


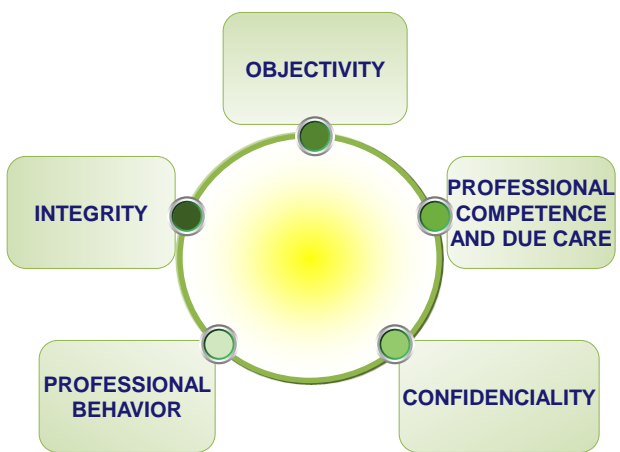

ACCOUNTING ETHICS



Conf.univ.dr. Victor-Octavian Müller



Code of Ethics for P.A.: Fundamental Principles




OBJECTIVITY


PROFESSIONAL COMPETENCE AND DUE CARE

CONFIDENTIALITY

PROFESSIONAL BEHAVIOR


INTEGRITY






Code of Ethics for P.A.: Fundamental Principles


- ❖ **Integrity** - to be straightforward and honest in all professional and business relationships.
- ❖ **Objectivity** - to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- ❖ **Professional Competence and Due Care** - to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- ❖ **Confidentiality** - to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, 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, nor use the information for the personal advantage of the professional accountant or third parties.
- ❖ **Professional Behavior** - to comply with relevant laws and regulations and avoid any action that discredits the profession.


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Code of Ethics for P.A.: Conceptual Framework Approach


- ❖ The circumstances in which professional accountants operate may create **specific threats** to compliance with the fundamental principles.
- ❖ It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action.
- ❖ In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different **safeguards**.
- ❖ Therefore, the Code establishes a **conceptual framework** that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles.
- ❖ The conceptual framework approach assists professional accountants in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest.
- ❖ It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a professional accountant from concluding that a situation is permitted if it is not specifically prohibited.


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Code of Ethics for P.A.: Conceptual Framework Approach


- ❖ When a professional accountant identifies threats to compliance with the fundamental principles and determines that they are not at an acceptable level, she/he shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level.
- ❖ In making that determination, the professional accountant shall exercise **professional judgment** and take into account whether a reasonable and informed third party would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.
- ❖ A professional accountant shall evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- ❖ A professional accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat.

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Code of Ethics for P.A.: Conceptual Framework Approach

- ❖ When applying the conceptual framework, a professional accountant may encounter situations in which **threats cannot be eliminated or reduced to an acceptable level**, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied.
- ❖ In such situations, the professional accountant shall **decline or discontinue** the specific professional service involved or, when necessary, **resign** from the engagement (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).
- ❖ A professional accountant may inadvertently **violate a provision** of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- ❖ When a professional accountant encounters **unusual circumstances** in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional accountant consult with a member body or the relevant regulator.


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Code of Ethics for P.A.: Threats and Safeguards


- ❖ Threats may be created by a broad range of relationships and circumstances.
- ❖ When a relationship or circumstance creates a threat, such a **threat could compromise**, or could be perceived to compromise, a professional accountant's **compliance with the fundamental principles**.
- ❖ A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle.
- ❖ Threats fall into one or more of the following categories:


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Code of Ethics for P.A.: Threats and Safeguards




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Code of Ethics for P.A.: Threats and Safeguards

- ❖ **Self-interest threat** - the threat that a financial or other interest will inappropriately influence the 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 service performed by the professional accountant, or by another individual within the professional accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of providing a current service;
- ❖ **Advocacy threat** - the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised;
- ❖ **Familiarity threat** - the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work;
- ❖ **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 professional accountant.


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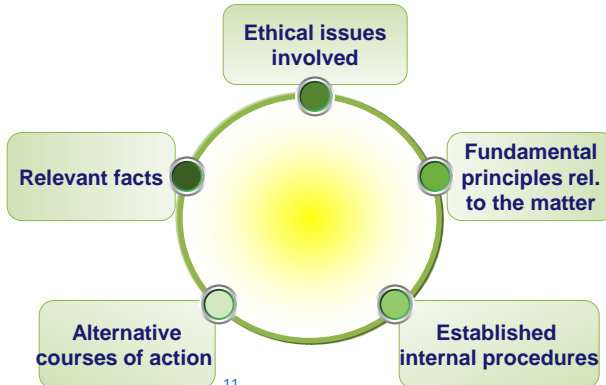


Code of Ethics for P.A.: Threats and Safeguards

- ❖ **Safeguards** are actions or other measures that may eliminate threats or reduce them to an acceptable level. They fall into two broad categories:
 - ❖ Safeguards created by the profession, legislation or regulation; and
 - ❖ Safeguards in the work environment.
- ❖ **Safeguards created by the profession, legislation or regulation** include:
 - ❖ Educational, training and experience requirements for entry into the profession.
 - ❖ Continuing professional development requirements.
 - ❖ Corporate governance regulations.
 - ❖ Professional standards.
 - ❖ Professional or regulatory monitoring and disciplinary procedures.
 - ❖ External review by a legally empowered third party of the reports, returns, communications produced by a professional accountant.
- ❖ Parts B and C of this Code discuss **safeguards in the work environment** for professional accountants in public practice and professional accountants in business, respectively.


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Code of Ethics for P.A.: Ethical Conflict Resolution



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graph TD
    A[Ethical issues involved] --- C(( ))
    B[Fundamental principles rel. to the matter] --- C
    D[Established internal procedures] --- C
    E[Alternative courses of action] --- C
    F[Relevant facts] --- C
    C(( ))
  
```


- ❖ A professional accountant may be required to **resolve a conflict** in complying with the fundamental principles.
- ❖ When initiating either a formal or informal conflict resolution process, the following **factors**, either individually or together with other factors, may be relevant to the resolution process:

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Code of Ethics for P.A.: Ethical Conflict Resolution


- ❖ Having considered the relevant factors, a professional accountant shall determine the **appropriate course of action**, weighing the consequences of each possible course of action.
- ❖ If the matter remains unresolved, the professional accountant may wish to **consult with other appropriate persons** within the firm or employing organization for help in obtaining resolution.
- ❖ Where a matter involves a conflict with, or within, an organization, a professional accountant shall determine whether to **consult with those charged with governance of the organization**, such as the board of directors or the audit committee.
- ❖ It may be in the best interests of the professional accountant to **document** the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

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Code of Ethics for P.A.: Ethical Conflict Resolution

- ❖ If a significant conflict cannot be resolved, a professional accountant may consider obtaining **professional advice from the relevant professional body or from legal advisors**.
- ❖ The professional accountant generally can obtain guidance on ethical issues **without breaching the fundamental principle of confidentiality** if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege.
- ❖ For **example**, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.
- ❖ If, after exhausting all relevant possibilities, the **ethical conflict remains unresolved**, a professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict.
- ❖ The professional accountant shall determine whether, in the circumstances, it is appropriate to **withdraw** from the engagement team or specific assignment, or to **resign** altogether from the engagement, the firm or the employing organization.


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