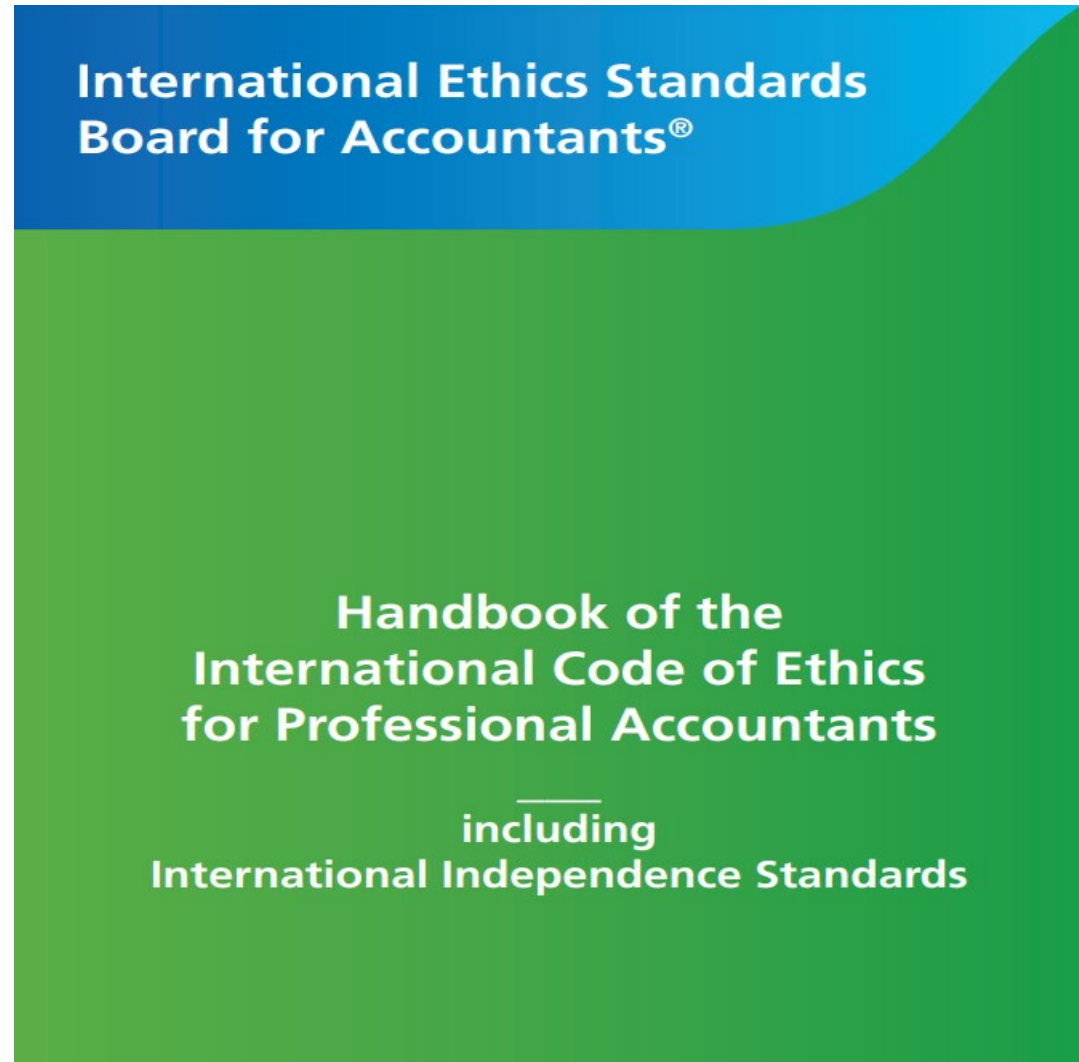


International Professional Ethics

Presented to AGA Centennial Chapter
April 24 & 25, 2003
by

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Code of Ethics for Professional Accountants



IESBA

- The International Ethics Standards Board for Accountants (IESBA) is an international global standards board whose mission is to serve the public interest by setting ethical standards. Its board members are appointed by the Public Interest Oversight Board.
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IESBA

- The Board has 18 members appointed by the Public Interest Oversight Board. It is chaired by Gabriela Figueiredos Dias, Portugal. The Vice Chair is Laurie Endsley, a PwC partner, USA. There are 3 other Americans and there are representatives from South Africa, UK, Brazil, India, Korea, Lebanon, France, Kenya, Rwanda, Italy, Germany, Australia, and China.
- Two Board members (USA and Korea) are associated with EY. One of the USA representatives is associated with the AICPA.



Organization—1 of 2

- ❑ Part 1—Organization of the International Code of Ethics for Professional Accountants
- ❑ Principles and Framework applicable to all professional accountants
- ❑ Part 2—Professional Accountants in Business
 - Commerce, industry or service
 - Public Sector
 - Education
 - NFP Sector
 - Regulatory or professional bodies

Organization—2 of 2

- ❑ Part 3—Professional Accountants in Public Practice
- ❑ Part 4--International Independence Standards
 - 4A—Independence for Audit and Review
 - 4B—Independence for Assurance Engagements Other than Audit and Review
- ❑ Glossary

Overview of the Code

Principles and Framework applicable to all accountants

Additional material
applicable to accountants
in Business

Additional material
applicable to accountants in
public practice

- Independence standards for accountants in public practice

Glossary

Organization of the Handbook

- The handbook presents an introduction to a topic. This is followed by a set of requirements (identified with an “R”) and some application material (identified with an “A”).

Part 1—Complying with the Code, Fundamental Principles, and Conceptual Framework

Remember this part applies to ALL professional accountants

Part 1

- ❑ Table of Contents—Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework
 - 100—Complying with the Code
 - 110—Fundamental Principles
 - 111—Integrity
 - 112—Objectivity
 - 113—Professional Competence and Due Care
 - 114—Confidentiality
 - 115—Professional Behavior
 - 120—Conceptual Framework (although there are no sub-categories, this is a very important part of the standards)

Section 100

□ 100—Complying with the Code

- A distinguishing mark of the accountancy profession is its acceptance of its responsibility to act in the public interest
- Accountants are required to comply with the Code.
Compliance means not just compliance with the letter of the law but with the spirit of the law.

Section 111

□ 111—Integrity

- Integrity means being straightforward and honest in all business relationships
- A professional accountant shall not knowingly be associated with reports, returns, communications, or other information he/she believes to contain a materially false or misleading statement, contains statements provided recklessly, or omits/obscures required information

Section 112

- 112—Objectivity requires an accountant to exercise business or professional judgements without being compromised by bias, conflict of interest, or undue influence

Section 113 1 of 2

□113—Professional Competence and Due Care

➤ Professional competence and due care requires an accountant to:

- Attain and maintain professional knowledge and skills at a level to ensure the client or employer is provide competent professional services based on current technical and professional standards, and knowledge of current legislation.

Section 113 2 of 2

□113—Professional Competence and Due Care

➤ Professional competence and due care requires an accountant to:

- This standard requires that a professional accountant ensure that those working in a professional capacity under his/her authority have appropriate training and supervision.
- This standard also requires that the professional accountant make the client/employer aware of the limitations inherent in the services of activities.

Section 114 1 of 2

□ 114—Confidentiality

- Confidentiality requires an accountant to respect the confidentiality of information acquired as a result of business or professional relationships.
 - This standard imposes a requirement that the professional accountant take steps to ensure that those working under his/her authority also maintain the confidential nature of the information acquired.

Section 114 2 of 2

□114—Confidentiality

- Confidentiality applies to prospective, current, or former clients/employers.
- The standard has exceptions (similar to existing exceptions in the AICPA and Idaho Codes) for legal requirements and for professional bodies for quality reviews.

Section 115 1 of 2

□115—Professional Behavior

- A professional accountant shall comply with the principles of professional behavior which require an accountant to:
 - Comply with relevant laws and regulations
 - Behave in a manner consistent with the public interest
 - Avoid any conduct that might discredit the profession.

Section 115 2 of 2

□115—Professional Behavior

- A professional accountant should not engage in any business, occupation, or activity that might impair the integrity, objectivity, or good reputation of the profession.
- When undertaking marketing or promotional activities an accountant should not engage in excessive or exaggerated claims, make unsubstantiated comparisons to the work of others.

Section 120 1 of 8

□120—Conceptual Framework

- This section sets out requirements (and application material) to assist accountants in complying with the fundamental principles.
- The conceptual framework specifies an approach for a professional accountant to:
 - Identify threats to compliances
 - Evaluate the threats identified
 - Address the threats by eliminating or reducing them to an acceptable level

Section 120 2 of 8

□120—Conceptual Framework

- (R120.3) The accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the principles
- (R120.4) The accountant shall identify the context in which the threat has arisen
- (R120.5) When applying the conceptual framework, the accountant shall have an inquiring mind, exercise professional judgment, and use the reasonable and informed third-party test (consider whether a reasonable third-party would reach the same conclusion.)
- (R120.6) The professional accountant shall identify threats to compliance with the fundamental principles

Section 120 3 of 8

□120—Conceptual Framework

- (R120.7) When the accountant has identified a threat, he/she shall consider whether the threat is at an acceptable level.
- (R120.8) The accountant should consider both qualitative and quantitative factors and the combination of multiple threats
- (R120.9) If the accountant becomes aware of new information or changes in facts that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant should re-evaluate and address the threat accordingly
- (R120.10) If the accountant determines that the threats to compliance are not at an acceptable level, the accountant should address the threats by eliminating them or reducing them to an acceptable level.

Section 120 4 of 8

□120—Conceptual Framework

- (R120.11) Ultimately the accountant should form an overall conclusion about whether the intended actions will eliminate the threat or reduce it to an acceptable level using the third-party test.
- Threats to independence for professional accountants when performing audits, reviews or assurance services are addressed in the International Independence Standards. The professional accountant performing such services should comply with these standards.

Section 120 5 of 10

□ 120—Conceptual Framework

➤ (120.6 A3) Threats to compliance fall into one or more of the following categories:

- Self-interest
- Self-review
- Advocacy
- Familiarity
- Intimidation

Section 120 6 of 10

□ 120—Conceptual Framework

- Self-interest is the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behavior

Section 120 7 of 10

□120—Conceptual Framework

- Self-review is 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 employing organization, on which the accountant will rely when forming a judgment as par of performing a previous activity

Section 120 8 of 10

□120—Conceptual Framework

- Advocacy is the threat that a professional accountant will promote an employing organization's position to the point that the accountant's objectivity is compromised.

Section 120 9 of 10

□120—Conceptual Framework

- Familiarity is 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.

Section 120 10 of 10

□120—Conceptual Framework

- Intimidation is 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.

Section 120

□ 120—Acceptable level

- When the accountant identifies a threat to compliance, the accountant should evaluate whether such a threat is at an acceptable level
- 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 (the small test).

Section 120

□120—Addressing threats

- When the professional accountant identifies that the identified threat(s) is(are) not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level by
 - Eliminating the circumstances creating the threat or
 - Applying safeguards to reduce the threat
 - Decline or end the professional activity

Section 120 Bias 1 of 2

□ 120 (120.12 A1)—Bias

- Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with fundamental principles.

Section 120 Bias 2 of 2

- ❑ 120 (120.12 A1)—Bias
 - Types of bias include
 - Anchoring bias
 - Automation bias
 - Availability bias
 - Confirmation bias
 - Groupthink
 - Overconfidence bias
 - Representation bias
 - Selective perception

Part 2—Professional Accountants in Business

I chose to focus on this Part because most of us are covered by this Part. I realize there are some auditors (both government and public) but the biggest majority of us are employed in the public sector but not as auditors who are required to be independent. My apologies to those who are required to be independent.

Section 200

❑ Section 200—Introduction

- This part of the Code sets out the requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120.
- Professional accountants are permitted to further the legitimate goals and objectives and interests of their employing organization so long as any statements made are neither false nor misleading

Section 210 1 of 2

❑ Section 210—Conflicts of interest

- A conflict of interest creates a threat to compliance with the principle of objectivity
- (R210.4) A professional accountant shall not let a conflict of interest compromise his/her professional or business judgment

Section 210 2 of 2

❑ Section 210—Conflicts of interest

- (R210.5) A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest including steps to identify the nature of relevant interests and the activity for relevant parties.
- (R210.6) The accountant must remain aware of changes over time in the nature of the activities, interests, and relationships that might create a conflict of interest

Section 220 1 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - Preparing or presenting information might create a self-interest, intimidation, or other threat to compliance.

Section 220 2 of 9

❑ Section 220—Preparation and Presentation of Information

➤ (R220.4) When preparing or presenting information, an accountant shall

- Prepare or present the information in accordance with a relevant reporting framework
- Prepare or present the information in a manner that is intended neither to mislead nor to influence outcomes inappropriately

Section 220 3 of 9

❑ Section 220—Preparation and Presentation of Information

➤ Exercise professional judgement to

- Present the fact accurately
- Describe clearly the nature of business transactions
- Classify and record information in a timely and proper manner.

Section 220 4 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.4) When preparing or presenting information, an accountant shall
 - Not omit anything with the intention of rendering the information misleading
 - Avoid undue influence of, or undue reliance on, individuals, organizations, or technology
 - Be aware of the risks of bias

Section 220 5 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.5) Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not use discretion with the intention of misleading users.

Section 220 6 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.6) When performing professional activities, the accountant shall exercise professional judgment to identify and consider:
 - The purpose for which the information is to be used
 - The context within which it is given and
 - The audience to whom it is addressed

Section 220 7 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.7) Even when relying on the work of others, the professional accountant must exercise professional judgment to ensure that the information is presented fairly.

Section 220 8 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.8) When the professional accountant knows or has reason to believe that the information with which he/she is associated is misleading, the accountant shall take appropriate action to resolve the matter.

Section 220 9 of 9

- ❑ Section 220—Preparation and Presentation of Information
 - (R220.9) If, after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe the information is still misleading, the accountant shall refuse to be associated with the information.
- ❑ A professional accountant should thoroughly document any cases involving association with misleading information/

Section 230 1 of 2

- ❑ Section 230—Acting without Sufficient Expertise
 - Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care.
 - (R230.3) A professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

Section 230 2 of 2

- ❑ Section 230—Acting with Sufficient Expertise
 - If a threat to compliance cannot be addressed, a professional account shall determine whether to decline to perform the duties in question.

Section 240

- ❑ Section 240—Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making
 - Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality.
 - (R240.3) A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

Section 250 1 of 2

- ❑ Section 250—Inducements, Including Gifts and Hospitality
 - Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the principles of integrity, objectivity and professional behaviour

Section 250 2 of 2

❑ Section 250—Inducements, Including Gifts and Hospitality

- (R 250.7) A professional accountant shall not offer, or encourage others to offer, any inducement with the intent to improperly influence the behaviour of the recipient or of another individual
- (R250.8) A professional accountant shall not accept or encourage others to accept any inducement that the accountant concludes is made with the intent to improperly influence the behaviour of the recipient or another individual.
- Most of us are probably covered by state laws, regulations, or organizational policies related to gifts, etc.

Section 260 1 of 3

- ❑ Section 260—Responding to NonCompliance with Laws and Regulations
 - A self-interest or intimidation threat to compliance is created when a profession becomes aware of non-compliance or suspected non-compliance with laws and regulations.
 - (R260.6) In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance.

Section 260 2 of 3

- ❑ Section 260—Responding to NonCompliance with Laws and Regulations
 - (R260.9) If protocols and procedures exist within the professional accountant's employment organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to non-compliance.
 - (R260.10) When an accountant becomes aware of a matter to which this section applies, the steps taken to comply shall be taken on a timely basis.

Section 260 3 of 3

❑ Section 260—Responding to NonCompliance with Laws and Regulations

- (R260.12, 13, 14, 15, &16) When an accountant becomes aware of non-compliance or suspected non-compliance with laws and/or regulations, the accountant shall obtain an understanding of circumstances and relevant laws, notify the appropriate parties and consider if appropriate actions are taken.

Section 270

- ❑ Section 270—Pressure to Breach the Fundamental Principles
 - Pressure exerted on, on by. A professional accountant might create an intimidation or other threat to compliance.
 - (R270.3) A professional accountant shall not:
 - Allow pressure to result in a breach of compliance
 - Place pressure on others knows, or has reason to believe, will result in the other individuals breaking the fundamental principles.

Back Cover of Handbook

Note that the Handbook is published by IFAC which is a major supporter of the IESBA.

IFAC also oversees the international accounting standards board (ISBA) and the international auditing standards board (ISAAB)