

Three Key Points of the Code of Ethics

by Cath Matthews

The nature of the work carried out by our members and practising certificate holders requires a high level of ethics.

The Code of Ethics highlights three key points to our members, which are:

1. Comply with Section 110 the five fundamental principles, all sections in the code lead back to one or more of these five principles.
2. The code introduces enhanced factors to assist when applying Section 120 the conceptual framework. A stronger bond is also made between "threats" to compliance with the fundamental principles and actions that might be "safeguards. Threats for members to comply with the fundamental principles, can be created by wide ranging of facts and circumstances, including financial interests and relationship.
3. Be independent, when required. The code frequently reminds members to be independent when performing audit and review engagements, or other assurance services. The independence rules always have been part of the code, but now they have been moved to a new section, International Independence Standards, which is divided into two subsections (Independence for Audit and Review Engagements (Part 4A) and Independence for Assurance Engagements other than Audit and Review engagements (Part 4B).

Public Interest

The revisions to Part 1 - Section 100, 110 and 200 explicitly recognise that the accountancy profession is entrusted with public confidence in the wide-ranging roles it plays in society and that such confidence is based on the skills and values it brings to its professional activities. Importantly, they reaffirm the profession's responsibility to act in the public interest and the fundamental

role of the Code in meeting that responsibility.

This article considers Part 1 of the code and the duties of our members to the public interest. The Code states that: "A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest". Public interest duty rests at the level of the profession itself, as a whole. Members discharge that duty by following the requirements in the letter and spirit of the Code.

The Conceptual Framework

The code consistently reminds our members to identify, evaluate, and address threats to compliance with the fundamental principles using the conceptual framework, which requires a member to:

- Apply professional business judgment. The code also contains new material on professional judgment that underscores the importance of gaining an adequate understanding of the facts and circumstances in exercising professional judgment,
- Have an inquiring mind which involves considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken and being open and alert to a need for further investigation or other action; and
- Consider the perceptions of a "reasonable and informed third party test", reassess for new information or changes in circumstances. If the threats to ethical compliance are not at an acceptable level, apply effective



safeguards, decline or end the professional activity and observe the reasonable and informed third party test, in many situations the perception of a reasonable and informed third party will be relevant to the resolution of the dilemma.

Clearer provisions are also provided on key topics such as conflicts of interest, inducements, and preparing and presenting information and illustrating how to apply the framework in these contexts. For example, Section 250 provides the factors which are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the member or of the counterparty.

Restrictions on performing certain types of services have been greatly expanded in respect of actual or perceived intent for example, the offer of employment, outside of the normal recruitment process, to the spouse of a member by a counterparty with whom the member is negotiating a significant contract might indicate such intent.

In addition, a stronger link is now made between "threats" to compliance with the fundamental principles and actions that might be "safeguards."

Strengthening Independence

To address a key concern to regulatory bodies, the Code made several improvements to strengthen the code's independence provisions. For example, new and improved provisions in Part 4A and Part 4B assists members to apply the conceptual framework when dealing with threats to independence in various contexts. Independence is fundamental to your reputation and to continued public trust.

Members are required to apply the conceptual framework to identify, evaluate, and address threats to independence. Independence "of mind" and "in appearance" requires adherence to the fundamental principles of integrity and objectivity.

Professional Scepticism

The code provides material on exercising professional scepticism which illustrates how a member's compliance with the fundamental principles supports the exercise of professional scepticism.

Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

Ethical Dilemmas

The Code provides examples where the member may be faced with ethical dilemmas such as conflicts of interests, preparation and presentation of information, acting with sufficient expertise and inducements, including gifts and hospitality. In the course of carrying out work, a member may encounter situations that may not be in keeping with the five fundamental principles. It is not likely to anticipate all situations, but the Code provides a framework, which should guide a member in making decisions and taking actions consistent with the fundamental principles. If you are facing, or think you might be facing, an ethical dilemma, you may wish to seek advice from the Institute or obtain independent legal advice. CPA provides members with a confidential Ethics Support Service, should you have any queries of an ethical nature which you would like to discuss in confidence please email ethicalsupport@cpaireland.ie.

Understanding circumstances that may compromise your integrity and objectivity

Part 1 of the Code establishes the fundamental principles of professional ethics for our members and provides a conceptual framework for applying those principles. Parts 2 and Part 3 clarifies how the conceptual framework is to be applied in specific situations. Members in public practice will also find the guidance in Part 2 relevant to their particular circumstances for example, in the areas of inducements and pressure to breach the fundamental principles.

Lets look at each of these in turn.

Integrity

Integrity matters, while integrity is more of a quality than a skill, it is developed over time. Members should be straightforward and honest in all professional and business relationships.

You could be made aware of unethical practices among clients and it may be difficult to satisfy your obligation, however a member carries a great deal of responsibility, and may be subject to scrutiny by the partners and staff of the practice and the clients who will expect that the trust that they place in their accountant requires the accountant's integrity to be unquestionable. Members should always maintain due care and have the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or firm consequences. The Code goes on to state that integrity implies not merely honesty, but fair dealing and truthfulness. Members must also be straightforward and truthful in their professional activity and in their communications to the Institute.

Objectivity

Members should not allow bias, whether for personal self-interest or because of pressure from another, conflicts of interest or undue influence of others to override professional or business judgments. On occasion, the threats to objectivity due to conflict of interests may be of such significance that adequate safeguards cannot be established. Conflicts of interest arise



from various sources. You may be asked to take a decision on a matter in which the individual has a personal involvement, such as where the member has a family or personal relationship with the client, advise a company that is in direct competition with an existing client and support two clients who are in competition with one another. Members should evaluate the threats arising from conflicts and apply relevant safeguards against the threats materialising. If in doubt, a member should disclose the conflict to relevant parties.

Objectivity and Independence

Objectivity is closely allied to independence. As a member, you must be totally objective and must be without ties to or relationships with the client as these could potentially impair your judgment and impair the overall course of the audit work. Maintaining objectivity and independence is crucial. This is achieved by applying the principles of integrity and serving the public interest. But beyond this, member firms could ensure the objectivity and independence of individuals within their firms by requiring employees to review client lists for potential conflicts of interest, sign independence agreements and establishing quality control policies and procedures to deal with potential conflicts of interest and independence issues.

Professional Competence and Due Care

Clients will expect a high level of professional competence from their accountant. The Code made several improvements to strengthen the code's professional competence and due care provisions. Members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives a competent professional service based on current developments in practice and legislation. To ensure you are competent to provide the services you are delivering act diligently, apply professional knowledge and skill in professional work and maintain competence through relevant CPD.

Confidentiality

Members should respect the confidentiality of all information acquired as a result of professional and business relationships and confidential information must not be disclosed outside the organisation without proper and specific authority unless there is a legal duty right to disclose, or disclosure is in the public interest and permitted by law. Confidential information acquired should not be used for the personal advantage of members or third parties and especially not to secure a personal advantage for anyone.

Professional Behaviour

Members must avoid any action that may discredit their firm or the profession. Members are encouraged to do what "you know is right not what you think is right", comply with relevant laws and regulations and behave in a manner consistent with the professions responsibility to act in the public interest in all professional activities and business relationships.

Conclusion

The Code offers a framework through which ethical dilemmas may be addressed. When faced with ethical conflicts, a member should consider the facts of the situation, related fundamental principles and the Conceptual Framework. Examples in the Code are not intended to cover every possible circumstance but instead outlines key principles and safeguards that could be considered when assessing and resolving ethical problems.

Do not be associated with false or misleading information, make misleading or false statements, whether by omission or inclusion of information that you know is associated with misleading information and always remain "truthful, straightforward and honest" when dealing with your clients and the Institute and always avoid any conduct that the member knows or should know might discredit the profession.



Cath Matthews
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CPA Code of Ethics– Overview of Parts and Sections

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

Section 100 Complying with the Code

Section 110 The Fundamental Principle

Section 120 The Conceptual Framework

Part 2 Members in Business

Section 200 Applying the Conceptual Framework-Members in Business

Section 210 Conflicts of Interest

Section 220 Preparation & Presentation of Information

Section 230 Acting with Sufficient Expertise

Section 240 Financial Interests, Compensation & Incentives Linked to Financial Reporting and Decision Making

Section 250 Inducements, including Gifts & Hospitality

Section 260 Responding to Non-compliance with Laws and Regulations

Section 270 Pressure to Breach the Fundamental Principles

Part 3 Members in Public Practice

Section 300 Applying the Conceptual Framework – Members in Public Practice

Section 310 Conflicts of Interest

Section 320 Professional Appointments

Section 321 Second Opinions

Section 330 Fees and Other Types of Remuneration

Section 340 Inducements, Including Gifts and Hospitality

Section 350 Custody of Client Assets

Section 360 Responding to Non-compliance with Laws and Regulations

Part 4A Independence for Audit & Review Engagements

Section 400 Applying the Conceptual Framework to Independence for Audit and Review Engagements

Section 410 Fees

Section 411 Compensation and Evaluation Policies

Section 420 Gifts and Hospitality

Section 430 Actual or Threatened Litigation

Section 510 Financial Interests

Section 511 Loans and Guarantees

Section 520 Business Relationships

Section 521 Family and Personal Relationships

Section 522 Recent Service with an Audit Client

Section 523 Serving as a Director or Officer of an Audit Client

Section 524 Employment with an Audit Client

Section 525 Temporary Personnel Assignments

Section 530 Long Association of Personnel (Including Partner Rotation) with an Audit Client

Section 600 – Section 610 Provision of Non-Assurance Services (NAS) to an Audit Client

Section 700 Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)

Part 4B Independence for Assurance Engagements other than Audit & Review Engagements

Section 800 Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements

Section 810 Fees

Section 820 Gifts and Hospitality

Section 830 Actual or Threatened Litigation

Section 840 Financial Interests

Section 850 Loans and Guarantees

Section 860 Business Relationships

Section 870 Family and Personal Relationships

Section 880 Recent Service with an Assurance Client

Section 890 Serving as a Director or Officer of an Assurance Client

Section 900 Employment with an Assurance Client

Section 910 Long Association of Personnel with an Assurance Client

Section 920 Provision of Non-Assurance Services to Assurance Clients Other than Audit & Review Engagement Clients

Section 930 Reports that Include a Restriction on Use and Distribution (Assurance Engagements Other than Audit and Review Engagements)