

Ethics: Maintaining Professionalism and Integrity in Challenging Times

Public Accountancy Board / Institute of Chartered Accountants of Jamaica

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About your presenter

1. Professional life

- PwC

2. Community life

- Financial literacy (personal finances)
 - High schools
 - Multiple organisations

Polling question #1

Polling question #1

Who spoke these words: “*Bread of deceit is sweet to a man; but afterwards his mouth shall be filled with gravel.*”

A. Marcus Garvey

B. Solomon

C. Gandhi

D. Mother Teresa

Business Ethics Fundamentals

Ethics Defined:

The term ethics term is derived from the Greek word:

1. **Ethos** which can mean:
 - a. **Custom or habit associated with:**
 - i. **Individuals** (the “mad” mechanic)
 - ii. **Countries** (Jamaica, Nigeria, others)
 - iii. **Companies** (VW Emission Scandal)
 - b. **What’s common to all three above**
 - i. **Human beings!**
 1. **PwC London Study**

Ethics Defined: Simplified version

Ethics is all about **doing the right thing.**

Integrity : defined

What exactly are we really talking about?

Integrity: *Institute of Chartered Accountants of Jamaica (ICAJ)*

ICAJ: “Integrity First”

Integrity: Public Accountancy Board (PAB)

PAB: “Promoting acceptable standards of **professional conduct.**”

Integrity: Financial Services Commission (FSC)

FSC: “Promoting integrity in the Jamaican financial sector”

Integrity: *Three perspectives*

Integrity first..”: ICAJ

“Promoting integrity..”: FSC

“Promoting acceptable standards of professional conduct..”:PAB

Integrity: *Three perspectives*

**This word “integrity”, must then, be really
IMPORTANT !**

Key points:

- a. **Ethics defined:** do the right thing
- b. **Integrity:** do the right thing under pressure: don't let yourself be fractured - keep your wholeness
 - i. The George Washington Bridge (stood up)
 - ii. Morandi Bridge, Genoa, Italy (broke down)
- c. **Ethics from other angles**
 - i. Do the right thing: whether big or small
 - ii. Do the right thing: whether in public or private
 - iii. Not everything that is legal is necessarily ethical

IFAC Code of Ethics: A Conceptual Framework



IFAC Code of Ethics: Conceptual Framework

- **International Federation of Accountants (IFAC)**
 - **International Ethics Standards Board**
 - Purpose:
 - “Develop and promote the Code of Ethics for professional accountants.”
 - Mandate: Protecting the public’s interest
 - ICAJ is an IFAC member since 1977
 - PAB and ICAJ embraced and adopted the IFAC Code of Ethics
 - **The full IFAC Code can be downloaded online (pdf)**

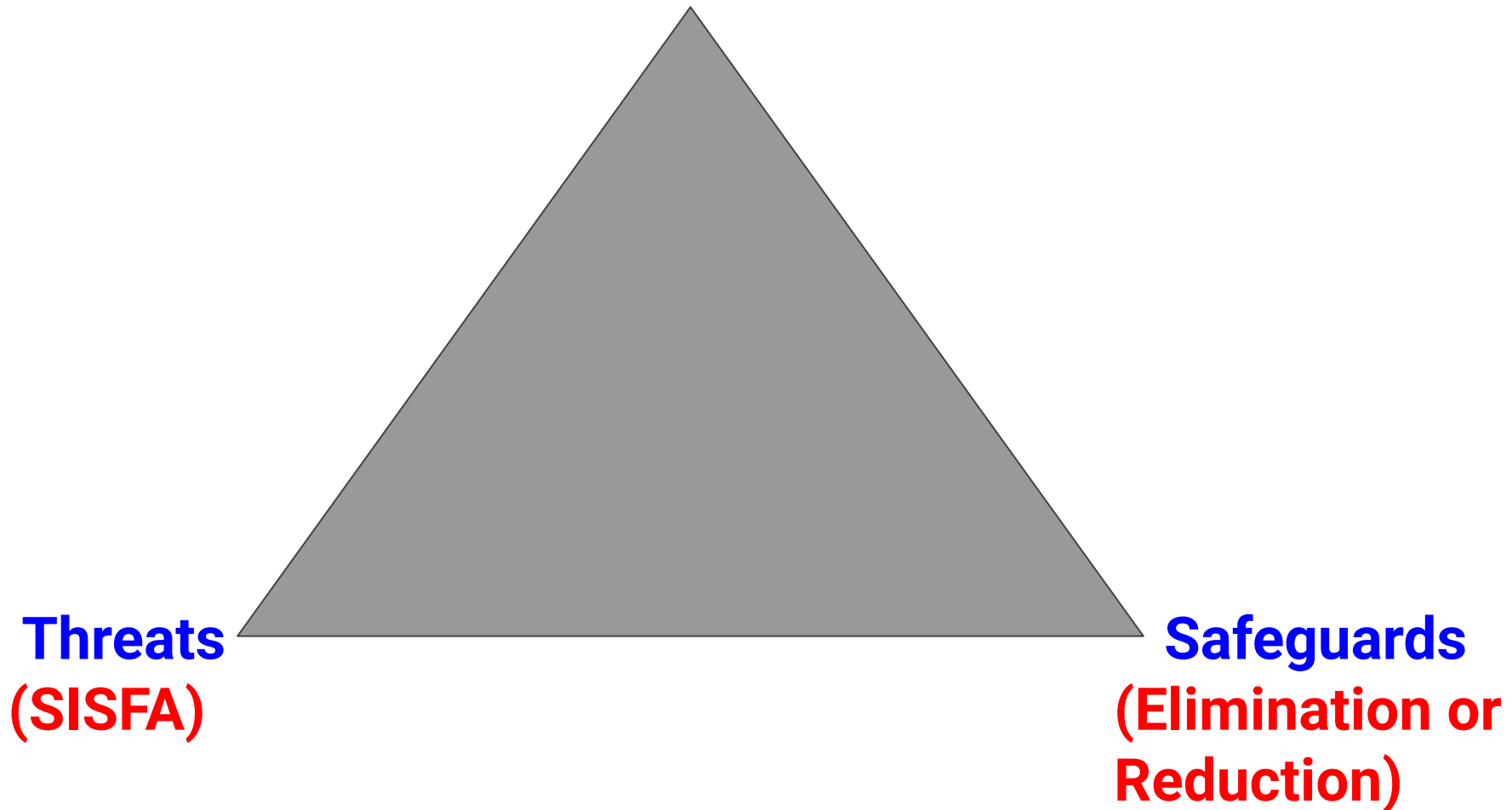
IFAC Code of Ethics: Conceptual Framework

- **Just as we have a conceptual framework for accounting**
 - a. **Fundamental principles of accounting**
 - Recognition
 - Measurement
 - Disclosure

- **The IFAC Code has a conceptual framework on ethics**
 - a. The 5 fundamental principles of ethics
 - b. Identify threats affecting these 5 principles
 - c. Implement safeguards against threats
 - Eliminate the threat **OR**
 - Reduce impact of threat to an acceptable level

IFAC Code of Ethics: Conceptual Framework

The 5 Fundamental Principles of Ethics (POPIC)



The 5 Fundamental Principles of Ethics

The professional accountant shall comply with the principle of **INTEGRITY**

The 5 Fundamental Principles of Ethics

INTEGRITY: to be straightforward and honest in all professional and business relationships.

Honest = free of deceit, truthful and sincere

Story: the preacher and his “one light four wheel”

The 5 Fundamental Principles of Ethics

Professional competence and due care:

A professional accountant shall comply with the principle of **professional competence and due care**

The 5 Fundamental Principles of Ethics

2. Professional competence:

- **Competence**
- **Skill**
- **Expertise**

The 5 Fundamental Principles of Ethics

2. Professional competence:

- **Currency of knowledge**

- Keep up with new developments
 - Accounting: IFRS 17
 - Auditing : ISA 315 (revised)
 - Business environment: ESG, cyber security and going concern
 - Regulatory changes: AML/CFT, Basel III
- **Application**
 - ICAJ/PAB's continuing education requirements
 - ICAJ/PAB's mandatory training sessions

The 5 Fundamental Principles of Ethics

Due care:

- Deliver work in line with the required standard or requirement
 - You can have professional competence
 - Still be sloppy: i.e disregard due care
 - Illustrate: Audit partner at Arthur Andersen, David Duncan
 - Standards we must follow:
 - Financial statement audit (positive opinion)
 - Review engagement
 - Agreed upon procedures
 - Consulting engagement
 - Preparation of management accounts
 - Audiences
 - Auditor can lack due care
 - CFO can lack due care
 - Illustrate: deadlines, low fees, pressure for good results

The 5 Fundamental Principles of Ethics

Professional competence and due care:

Competence + due care = quality work

Monitoring:

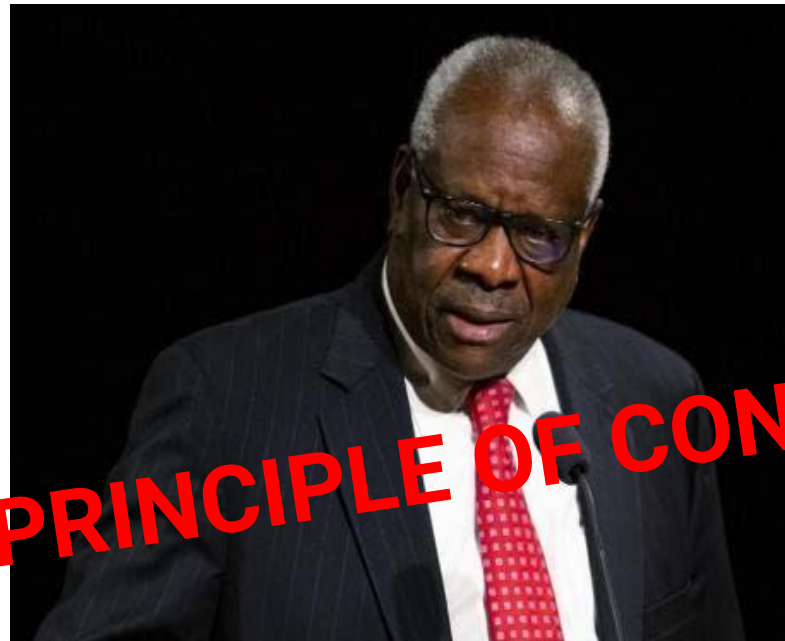
- Practice monitoring review of firms: PAB / ACCA
- Sampling for CPD compliance for individuals

The 5 Fundamental Principles of Ethics

The Gleaner

Clarence Thomas says abortion leak has changed US Supreme Court

Published: Saturday | May 14, 2022 | 12:29 PM



The 5 Fundamental Principles of Ethics

A professional accountant shall comply with the principle of confidentiality

The 5 Fundamental Principles of Ethics

A professional accountant shall comply with the principle of confidentiality

The 5 Fundamental Principles of Ethics

CONFIDENTIALITY:

Don't disclose sensitive information unless exceptions apply

The 5 Fundamental Principles of Ethics

3. Confidentiality: exceptions

- Evidence of illegal acts e.g. money laundering
 - Seek legal advice first
- Public interest matter
 - Example: you see evidence of inferior materials being used to build bridges to save cost
 - Seek legal advice
- Professional duty in your defense
 - Client is suing you over negligence
 - Seek legal advice

The 5 Fundamental Principles of Ethics

A professional accountant shall comply with the principle of professional behaviour

The 5 Fundamental Principles of Ethics

4. PROFESSIONAL BEHAVIOUR:

Don't do anything that brings the profession into disrepute
(reputational risk)

The 5 Fundamental Principles of Ethics

4. PROFESSIONAL BEHAVIOUR:

- **Comply** with relevant **laws and regulations**;
- **Behave** and act in **the public's interest**
- **Avoid any conduct** that **might discredit the profession.**

The 5 Fundamental Principles of Ethics

4. PROFESSIONAL BEHAVIOUR: Practical steps

- Pay taxes
- Comply with AML/CFT rules
- Avoid advertising in poor taste
- Social media or online conduct

The 5 Fundamental Principles of Ethics

A professional accountant shall comply with the principle of objectivity

The 5 Fundamental Principles of Ethics

5. OBJECTIVITY:

Avoid anything that could **COMPROMISE**
your professional judgement

The 5 Fundamental Principles of Ethics

OBJECTIVITY: Practical steps

- Avoid conflicts of interest
 - Wife is CFO of company where you are audit partner
 - Holding direct financial interest in audit client

The 5 Fundamental Principles of Ethics

5. OBJECTIVITY: Practical steps

- Manage undue influences
 - Undue influence:
 - Induced to act otherwise than by their own free will OR
 - Without adequate attention to the consequences.
 - Example:
 - CFO of a big audit client threatening to switch audit firms

The 5 Fundamental Principles of Ethics

5. OBJECTIVITY: Practical steps

- Watch biases
 - **Bias:** inclination or prejudice for or against one person or group
 - Example:
 - Strong views against companies with high carbon footprint

The 5 Fundamental Principles of Ethics

- **Professional behaviour**
- **Objectivity**
- **Professional competence and due diligence**
- **Integrity**
- **Confidentiality**

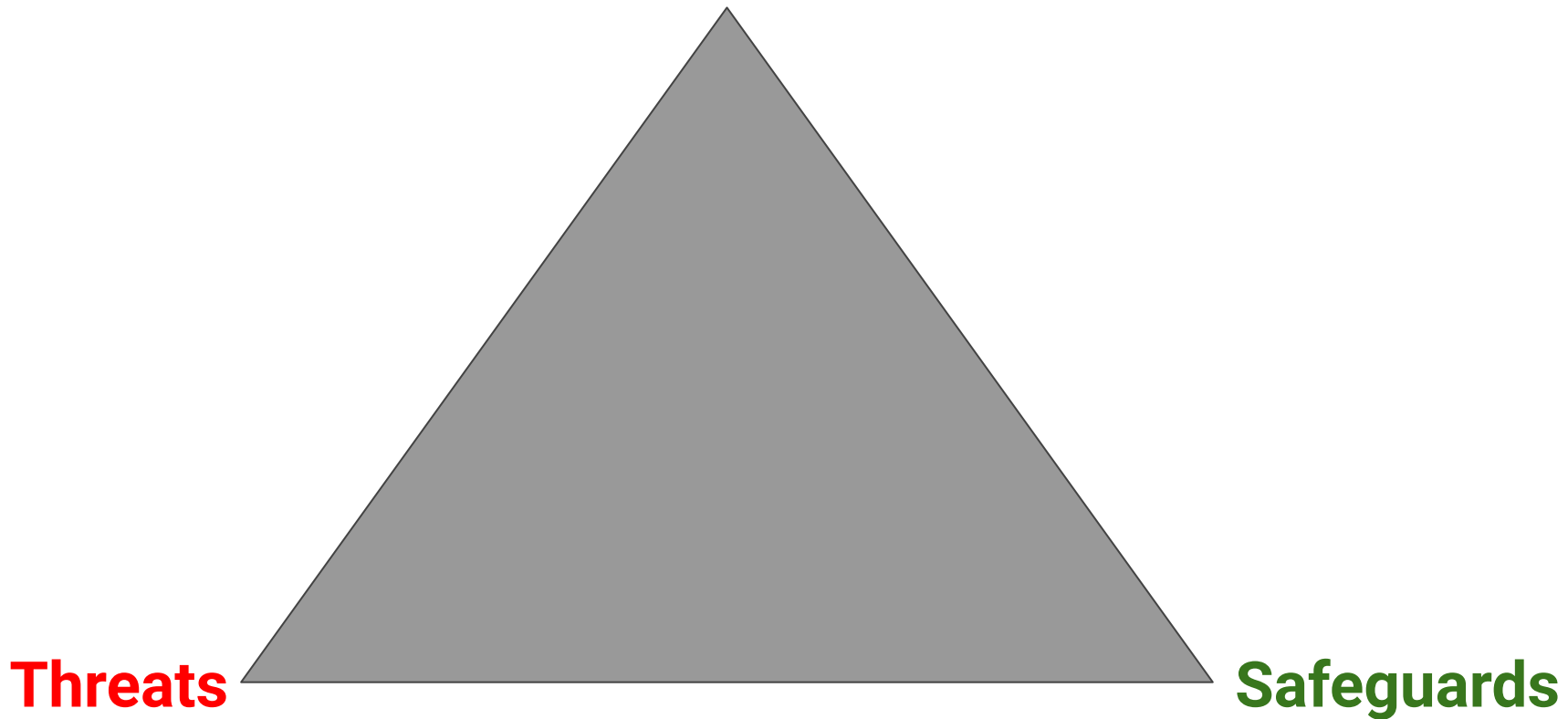
Ethics: Threats to good ethical conduct



Threats to good ethical behaviour

IFAC CODE: THE CONCEPTUAL FRAMEWORK ON ETHICS

The 5 Fundamental Principles of Ethics (POPIC)



Threats to compliance with the fundamental principles

Self review threat: risk of reviewing own work or work done by your firm

Threats to compliance with the fundamental principles

- **Self review threat;**

- a. **Client staff now working at the client's audit firm**

- **Ethics principle at risk:** Due Care
 - Safeguard: Cool off period

- b. **Providing multiple services to the same client**

- **Ethics principle at risk:** Objectivity
 - Safeguard: Use separate teams

- c. **Book keeping and auditing done by the same firm**

- **Should not be done for PIE or listed entities**
 - **Ethics principle at risk:** Due Care, Integrity
 - Safeguard: Separate team to do the audit, use another practitioner to support you

5 Threats Identified by the IFAC Code of Ethics

1. Self interest threat:

- a. The accountant has a financial or non financial benefit:
 - i. In a transaction OR activity

Threats to compliance with the fundamental principles

- **Self interest threats:**
 - a. **Loan from an audit client (not a bank)**
 - **Ethics principle at risk: objectivity**
 - b. **Loan from a bank (special terms) to auditor**
 - **Ethics principle at risk: objectivity**
 - c. **Safeguard**
 - **Avoid or terminate any such relationships**

Threats to compliance with the fundamental principles

Familiarity threat:

- due to long or close relationships with clients
- the accountant will be too sympathetic to :
 - their interests OR
 - too accepting of their work

Threats to compliance with the fundamental principles

Familiarity Threat: Other examples

- Personal relationship (immediate family members, friends)
 - **Example:** Family member in senior post at audit client
 - **Example:** Internal auditor's brother is head of Finance
- **Safeguard:** Rotation can be a cure

Threats to compliance with the fundamental principles

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.

Safeguard: Resign where necessary, and don't buckle to the threat

Threats to compliance with the fundamental principles

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

Threats to compliance with the fundamental principles

Advocacy threat:

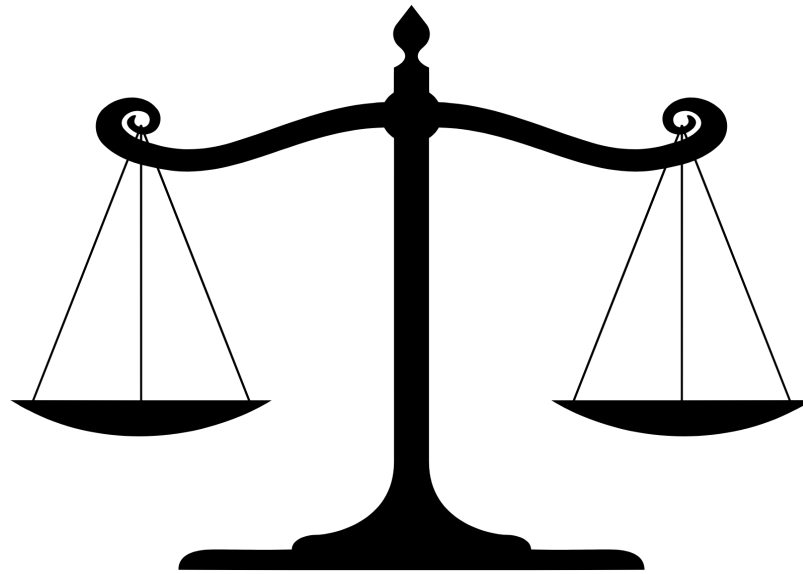
Example:

- **Threat:** A professional accountant lobbying in favor of legislation on behalf of a client.
- **Safeguard:** Use another professional accountant in the firm

Threats to compliance with the fundamental principles

1. **S**elf interest threat
2. **I**ntimidation threat
3. **S**elf review threat
4. **F**amiliarity threat
5. **A**dvocacy threat

Ethical dilemmas: Decision making framework



Ethical dilemmas: Decision making framework

Story: Whose baby died during the night?



Ethics... this tension between right behavior and temptations (threats) can lead to ethical dilemmas

An **ethical dilemma** is where a threat (e.g. intimidation) creates a situation where a person is then faced with two or more difficult choices both of which have different ethical implications

A five step ethical dilemma framework

- Analyse the dilemma carefully;
 - Don't rush into action
 - Is it an internal or external battle?
- Assess the impact of either action ie if I do it or I don't
 - Who is affected? Your company, family, profession, community
 - Is it legal? Does it breach an accounting standard?
- Make a decision on what to do after considering:
 - What are the options
 - What are the likely results of each option
 - Whether you should consult with others
- Test your decision
 - Can you sleep at night? Would you be embarrassed if others knew
- Report your concern if necessary
 - Self reporting can be good

Conclusion

“A **good name** is to be chosen
rather than **great riches....**”

Ancient wisdom literature: Prov 22:1

Summary

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Questions & Thank You