

Annual Practical Ethical Forum



Topic : Threats Facing Accountants

Theme : “Are Accountants ethically aware?”

Venue : Hilton Hotel, Nairobi

Date : 24 October 2019

Outline: Threats Facing Accountants



- i. Who is an accountant(Finance Act 2018)?
- ii. International Code of Ethics for Professional Accountants: Fundamental principles.
- iii. Threats
- iv. Applying the conceptual framework
- v. Exercise of Professional Judgement
- vi. Reasonable and informed third party
- vii. Understanding Threats Facing Accountants
- viii. Identifying threats
- ix. Evaluating Threats
- x. Addressing Threats
- xi. Developments in ethical practice in Kenya
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Who is an accountant(Finance Act 2018)?



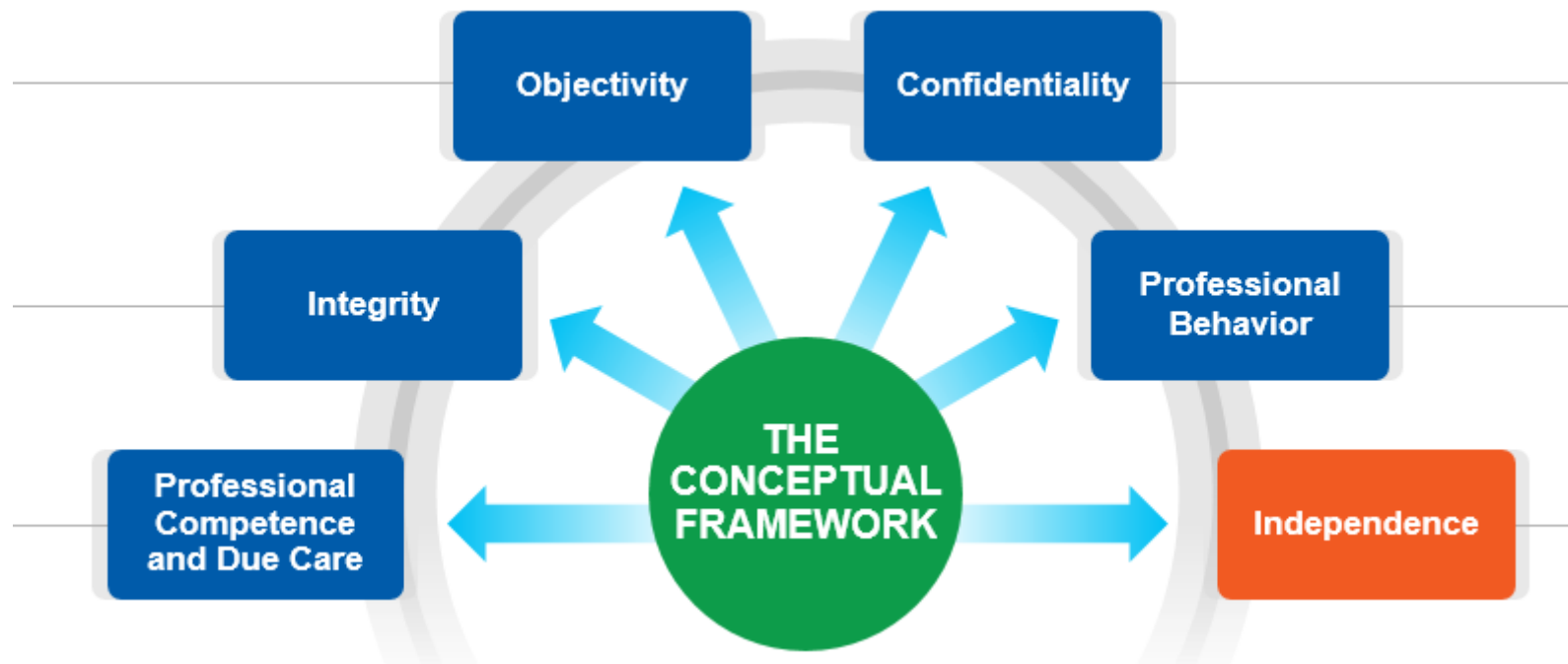
“accountant” is a person registered as an accountant under Section 24 of this Act and is a member as defined in section 4 (2) (a) and (b) with expertise achieved through formal education and practical experience, and shall be held to a high professional standard in respect to—

- (a) demonstrating and **maintaining competence** in accountancy in line with International Accounting standards;
- (b) **compliance with the Institute's code of ethics**;
- (c) maintaining **good standing** status; and
- (d) subject to **enforcement of the rules and regulations** of the Institute;

Vetting of Accountants and Procurement officers



International Code of Ethics for Professional Accountants: Fundamental principles.



Threats affecting non-compliance Fundamental Principles



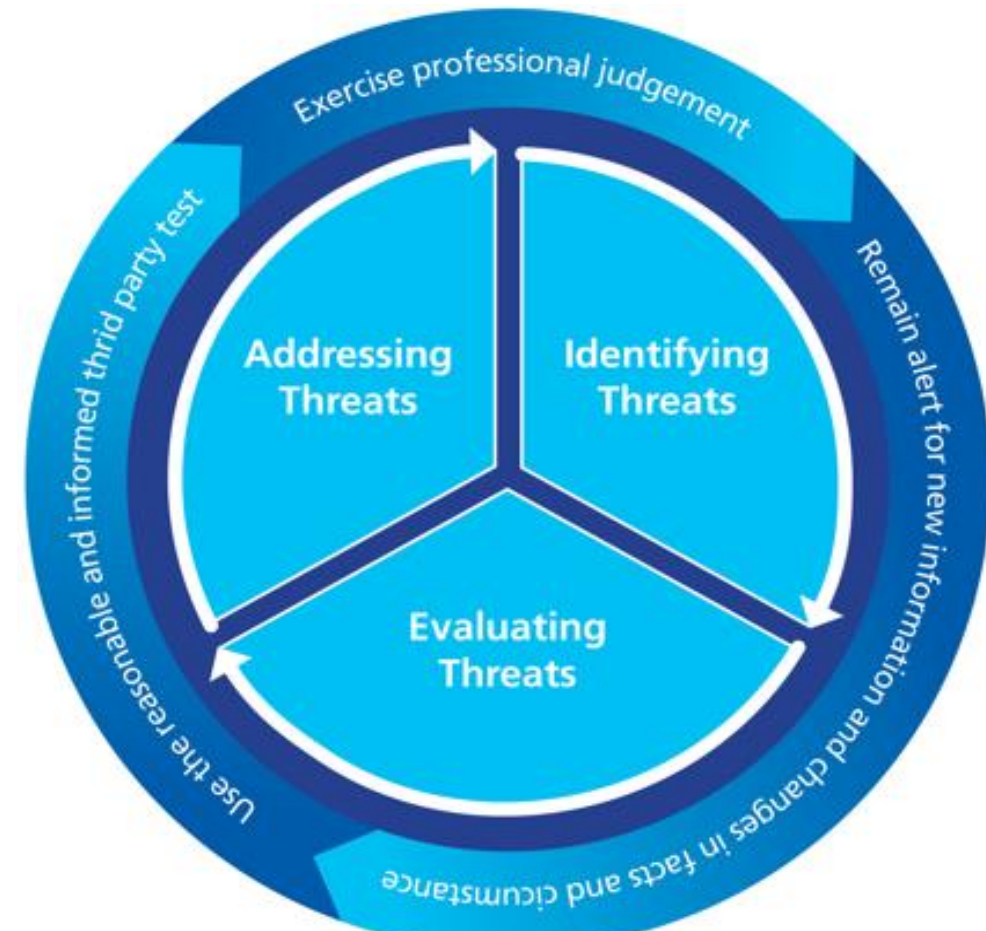
- Pursuing Personal interest
- Lack of internal controls
- Inducement through Gifts, full paid trips
- Collusion
- None compliance to the legal framework
- Lack of policy guidelines
- Stand alone systems
- Violation of rules and regulations

Applying the conceptual framework



When applying the conceptual framework, the professional accountant shall:

- Exercise professional judgment;
- Remain alert for new information and to changes in facts and circumstances; and
- Use the reasonable and informed third party test



Exercise of Professional Judgement



Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.

In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The information provides a reasonable basis on which to reach a conclusion.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.
- There might be other reasonable conclusions that could be reached from the available information.

Reasonable and informed third party



In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

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Understanding Threats Facing Accountants



- The circumstances in which accountants operate might create threats to compliance with the fundamental principles.
- the international code of ethics for professional accountants sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest.

Such requirements and application material accommodate the wide range of facts and circumstances, including:

- the various professional activities,
- interests and relationships that create threats to compliance with the fundamental principles.
- In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

Understanding Threats Facing Accountants(Continuation)



The conceptual framework specifies an approach for a professional accountant to:

- Identify threats to compliance with the fundamental principles;
- Evaluate the threats identified; and
- Address the threats by eliminating or reducing them to -an acceptable level.
- The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles

Identifying threats



The professional accountant shall identify threats to compliance with the fundamental principles.

Threats to compliance with the fundamental principles fall into one or more of the following categories:

- **Self-interest threat** - the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior;
- **Self-review threat** - the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
- **Advocacy threat** - the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;
- **Familiarity threat** - the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
- **Intimidation threat** - the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats



An **acceptable level** is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Factors relevant in evaluating the level of threats

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures

Evaluating Threats: (continuation)

Consideration of new information or changes in facts and circumstances



If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- Impact the level of a threat; or
- Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.
- If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat.

Addressing Threats



- If the professional accountant determines that the identified threats to compliance with the fundamental principles are **not at an acceptable level**, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:
- Eliminating the circumstances, including interests or relationships, that are creating the threats;
- Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- Declining or ending the specific professional activity

Addressing Threats: Action to eliminate threats



Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat.

However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level

Addressing Threats: Consideration of significant judgements made and overall conclusions



The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- Review any significant judgments made or conclusions reached; and
- Use the reasonable and informed third party test.

Developments in ethical practice in Kenya(mitigation of the threats)



- code of ethics for Professional bodies
- Fire Awards
- The code of governance for State corporations (Mwongozo)
- Champions of Governance Award(COG)
- Stewards Code for Institutional Investors,2017
- The code of corporate governance practices for issuers of securities to the public 2015
- Constitutive laws
- Governance Audits
- Formulation of relevant policies
- Developments of code of conduct for staff and board of directors
- Implementation of a whistle blowing policy
- Heavy fines for those involved in corruption cases

What is our role as accountants in enhancing ethical practice ?



Do you think Corruption is a threat to the accountancy profession?

Let us join hands in upholding public Interest

Thank you

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