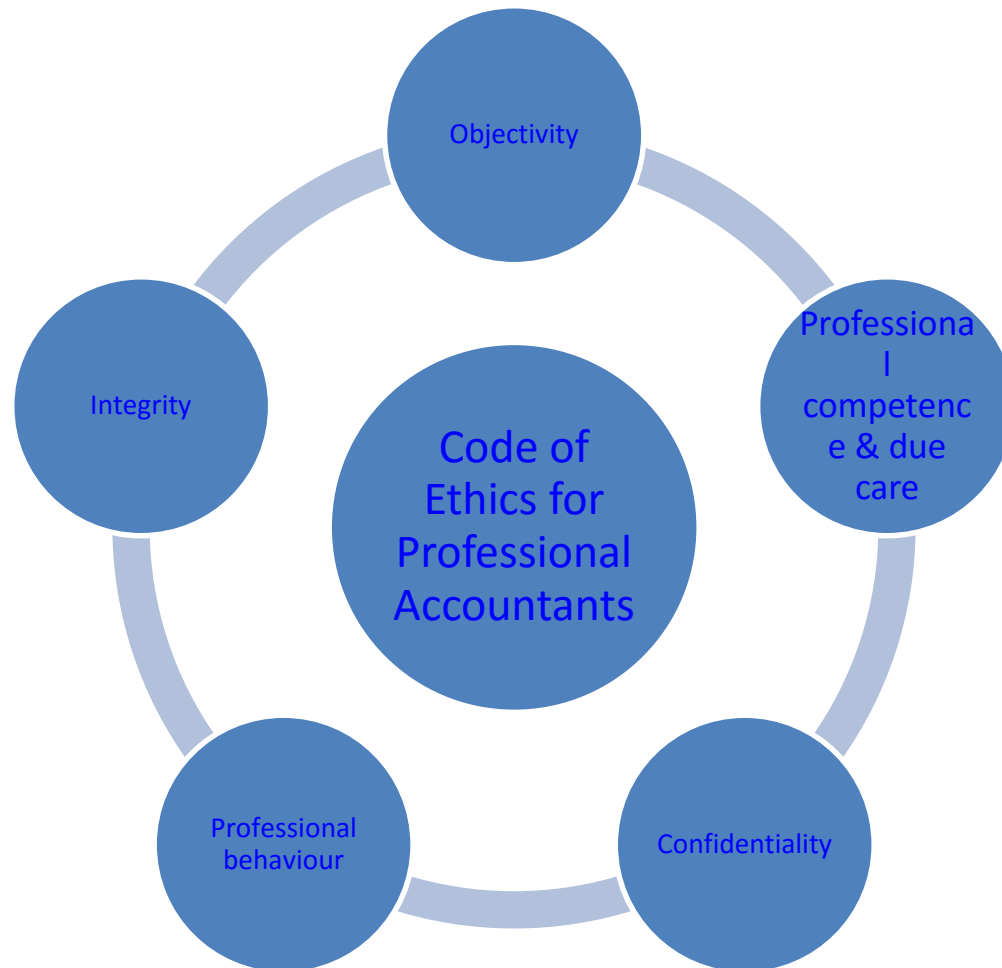
- ❖ ICPAK code of ethics for professional accountants is based on the IESBA *Code of Ethics for Professional Accountants*
- ❖ The code establishes ethical requirements for professional accountants.
- ❖ A member body of IFAC or firm shall **not apply less stringent standards than** those stated in this 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.

The Five Fundamental principles of Ethics



Fundamental Principles of Ethics

- *Integrity*

A professional accountant should be straightforward and honest in all professional and business relationships.

- *Objectivity*

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

Fundamental Principles of Ethics

- *Professional Competence and Due Care*

Professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

Fundamental Principles of Ethics

- *Confidentiality*

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties

Fundamental Principles of Ethics

- *e) Professional Behaviour*

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

- A professional accountant has an obligation to evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.

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.

- Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family* member e.g. A close personal relationship btwn a member of the audit team and an employee of firm, gifts
- Self-review threats, which may occur when a previous judgment needs to be reevaluated by the accountant responsible for that judgment

- Advocacy threats, may occur when an accountant promotes a position or opinion to the point that subsequent objectivity may be compromised. Occurs when the auditor is being asked to promote or represent their client in some way
- Familiarity threats, which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others

- Intimidation threats, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived i.e. Giving physical threats to the auditor's family, holding audit fee or compensation for other work conducted

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.

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



- Safeguards Within a Client (*IFAC Code, 200.15*)
 - Appointment of auditors ratified/approved by 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

Independence of the Auditor

- A professional accountant in public practice who provides an assurance service is required to be independent of the assurance client. Independence of mind and in appearance is necessary to enable the professional accountant in public practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest or undue influence of others.

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.

Conflicts of Interest



- A professional accountant in public practice should take reasonable steps to identify circumstances that could pose a conflict of interest
- An accountant in public practice should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether there exists any business interests, or relationships with the client or a third party that could give rise to threats.



If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.

The Accountant/Auditor should notify the client and any relevant parties of the possible conflict in interest

Conflict of interest safe guards



The following additional safeguards should also be considered:

- The 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

Conflict of interest safe guards

- The use of confidentiality agreements signed by employees and partners of the firm
- Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

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



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?

Case III

- You are an audit firm and one of your clients is a bank .The bank offers you a good rate on loans for your staff which is lower than the normal rate.Is there a threat or conflict of interest

- An audit firm or principal should not receive any loan from a client because the perceived self interest threat arising in such circumstance is generally seen to be too great to be offset by any safeguard

Case IV

- Your audit firm audits company ABC Ltd and at the same time assists in book keeping or tax filing.

What safeguards do you put in place?

Case V

- Your sister is the Finance Director in company PALE Ltd and requests you as the audit partner to audit her company. Is there a possible threat ?

Case VI

- You are an employee of Sifa Ltd but on part time basis you are a registered practising member. Your employer approaches you to become the company auditor of Sifa Ltd

THE END

Thank You!

