




ACCOUNTING ETHICS




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Ethical Issues Concerning Professional Accountants in Public Practice

Introduction

- ❖ Part B of the Code of Ethics describes ***how the conceptual framework contained in Part A applies in certain situations*** to professional accountants in public practice.
- ❖ This Part describes a series of ***circumstances and relationships*** that could be encountered by a professional accountant in public practice that create or may create threats to compliance with the fundamental principles.
- ❖ Therefore, the professional accountant in public practice is encouraged to ***be alert*** for such circumstances and relationships.
- ❖ A professional accountant in public practice ***shall not knowingly engage*** in any business, occupation, or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.



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Threats to compliance with the fundamental principles


- ❖ Compliance with the fundamental principles may potentially be threatened by a broad range of ***circumstances and relationships***.
- ❖ The ***nature and significance of the threats*** may differ depending on whether they arise in relation to the provision of services:
 - ✓ to an audit client and whether the audit client is a public interest entity,
 - ✓ to an assurance client that is not an audit client, or
 - ✓ to a non-assurance client.
- ❖ Threats fall into one or more of the following ***categories***:
 - ✓ Self-interest
 - ✓ Self-review
 - ✓ Advocacy
 - ✓ Familiarity
 - ✓ Intimidation


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- ❖ Examples of circumstances that create **self-interest threats** for a professional accountant in public practice include:
 - ✓ A member of the assurance team having a direct financial interest in the assurance client
 - ✓ A firm having undue dependence on total fees from a client
 - ✓ A member of the assurance team having a significant close business relationship with an assurance client
 - ✓ A firm being concerned about the possibility of losing a significant client
 - ✓ A member of the audit team entering into employment negotiations with the audit client
 - ✓ A firm entering into a contingent fee arrangement relating to an assurance engagement
 - ✓ A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the professional accountant's firm


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- ❖ Examples of circumstances that create **self-review threats** for a professional accountant in public practice include:
 - ✓ A firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems
 - ✓ A firm having prepared the original data used to generate records that are the subject matter of the assurance engagement
 - ✓ A member of the assurance team being, or having recently been, a director or officer of the client
 - ✓ A member of the assurance team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement
 - ✓ The firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement


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- ❖ Examples of circumstances that create ***advocacy threats*** for a professional accountant in public practice include:
 - ✓ The firm promoting shares in an audit client
 - ✓ A professional accountant acting as an advocate on behalf of an audit client in litigation or disputes with third parties



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- ❖ Examples of circumstances that create ***familiarity threats*** for a professional accountant in public practice include:
 - ✓ A member of the engagement team having a close or immediate family member who is a director or officer of the client
 - ✓ A member of the engagement team having a close or immediate family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement
 - ✓ A director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the engagement partner
 - ✓ A professional accountant accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential
 - ✓ Senior personnel having a long association with the assurance client


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- ❖ Examples of circumstances that create **intimidation threats** for a professional accountant in public practice include:
 - ✓ A firm being threatened with dismissal from a client engagement
 - ✓ An audit client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment for a particular transaction
 - ✓ A firm being threatened with litigation by the client
 - ✓ A firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees
 - ✓ A professional accountant feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question
 - ✓ A professional accountant being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client's inappropriate accounting treatment

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Conflicts of Interest

- ❖ A professional accountant in public practice shall take **reasonable steps to identify circumstances** that could pose a conflict of interest and may create threats to compliance with the fundamental principles.
- ❖ For example, a **threat to objectivity** may be created when a professional accountant in public practice competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client.
- ❖ A threat to objectivity or confidentiality may also be created when a professional accountant in public practice performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.
- ❖ A professional accountant in public practice shall **evaluate the significance of any threats** created by business interests or relationships with the client or a third party and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level.


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- ❖ Depending upon the circumstances giving rise to the conflict, application of one of the following **safeguards** is generally necessary:
 - ✓ Notifying the client of the firm's business interest or activities that may represent a conflict of interest and obtaining their consent to act in such circumstances; or
 - ✓ Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act; or
 - ✓ Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.



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- ❖ The professional accountant shall also determine whether to apply one or more of the following **additional safeguards**:
 - ✓ The use of separate engagement teams
 - ✓ Procedures to prevent access to information (for example, strict physical separation of such teams, confidential and secure data filing)
 - ✓ Clear guidelines for members of the engagement team on issues of security and confidentiality
 - ✓ The use of confidentiality agreements signed by employees and partners of the firm
 - ✓ Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- ❖ Where a conflict of interest creates a threat to one or more of the fundamental principles that **cannot be eliminated or reduced** to an acceptable level, the professional accountant shall not accept a specific engagement or shall resign from one or more conflicting engagements.
- ❖ Where a professional accountant has requested consent from a client to act for another party in respect of a matter where the respective interests are in conflict and **that consent has been refused** by the client, the professional accountant shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.



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Fees and Other Types of Remuneration


- ❖ When entering into negotiations regarding professional services, a professional accountant in public practice may quote ***whatever fee is deemed appropriate***.
- ❖ The fact that one professional accountant in public practice may quote ***a fee lower than another is not in itself unethical***.
- ❖ Nevertheless, there may be ***threats*** to compliance with the fundamental principles arising from the level of fees quoted.
- ❖ For example, a ***self-interest threat to professional competence and due care*** is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.


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- ❖ The existence and significance of any threats created will depend on factors such as the ***level of fee quoted and the services*** to which it applies.
- ❖ The ***significance of any threat shall be evaluated*** and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.
- ❖ Examples of such ***safeguards*** include:
 - ✓ Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
 - ✓ Assigning appropriate time and qualified staff to the task.


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Gifts and Hospitality


- ❖ A professional accountant, or an immediate or close family member, may be offered gifts and hospitality from a client, which may create threats to compliance with the fundamental principles.
- ❖ For example, a **self-interest or familiarity threat to objectivity** may be created if a gift from a client is accepted; an **intimidation threat to objectivity** may result from the possibility of such offers being made public.
- ❖ The existence and significance of any threat will depend on the **nature, value, and intent** of the offer.
- ❖ Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a professional accountant may conclude that the offer is made **in the normal course of business** (without the specific intent to influence decision making or to obtain information) and that any threat to compliance with the fundamental principles is at an acceptable level.



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- ❖ A professional accountant shall **evaluate the significance of any threats** and apply **safeguards** when necessary to eliminate the threats or reduce them to an acceptable level.
- ❖ When the threats **cannot be eliminated or reduced** to an acceptable level through the application of safeguards, a professional accountant in public practice shall not accept such an offer.



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Independence


- ❖ In the case of audit engagements, it is in the public interest that members of audit teams, firms and network firms shall be ***independent of audit clients***.
- ❖ Independence comprises:
 - ✓ ***Independence of Mind*** - The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
 - ✓ ***Independence in Appearance*** - The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.
- ❖ In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team, a firm shall ***identify and evaluate threats to independence***.
- ❖ If the threats are not at an acceptable level, and the decision is whether to accept an engagement or include a particular individual on the audit team, the firm shall determine whether ***safeguards*** are available to eliminate the threats or reduce them to an acceptable level.


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Topics for the Student Papers:

- ❖ Presentation of CECCAR and of the accounting profession regulated by this organisation
- ❖ Presentation of CAFR and of the financial audit profession regulated by this organisation
- ❖ Presentation of ACCA and the ACCA qualification
- ❖ The OECD Principles of Corporate Governance
- ❖ The dualism of one-tier and two-tier board systems around the world
- ❖ The Romanian Code of Corporate Governance issued by the BSE
- ❖ The "Comply or Explain" Statement of OMV-Petrom (or other Company listed on the BSE)


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