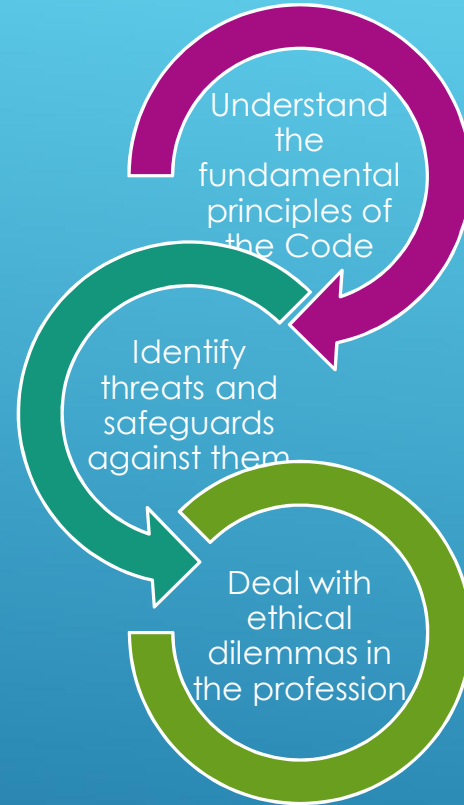


CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

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Friday 9th March 2018



KEY LEARNING POINTS



► What makes humans unique or different from the rest of evolution / creation?

❖ SPECIALIZATION

❖ OPEN MINDED

INTRODUCTION



ETHICS & HUMANITY

- ❖ The ability to adopt an ethical point of view presupposes typically human capacities:
- ❖ – Reflective (higher) self-consciousness
- ❖ – Abstract (as opposed to instrumental) rationality
- ❖ – Symbolic language



Opinions about ethics

- ❖ I am an ***ethical person.***
- ❖ I work for an ***ethical organisation.***
- ❖ I live in an ***ethical country.***

ETHICAL ASSERTIONS

Ethics can be defined broadly as a set of moral principles

The moral principles that govern a person's behaviour or the conducting of an activity

Each one of us has such a set of values. We may or may not have considered them explicitly

ETHICS DEFINED

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

INTRODUCTION CONT'D

- ❖ 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.

INTRODUCTION CONT'D

- ❖ This 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. **Part B** applies to professional accountants in public practice. **Part C** applies to professional accountants in business.

CODE OF ETHICS



FUNDAMENTAL PRINCIPLES

Integrity

- ❖ A professional accountant should be straightforward and honest in all professional and business relationships.
- ❖ A 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.
 - ✓ The principle of integrity imposes an obligation on all professional accountant to be straight and honest in performing professional services. it also implies fair dealing and truthfulness.

Objectivity

- ❖ A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- ❖ Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.
- ❖ The principles imposes on all professional or business judgment because of bias, conflict or undue influence of others.

FUNDAMENTAL PRINCIPLES

Professional Competence and Due Care

- ❖ The principle of professional competence and due care imposes the following obligations on professional accountants:
 - ✓ To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service;
 - ✓ To act diligently in accordance with applicable technical and professional standards when providing professional services.
- ❖ Continuing professional development develops and maintains the capabilities that enable a professional accountant to perform competently.
- ❖ A professional accountant should take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.
- ❖ Where appropriate, a professional accountant should make clients, employers or 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

- ❖ The principle of confidentiality imposes an obligation on professional accountants to refrain from:
 - ✓ Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or 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.
- ❖ A professional accountant should take all reasonable steps to ensure that staff under the professional accountant's control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
- ❖ The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer.

FUNDAMENTAL PRINCIPLES

Confidentiality Disclosure

- ❖ The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:
 - ✓ Disclosure is permitted by law and is authorized by the client or the employer;
 - ✓ Disclosure is required by law, for example:
 - ✓ There is a professional duty or right to disclose, when not prohibited by law.
- ❖ In deciding whether to disclose confidential information, professional accountants should consider the following points:
 - ✓ Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;
 - ✓ Whether all the relevant information is known and substantiated, to the extent it is practicable;
 - ✓ The type of communication that is expected and to whom it is addressed.

Professional Behaviour

- ❖ The principle of professional behaviour imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession.
- ❖ This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession.
- ❖ In marketing and promoting themselves and their work, professional accountants should not bring the profession into disrepute. Professional accountants should be honest and truthful and should not:
 - ✓ Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
 - ✓ Make disparaging references or unsubstantiated comparisons to the work of others.

FUNDAMENTAL PRINCIPLES

- ❖ A conceptual framework requires a professional accountant to identify, evaluate and address threats to compliance with fundamental principles, rather than mere comply with a set of specific rules which may be arbitrary.
- ❖ If threats to ethics are not clearly insignificant, a professional accountant should apply safeguards to eliminate the threats or reduce them to an acceptable level.

IFAC CODE CONCEPTUAL FRAMEWORK



IDENTIFICATION OF POTENTIAL THREATS TO AUDITORS INDEPENDENCE

- ❖ 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**, which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member;
- ❖ **Self-review threats**, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;
- ❖ **Advocacy threats**, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;
- ❖ **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.

THREATS

- ❖ When initiating either a formal or informal conflict resolution process, a professional accountant should consider the following:
 - ✓ Relevant facts;
 - ✓ Ethical issues involved;
 - ✓ Fundamental principles related to the matter in question;
 - ✓ Established internal procedures; and
 - ✓ Alternative courses of action.
- ❖ Where a matter involves a conflict with, or within, an organization, a professional accountant should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.
- ❖ If a significant conflict cannot be resolved, a professional accountant may wish to obtain professional advice from the relevant professional body or legal advisors.
- ❖ If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant should, where possible, refuse to remain associated with the matter creating the conflict.

ETHICAL CONFLICT RESOLUTION

290.6 Independence comprises:

- ❖ 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.
- ❖ 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.

INDEPENDENCE – MIND AND APPEARANCE

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

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

SAFEGUARDS REDUCING THE RISK OF CONFLICT OF INTEREST SITUATIONS (CONTINUED)

- ❖ IFAC Code requires more judgment
- ❖ 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

MATERIALITY WHEN APPLYING SAFEGUARDS

Raymond Mok (CPA) is the principal of Mok and Associates, an investment advisory firm. Raymond has been advising clients to invest in Georgian Investments for the last fifteen years. The relationship between Raymond and the Fund Manager (Michelle Chee) at Georgian had always worked well for both of them. Raymond put lots of his “mum and dad” investors looking for that little bit more from their investment the Michelle’s way, and Michelle’s rewarded Raymond with “higher than market” commissions. In fact Raymond and Michelle, old university friends have shares in two race horses. Raymond has always enjoyed gambling on the horses. He’s lost a bit more than usual lately, mostly on his own horses and currently has debts of \$500,000. He has managed to hide this information from his wife.

For some time now Raymond has tried to ignore his increasing unease about the general investment climate with the worldwide problems affecting the finance industry. This unease has become more intense since he has given his approval to so many of his long term clients to invest all their savings in Georgian Investments. Michelle has always been quick to point out that they’re a very safe investment. She assures him that if Georgian were in trouble, they would have collapsed by now. Raymond has been a bit casual about verifying this but has no reason not to believe Michelle. Georgian Investments have an aggressive TV and newspaper advertising campaign and an acceptable credit rating (although he knows that this is not an independent credit rating).

CASE 1

Thanks for listening

Q & A

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