CHAPTER 2: PROFESSIONAL ETHICS

LEARNING OUTCOME

A4a: **Define** and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A4b: **Define** and **apply** the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.

A4c: **Discuss** the safeguards to offset the threats to the fundamental principles.

A4d: **Describe** the auditor’s responsibility with regard to auditor independence, conflicts of interest and confidentiality.

2.1 Overview of Professional Ethics

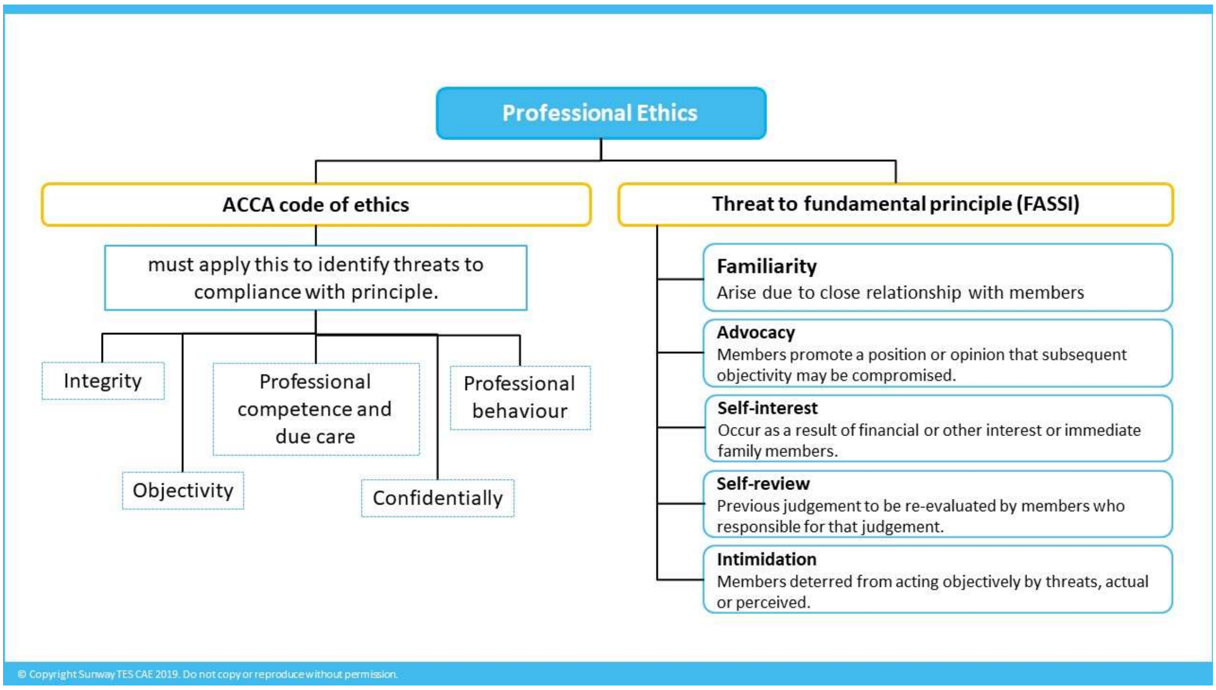
Learning Outcome (ACCA Study Guide Area A)

A4a: Define and apply the fundamental principles of professional ethics of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A4b: Define and **apply** the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidation.

ACCA'S CODE OF ETHICS AND CONDUCT	
ISA 210	**AGREEING THE TERMS OF AUDIT ENGAGEMENTS**
ISA 220	**QUALITY CONTROL FOR AN AUDITS OF FINANCIAL STATEMENTS**
ISQC 1	**QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS**

Diagram 2.1: Overview of professional ethics



2.1.1 Origins and Importance of Ethics

Origins of Professional Ethics

Ethics is derived from the Greek word "**ethos**" meaning "character". Ethics focuses on the '**rights'** and '**wrongs'** of human behaviour i.e. how people act towards one another.
Professional ethics represents a commitment by a profession to ethical principles and rules of conduct. They represent standards of behaviour that are both idealistic and practical. Although they are designed to encourage ideal behaviour, they must be practicable and enforceable.

Importance of Professional Ethics

Professional accountants have a responsibility to act in the **public interest**. The purpose of assurance engagements is to increase the confidence of the intended users; therefore, users need to trust the professionals (Auditors) who are providing the assurance. A professional advising others should have integrity, objectivity and act in the best interest of the client regardless whether the client acknowledges it.

To be trusted, the assurance providers (Auditors) need to be **independent of their client**. In the recent years there has been a public interest on ethical standards in business and professions:

- There has been a decline in standards in business, in view of the corporate scandals which shook the accounting fraternity i.e. Enron, WorldCom, HIH Insurance, Parmalat, etc.
- The public has become more aware due to the significant coverage by the media and realises the failures of the legal and regulatory systems.

2.1.2 ACCA Code of Ethics and Conduct

Fundamental Principles of ACCA Code of Ethics and Conduct
Applicable to all members in public practice, business as well as affiliates and registered students

Members must apply this conceptual framework to identify threats to compliance with the principles, evaluate their significance and apply appropriate safeguards to eliminate or reduce them so that compliance is not compromised.

Code of Ethics	Descriptions
Integrity	*A professional accountant should be **straightforward, honest, truthful and have fair** dealings in all professional and business relationships* E.g., An accountant prepares financial statements that reflect the true and fair view of the financial position and the result of the company. Even if the management offers any rewards to falsify the financial records, the accountant is, under no circumstances, to accept the rewards.
Objectivity	*A professional accountant should **not allow prejudice or bias, conflict of interest or undue influence** of others to override professional judgment.* E.g., An accountant must not accept the assignment as an advisor for two rival companies which are competing for the same tender.
Professional Competence and Due Care	*A professional accountant has a duty to maintain professional **knowledge and skill at the level required**… (i.e. not accept or perform work which they are not competent to undertake unless assistance is obtained) A professional accountant should **act diligently** and in accordance with **applicable technical and professional standards*** E.g. After qualification, accountants must undergo Continuous Professional Development (CPDs) courses to be updated with relevant changes in legislations and standards that affect them as accountants.
Confidentiality	*A professional accountant should **respect the confidentiality of information acquired** and **should not disclose any such information** to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose (also a member can only act for a client IF the client agrees to disclose in full all information)* E.g., An accountant is prohibited from disclosing to third party on any information gained on present or future activities of the company.
Professional Behavior	*A professional accountant should comply with relevant laws and regulations and should **avoid any action that discredits the profession** (i.e. behave with **COURTESY and CONSIDERATION**)* E.g., An accountant must not criticise or discredit an accountant of another company with the aim of gaining the appointment.

Members failing to comply with the Rules will face disciplinary actions i.e. fines, suspension, demotion, dismissal or civil suits depending on the severity of the offence.

Check Understanding

Topic 2.1.2 Fundamental Principles

Learning outcome (ACCA Study Guide Area A)

A4a: **Define** the fundamental principles of professional ethics, and apply them in an audit

Question 1

List the 5 fundamental principles

2.1.3 Confidentiality

Professional Duty of Confidentiality

Auditors have a professional duty of confidentiality i.e. auditors are refrained from disclosing information acquired in the course of professional work. However, they may be compelled by law or consider it necessary in the public interest to disclose details of clients' affairs to third parties.

In general, there are 3 rules:

I. Auditors should explain to their clients that they will only act for those clients who agree to **disclose in full all information relevant to an engagement**.

II. Auditors acquiring information in the course of their professional work should not:
   - Use that information for their **personal advantage** or the advantage of a third party
   - **Disclose any such information** to third parties without first obtaining permission from their client

III. **Auditors in business** should remember that their ***"client"*** for the purpose of these rules is their ***"employer"*** (To ensure there is no leakages of information)

Exceptions to the above rules are as follows:

Obligatory

- Compelled by the process of law i.e. under a court order
- Suspect that the client is committing a Terrorist offence
- Suspect that the client is involved in Money Laundering or drug trafficking
- If the information is required by the Inland Revenue / Special Investigative Task Force of the Police, it is necessary to obtain client's permission and also to seek solicitor's advice
- Disclosure, if not prohibited by law (ACCA Code of Ethics and Conduct, S140)
  - To comply with quality review of ACCA or other professional body
  - To respond to an inquiry or investigation by ACCA or a regulatory body
  - To comply with technical standard and ethics requirements

Voluntary

To protect the auditor's interest i.e. when an auditor is involved in litigation with the client – for recovery of fees or when faced with disciplinary action by a professional body.
Information is in the "public interest" or in the interest of national security. Factors taken into consideration are seriousness of the matter, likelihood of repetition and the extent of public involvement. In practice, this right is rarely used.

Threats	Examples
FAMILIARITY (Auditors are predisposed to accept or are insufficiently questioning the client's point of view)	• **Close or immediate family relationship** with a director or officer of a client or an employee who has influence over the subject matter of the engagement (applies to any member of the engagement team) • A **former audit partner being a director, officer or employee** of the client, with significant influence over the audit engagement • **Accepting expensive gifts**, unless the value is nominal and it is extended to all
ADVOCACY (Members advocating their client's position)	• **Promoting shares** of a listed audit client • **Acting as an advocate** on behalf of a client in resolving disputes with third parties
SELF-INTEREST (Auditors have financial or other interest, making them reluctant to take actions that would be adverse to the audit firm, or any individual in a position to influence the outcome of the audit)	• **Financial interest** in a client where the result of the professional services may affect the value of the interest • **Loans** to or from a client • **Overdue fees** • Concerns on the possibility of **losing the client** • Potential **employment** with the client • **Accepting gifts**, unless the value is nominal and extended to all • **Competing** directly with client or having joint ventures with major competitors of client, posing objectivity threat • **Conflict of interest** i.e. performing services which are incompatible for the same client.
SELF-REVIEW (Results of non-audit services performed by the auditors / colleagues in the firm are reflected in the financial statements)	• Discovered a **significant error** during re-evaluation • **Reporting on systems** where the firm has been involved in their design or implementation • A member of the engagement team being or having recently been **a director or officer of the client**; or employed in an executive position by the client (with direct influence on the engagement)
INTIMIDATION (Auditor's conduct is influenced by fear or threat) ***FASSI***	• Threatened with **dismissal** or **replacement** in an engagement • Threatened with **litigation** by the audit client • Pressured to reduce the extent of work required to **reduce fee. Audit firms** are required to comply with fee capping / ceiling: **< 15% of the gross practice income for 2 consecutive years**
MANAGEMENT DECISION	• Auditors should only provide advice, Management makes the management decision (it is their duty!)
PUBLIC PRACTICE BEHAVIOUR	• Inappropriate marketing of professional services and products • Acceptance of inappropriate clients i.e. involved in illegal acts

ISA 220 makes it clear that compliance to ethical requirement is crucial part of the auditor's responsibility in ensuring the quality of the audit. The engagement partner should remain alert, through observations and enquiries, on evidence of non-compliance by the engagement team!

Threats to Fundamental Principles

(I) Familiarity

Having an audit client for an extended period of time may create a familiarity threat. The severity depends on factors as how long the individual has been on the audit team, seniority of the individual, change in client's management and changes in client's accounting issues.

Possible **safeguards** for the firm are:

- **Rotating the Audit Partner every 5 years for a public interest client** (any others – 7 years), and the **Audit Team members every 2 to 3 years**
  [Note: The partner of a public interest client (after 5 years); must be **rotated off** the audit **for 2 years (cooling-off period),** and during this time the partner should not be on the audit team nor consult the audit team or the client on any issues related to the audit engagement]
- Regular independent internal or external reviews of the engagement

(II) Advocacy

It arises from situations where the firm promotes a position or opinion to the point that subsequent objectivity is impaired; for example

– Commenting publicly on future events in particular circumstances
– Acting as an advocate on behalf of an audit client in litigation or disputes with third party
– Promoting shares of a listed client.

A firm is prohibited from engaging in these events.

(III) Self-Interest

a) Financial interest in a client

The ACCA Code of Ethics and Conduct does not allow the following to have:

- The audit firms
- The audit team member(s)
- An immediate family member of the audit team

To have a direct financial interest or indirect material financial interest in a client.

The safeguards that are implemented by the firm are:

- Dispose of the shares (and the auditor may be involved in the audit)
- Remove the audit team member (if he retains the shareholding)

Audit firms have quality control procedures requiring staff to disclose relevant financial interest for themselves and close family members. Firms should encourage staff to make a voluntary disclosure on their shareholdings to avoid any potential problems.

b) Employment with an audit client (may also be 'Familiarity')

It is possible that an audit staff might transfer to a client, or that negotiation to facilitate such movement takes place. There is an impairment of independence:

- An auditor may be motivated to impress a future employer (objectivity is impaired)

- A **former Audit Manager / Partner is now a Finance Director at the client's**; thus, has too much knowledge of the audit firm's procedures (Familiarity / Intimidation threat – there may be a close connection between the Audit Manager / Partner with the former audit colleagues).

The safeguards that the firm could implement are:
- Modify the audit plan
- Assigning the individuals to the audit team who have sufficient experience
- Having an independent review of the work of the former member

In the case of the manager / partner joining the audit client, there should be a cooling off of 2 years prior to taking on the appointment.

c) Temporary assignment of audit staff to client

Staff may be loaned for a brief period to the audit client. Staff must not assume management responsibilities or undertake any audit work that is prohibited by the Code.

The audit client must be responsible for directing and supervising the activities of the loaned staff. Some of **the safeguards** that the firm may implement are:
- The loaned staff should not have any responsibility / be involved in the audit after they have performed the assignment at the client's place
- Conducting an additional review of the work performed by the loaned staff

d) High percentage of Fees

When a firm receives a high proportion of its fees income from just one audit client, there is self-interest or intimidation threat, as the firm is concerned about losing the client.

Possible **safeguards** include:
- Reduce dependency on the client
- External quality control reviews
- If the audit client is a public interest entity, the total fees received from the client
- represents more than 15% of the firm's total fees for two consecutive years, the firm:
  - Should disclose to those charged with governance
  - Arrange for an external review by an external professional body or a regulatory body; the review can be either before the audit opinion on the second year's financial statement is issued (pre-issuance review) or after it is issued (post-issuance review)

e) Overdue Fees

A self-interest threat arises if the fee due from an audit client remains unpaid for a long time, especially if the fees remain unpaid prior to the issuance of an audit report. Generally, the firm will require payment of such fees prior to the issuance of the audit report. Also, in situation where there are overdue fees, the auditor runs the risk of, in effect, making a loan to a client. Audit firms should guard against significant fees building the issues with those charged with governance, if necessary, in extreme situation, the possibility of resigning if fees are overdue.

f) Partner on Client Board

A partner or an employee of an audit firm should not serve on the board of an audit client.

g) Gifts and Hospitality

An auditor or a firm is prohibited from receiving gifts or hospitality, unless the amount is trivial and extended to all.

h) Conflict of Interest

When considering whether to accept a client or when there is a change in a client's circumstances, audit firms must take reasonable steps to ascertain whether there is a conflict of interest or if there is a likely to be, in the future. Should this threat arise, it will impair the firm's independence.

A conflict between members and clients interest might arise if members compete directly with a client, or have a joint venture or similar with a company that is in competition with the client. This may threaten the member's objectivity. A firm should not accept or continue in such engagements in which there are, or likely to be, significant conflict of interest.

i) Contingent Fees

The audit fees are calculated on a pre-determined basis relating to the outcome or result of a transaction or the work performed. A firm is prohibited from receiving contingent fees as it will create self-interest threat.

(IV) Self-Review

a) Recent service with an audit client

Individuals, who have been director or officer of the audit client, or an employee in a position to exert direct influence over the preparation of the accounting records or financial statements in the period covered by the audit report, should not be part of the audit team.

b) Preparing accounting records and financial statements

Should the firm prepare the accounting records and financial statements, and subsequently the audit, there is a self-review threat. In practice, auditors regularly assist management with the preparation of financial statements and provide advice on the accounting treatment and journal entries. Appropriate safeguards that the firm should implement are:

- Separation of the staff involved in preparing the financial statements and audit
- If the audit client is a public interest entity, the firm is prohibited from providing accounting and book-keeping services, or prepare financial statements on which the firm will express an opinion. The firm may provide advice to the client.

c) Provision of Other Services to the Client

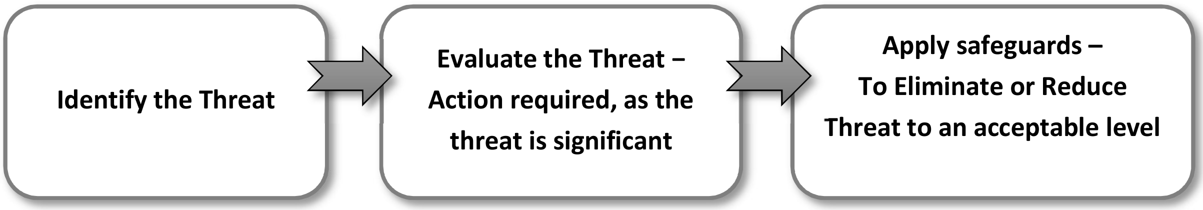
A firm may provide other services to an audit client, depending on the nature of the services and the type of entity, however the firm must not assume management responsibility.

(V) Intimidation

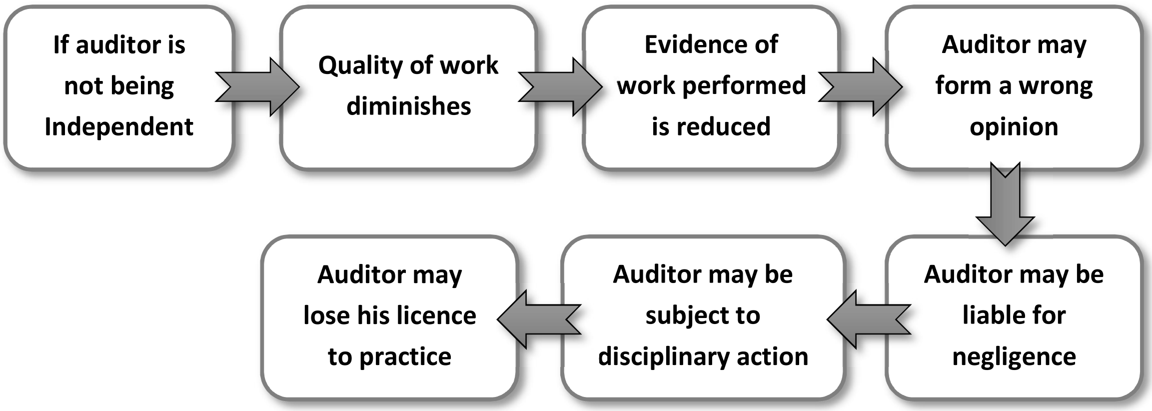
It arises when members of the audit team are deterred from acting objectively by threats, actual or perceived. A classic example is when the client threatens to sue, or does sue, the audit firm form work that has been done previously. The firm is faced with the risk of losing the client, bad publicity and the possibility that it will be found to be negligent. This could pressure the firm to issue an unmodified audit opinion.

Other possibilities of intimidation are from family and personal relationships, litigation or close business relationships; which are also examples of self-interest threat, because intimidation may arise only the when the audit firm has something to lose!

Using the framework



Impact of not being Independence



Check Understanding

Topic 2.1.4 Threats to Fundamental Principles

Learning outcome (ACCA Study Guide Area A)

A4b: **Define** and **apply** the conceptual framework, including the threats to the fundamental principles of self-interest, self-review, advocacy, familiarity, and intimidations

Question 1

Define each threat to Fundamental Principles of Professionalism.

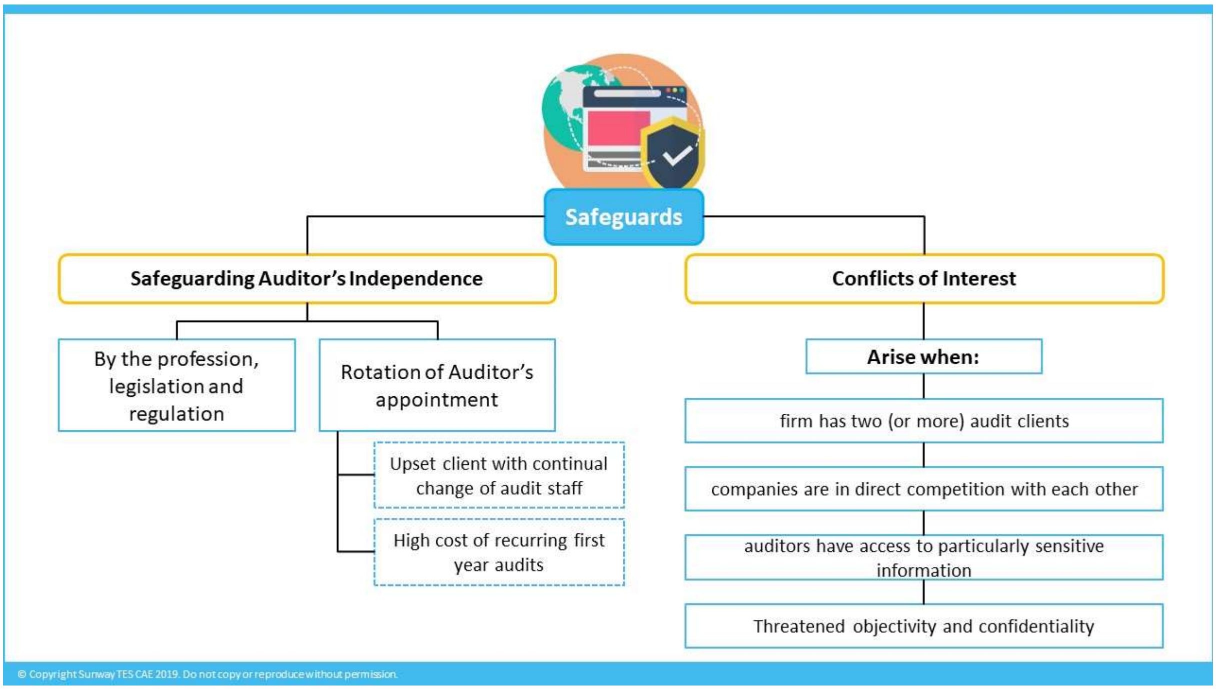
2.2 Safeguards

Learning Outcome (ACCA Study Guide Area A)

A4c: <u>Discuss</u> the safeguards to offset the threats to the fundamental principles.

A4d: <u>Describe</u> the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.

Diagram 2.2: Safeguards



2.2.1 Safeguarding Auditor's Independence

By profession, legislation and regulation

The profession places stringent requirement for entry into the profession, ensuring member comply with continuing professional development, corporate governance, professional standards, monitoring and disciplinary procedures, etc.

Rotation of Auditor's Appointment

Rotation of Auditors is not popular in practice because:

- **It upsets clients with continual change of audit staff**
  A new team of audit staff, in a recurring audit, would raise queries to the staff on matters where the information was previously furnished to the earlier team. Rightfully, the new team of auditors should have familiarised themselves with information available in the audit working papers.

- **High cost of recurring first year audits**
  First year audits would occur when there is a change in the audit firms. The auditors of the new firm would need to obtain the background information of the client prior to the commencement of the audit and these results in higher audit fees in the first year.

Audit Committees (AC)

It consists mainly of **"Non-Executive Directors" (Independent)** who provide an invaluable independent liaison between the board and the auditors. All companies under the stock exchange rule are required to have AC. The purpose is to place External Auditors at arm's length from the **"Executive" (Non-Independent)** Directors. AC reviews the scope, results, independence and objectivity of External Auditors.

Advantages:
- Leads to increased confidence in the credibility and objectivity of financial reports
- An impartial body for auditors to consult

Disadvantages:
- Difficult to select non-executive directors with competence in auditing
- Difficult to consult AC on areas where the auditor is required to use judgment

Establish information barrier ("Chinese Walls")

There is no exchange or transfer of information in the firm among the audit teams. This would mean that the respective audits are undertaken by different audit 'groups', the engagement partners are different, and all the other audit staff are allowed to work on one of the clients. Records are only accessible to the team working on their particular client.

Check Understanding

Topic 2.2.1 Safeguarding Auditor's Independence
Learning outcome (ACCA Study Guide Area A)
A4c: Discuss the safeguards to offset the threats to the fundamental principles

Question 1

Describe safeguard for familiarity threat.

2.2.2 Conflicts of Interest between Different Clients

Conflicts of interest can arise when a firm has two (or more) audit clients, both of which have reason to be unhappy that their auditors are also auditors of the other company. This situation frequently arises when the companies are in direct competition with each other, and when the auditors have access to particularly sensitive information. In such circumstances, objectivity and confidentiality may be threatened!

Audit firms do have clients who are in competition with each other. However, the firm should ensure that it is not subject to a dispute between the clients. It must also manage its work so that the interest of one client does not adversely affect another.

Illustration:

The director of Krays PLC informed the audit partner that the reason for appointing Laser & Co as auditors was because they audit other companies in the industry, including Krays' main competitor. The director is concerned how the auditors will keep the information obtained during the audit confidential. Laser & Co should do the following:

- Both Krays and its competitor should be notified that Laser & Co would be acting as auditors for each company and obtain consent to continue acting for both.
- If required, advising one or both clients to seek additional independent advice.
- The use of separate engagement teams, with different engagement partners and team members; once an employee has worked on one audit, such as Krays PLC, then they would be prevented from being on the audit of the competitor for a period of time. This separation of teams is known as building a 'Chinese Wall'.
- Procedures to prevent access to information, for example, strict physical separation of both teams, confidential and secure data filing.
- Clear guidelines for members of each engagement team on issues of security and confidentiality. These guidelines could be included within the audit engagement letters.
- Potentially the use of confidentiality agreements signed by employees and partners of the firm.
- Regular monitoring of the application of the above safeguards by a senior individual in Laser & Co not involved in either audit
- If required, advising one or both clients to seek additional independent advice

Check Understanding

Topic 2.2.2 Conflicts of Interest
Learning outcome (ACCA Study Guide Area A)
A4d: Describe the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality

Question 1

Describe safeguard for conflict of interest

2.2.3 Measures to maintain Professional Integrity, Objectivity and Independence

a) Be honest when carrying out their duties

- In taking up new appointments
  - Not accepting clients that are dubious
  - Honouring the former auditor when he does not give professional clearance

- In the event of detecting a fraud, the auditor should report it to the directors
- Not being overly dependent on any client for fees (comply with fee capping)
- Many large companies may invite **tenders** from the audit firms to bid for the audit. The companies will have an opportunity to compare directly the offers from the firms.

A tender (a detailed written proposal or a presentation) may comprise of:
- The level of expertise of the firm in the industry
- Companies in similar industry audited by the firm (confirms expertise, however may have confidentiality issues)
- National and international presence
- The proposed fee (including indication of increase of fee in the next few years)

- Avoid ***Low Baling***
  Here the auditors set an unrealistic low audit fee (below 'market rate') to gain new clients (a Self Interest Threat).
  The audit fee is a sensitive subject for most companies. It represents a cost for something the company often does not really want and the fees may be perceived as too high. The auditors must ensure that they can provide a quality audit for the price.

- Be cautious of **Opinion Shopping**
  The firm from which the second opinion is sought should decline to act unless the client grants permission to communicate with the current auditors.
  This is not only because it is the appropriate thing to do but also the opinion shopper may have hidden pertinent facts

- In completing the audit and signing the audit report:
  - Completing the work per the auditing standards without cutting corners
  - Being honest when extending their opinion

b) Develop / Update ethical and auditing standard in line with present needs

c) Establish and review Quality Control in the firm (refer below)

2.3 Quality Control

Learning Outcome (ACCA Study Guide Area A)
A4d: **Describe** the auditor's responsibility with regard to auditor independence, conflicts of interest and confidentiality.

2.3.1 Quality Control Measures

Element	Policy	Procedure
Professional Requirement	Personnel in the firm should adhere to the ethical principles: • Integrity • Objectivity • Professional Competence & Due Care • Confidentiality • Professional Behaviour	Assign responsibility to provide guidance and to resolve questions on matters of integrity Communicate to staff new policies and procedures on independence Monitor compliance with policies and ensure safeguards and procedures relating to independence are maintained
Skills and Competence	The firm is to be staffed by personnel who attain and maintain the technical standards and professional competence required to enable them to fulfil their responsibilities with due care	Personnel needs, establish hiring objectives and determine requisite qualifications Establish qualifications for evaluating potential personnel to be hired at each professional level Establish guidelines and requirements for Continuing Professional Development Make available to personnel any information about new professional pronouncements
Assignment	Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances	Plan staff level requirements for the firm as a whole and for individual practice offices Designated persons to assign personnel to audits (audit time-tables) and Audit Partners to approve the scheduling and staffing
Delegation	Sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed complies with standards & quality	Establish procedures for planning audits Provide procedures for maintaining the firm's quality standards Provide on-the-job training
Consultation	Whenever necessary, consultation within or outside the audit firm is to occur with those who have appropriate expertise	Identify areas and specialised situations where consultation is required and inform personnel Designate individuals as specialists for consultative processes Specify the extent of documentation for the results of consultation

Element	Policy	Procedure
Acceptance And Retention Of Client	Evaluate prospective clients and conduct a review on an ongoing basis for existing clients	Establish criteria to evaluate prospective clients Establish review procedures for existing clients
Monitoring	Monitor the adequacy and effectiveness of quality control policies & procedures	Define the scope and contents of monitoring Provide findings to appropriate management level in the firm.

2.3.2 Engagement Performance Monitoring

Engagement Performance

Firms take steps to ensure that engagements are performed in accordance to standards and guidelines by producing manuals of standard engagement procedures for staff to comply with.

Should there be a dispute on the difference in opinion on an audit, the report should not be issued until the dispute is resolved; and may involve the intervention of a quality control reviewer or an independent reviewer.

A firm has various forms of monitoring procedures:
Peer Review - a review of audit engagement performed by another partner in the assurance firm.

Hot Review - performed by the audit team members involved in the audit engagement during the audit and/or after the completion of the audit but before the auditor's report is issued. This detailed review is conducted with an aim to find out if there is any weakness in the application of audit procedures or if the results have been misinterpreted. Hot reviews are commonly performed by the senior member of staff in the audit team. Such reviews mostly include meetings with audit team personnel and their individual work so that both work and the skills of members are improved by pointing out discrepancies and providing recommendations.

Cold Review - performed by the by the Quality Control Review Committee in the firm once the audits are completed and the findings are reported. The main aim of this review is to ensure compliance with the appropriate auditing criteria (E.g. ISAs) as well as to examine weaknesses in the firm's quality control procedures in the way the entire audit process was undertaken. This will provide opportunities to see how the audit can be enhanced for any comparable projects ultimately improving quality control, staff training and other related functions across the board.

Matters to consider in a review are whether:

- The audit complies with professional standards, regulatory and legal requirements
- Significant matters have been raised for further consideration
- A need to revise the nature, timing and extent of work performed
- Appropriate consultations have taken place, the conclusions documented and implemented
- The work performed supports the conclusions reached
- The evidence obtained is sufficient and appropriate to support the audit opinion
- The objectives of the engagements have been achieved.

The people involved in the monitoring process are required to evaluate the effect of any deficiencies found might be one-off; may be systematic or repetitive deficiencies that require corrective action such as:

- Remedial action with the individual
- Communication of findings with the training department
- Changes in the quality control policies and procedures
- Disciplinary action, if necessary

2.4 Chapter 2: Summary

Diagram 2.4: Summary of Professional Ethics

PROFESSIONAL CODE OF ETHIC AND CONDUCT

ACCA Code of Ethics

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour

Threats to Fundamental Principles (FASSI)

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

Importance of Professional Ethics

- Responsibility to act in the public interest
- To increase the confidence of the intended users

Conflicts of Interest

Arise when :

- A firm has two (or more) audit clients, both of which have reason to be unhappy that their auditors are also auditors of the other company
- Arises when the companies are in direct competition with each other
- The auditors have access to particularly sensitive information.

Professional Duty of Confidentiality

Auditors are refrained from disclosing information acquired in the course of professional work . There are 3 rules for this :

- Only act for those clients who agree to disclose in full all information relevant
- Should not use that information for their personal advantage
- Should not disclose any such information to third parties without first obtaining permission
- Auditors in business should remember that their "client" for the purpose of these rules is their "employer"

Exceptions to the above rules are as follows:

- **Obligatory -** Compelled by the process of law
- **Voluntary -** To protect the auditor's interest i.e. when an auditor is involved in litigation with the client

2.5 Chapter 2 Check Understanding: Answer

Topic 2.1.2

(Q) List the 5 fundamentals of professional ethics

(Ans) Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, Professional Behaviour

Topic 2.1.4

(Q) Define each threat to Fundamental Principles of Professionalism.

(Ans)

i. FAMILIARITY - (Auditors are predisposed to accept or are insufficiently questioning the client's point of view)
ii. ADVOCACY - (Members advocating their client's position)
iii. SELF-INTEREST - (Auditors have financial or other interest, making them reluctant to take actions that would be adverse to the audit firm, or any individual in a position to influence the outcome of the audit)
iv. SELF-REVIEW - (Results of non-audit services performed by the auditors / colleagues in the firm are reflected in the financial statements)
v. INTIMIDATION **-** (Auditor's conduct is influenced by fear or threat)

Topic 2.2.1

(Q) Describe safeguard for familiarity

(Ans) Rotating partners

Topic 2.2.2

(Q) Describe a safeguard for conflict of interest

(Ans) Establish Chinese wall