



The September Fest 2020

Technical Stream

Effective Professional Ethics

Presenter:

Uli Schackermann – Consultus Professional Services

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PROFESSIONAL ETHICS FOR ACCOUNTANTS

Effective Professional Ethics

Presented by:
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Today's presentation

- Background to the Code of Ethics
- Implementing ethical consideration
- Understanding requirements of documentation
- Creating more awareness for training
- Section 360 of the Code - NOCLAR

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Background to the Code of Ethics

- First came into force in 2006
- Code is binding on all professional accountants
- Non-compliance with the code – disciplinary action may result
- Code is a public document

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Conceptual Framework Approach

In relation to the five fundamental principles:

- Identify threats to compliance
- Evaluate these threats
- Apply safeguards to reduce or eliminate



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The five Fundamental Principles

- Integrity
- Objectivity
- Professional Competence and due Care
- Confidentiality
- Professional Behaviour



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Threats that can be identified

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



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Addressing threats


All threats not at an acceptable level must be addressed:

Eliminate the threat

- Change circumstances, or
- Resign assignment or client

Reduce threat to an acceptable level

Assess overall effects of threats


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Implementing Ethics in the Firm

- Concerning client acceptance
 - **Integrity, Professional Knowledge and due Care**
 - Know the business client's business
 - Assess the availability of resources
 - Is the proposed fee sufficient?
 - Assess the integrity of the client


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Implementing Ethics in the Firm

- Concerning engagement acceptance
 - **Integrity, Professional Knowledge and due Care**
 - Changed circumstances
 - Knowledge and staff
 - Fee considerations
 - Planning of the assignment

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Implementing Ethics in the Firm

The firm has an obligation to create a work environment that is conducive to providing professional services in an ethical manner.

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Implementing Ethics in the Firm

- Training professional ethics
 - In the firm
 - For partners
 - For professional staff
 - For support staff

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Documentation

- Requirements of the Code
- 'Shall' document (Compulsory)
- Encouraged to document

'Write is Might'

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Implementing Ethics in the Firm

- Ethical decision making
 - The philosophical side
 - The professional side
 - A short examples



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The need for training in Ethics

- Professional Competence
 - During the academic period
 - While providing professional services
 - How to achieve a better understanding of the Code



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The need for training in Ethics

- Dealing with conflicts
 - Commitment versus compliance
 - Creativity versus conformity
 - Respect versus authority
 - Teamwork versus selfishness



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Creating more ethical awareness

- The tone at the top


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Creating more ethical awareness

- Showing what 'right' looks like
- Showing ethical commitment to staff
- Ethical conduct as competitive advantage



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Section 360 of the Code

- Background
- Introduction to section 360 and explanations
- Objectives



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Section 360 of the Code

- The provisions of this section



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Application when auditing

- Obtaining an understanding of the matter
- Addressing the matter



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Application when auditing

- Determining whether further action is needed
- Imminent breach
- Documentation



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Providing Services other than audit

- Obtaining an understanding
- Communicating the matter to external auditors



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Providing Services other than audit

- Considering whether further action is needed
- Imminent breach
- Seeking advice
- Documentation


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Ethics:

- is our business
- Is demanded by regulators and the public
- Builds trust and successful businesses
- Requires commitment and keeping ethically fit


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Thank you, I wish you well in your
ethical journey and your professional
success

You can contact me at:
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Great that you have booked to attend the ethics presentation provided by Omnipro. With this presentation I intend to provide a deeper understanding of the Code and in particular the way the Code must be applied when providing your professional services. The topics I will cover are:

- Background to the Code of Ethics
- Implementing ethical consideration
- Understanding requirements of documentation
- Creating more awareness for training
- Section 360 of the Code - NOCLAR

Before you attend the presentation on Effective Professional Ethics on 20 September as part of the Omnipro's September CPD Fest I would like you to spend a little time in preparation so that your understanding and appreciation of the information provided is enhanced.

I suggest the following for your preparation:

1. Some reading

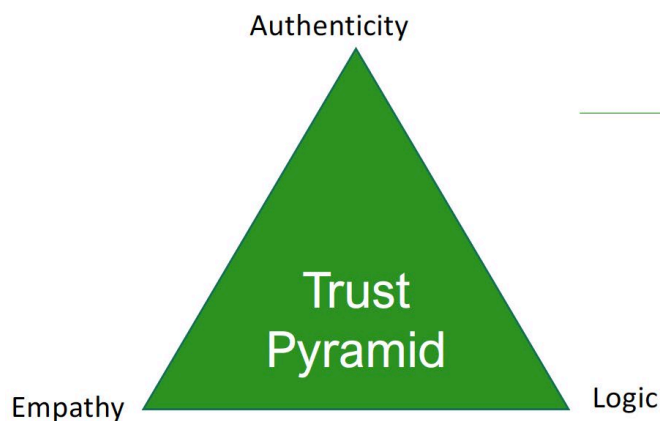
- Read section 100 of the Code of Ethics as it is published by your professional membership organisation. For members of Chartered Accountants Ireland the code can be downloaded at [The Code of Ethics](#)
- Read section 360 of the Code
- Read the practical example of Joe Palmer
- Read 'Essay on documentation'. It concludes with a summary of the provisions of the Code which serves as a ready reference on all matter regarding that topic.
- Read the document 'Study question'. Time permitting, I will discuss this after the presentation.

2. Consider

- 'Document ethical conflict resolution'. You can save this document as a template and have it readily available when documenting ethical compliance with the Code.
- The 'Matrix CFA to Decision-Making is for you use in your working environment supporting your decision-making concerning ethical compliance.



Building Trust Showing you what 'right' looks like



A few words about the trust pyramid that address the trust components of Authenticity, Empathy and Logic.

This pyramid was presented by Professor Francis Frey, a Harvard Business School professor, when she assisted Uber to rebuild the lost trust that that firm experienced a few years back. I want to deal with each component separately:

Authenticity relates to a behavioural dimension that addresses integrity and trustworthiness, these two parts, when perceived by others become a strong basis for building trust.

Working and arguing from a basis of logic that makes sense to those that are interested in our services, is essential and fundamental to building or re-building the trust relationship that should exist between us and other profession and our current and potential customers.

I give a short overview of the accounting and auditing profession's status in society in our modern times.

Accounting and auditing services having been commoditised and are no longer seen as a professional service that requires time, dedication and contemplation; this has added to a decline in compliance with ethical requirements. For years the profession has listened to the argument by management that audit does not really provide any value and in response to that auditors have increasingly offered 'value added' benefits which were said to result from the



audit. This has often side-tracked the type of work done during audit time (we need to add value was the mantra), misdirected the work efforts and also lessened the perception of audit value. The argument then can be accepted that if there is only little value in audit, why do we have to spent time on being ethical about it. In terms of professional performance there are many reasons why we are where we are today; technically very sound and efficient, but morally often underperforming. We may need to return to the question of: What represents a good conduct, good work?, and the answer may be that it is not only monetary performance that is relevant, but also a good measure of ethical conduct in achieving, what is currently considered to be acceptable monetary results. Result based executive remuneration (many executives are trained accountants) is often viewed as excessive and may be leading to a strong decision-making culture based in financial results only rather than a more moral approach in deciding what to do. (I am not trying to equate utilitarianism with ethics, but a consideration of what is 'good' for many of us rather than a few, is helpful.) Much of the answer is in education and training of the professionals throughout their life cycle, beyond just their professional lives. A great tool is to show "what right looks like", as we seem to have forgotten the look and feel of 'right' action.

What I have written above about the auditing services that our profession provides also applies to all the other services offered such as accounting, consulting and taxation. These all are under pressure not only because of technological developments but also because of the decreasing trust in our profession.

Not complying with the Code of Ethics does have professional consequences and many findings are in relation to non-compliance with the Code. Here is a link to a recent decision by the FRC which was published during September. This relates to one of the large professional services firms and clearly shows the relevance of the Code in disciplinary action and also the severity of fines. Remember that the Code is a public document, accessible to all, and is used to complain when the public or our clients perceive that we have not upheld our responsibility to act in the public's interest.

I look forward to seeing you at the event.

September 2020

Uli Schäckermann



Joe Palmer & Co are currently negotiating to take on a new client, a company called Cryptoways, for their auditing and accounting practice. They have been perusing this opportunity for a while. The partners is Joe himself, and he has undertaken to do all the on-boarding work on behalf of the firm.

Of course Joe is committed to follow the requirements of the Code of Ethics and therefore has done a lot of research about the client, its directors and manger and the firm itself. This was mainly based on looking through Google and LinkedIn where he found a lot of information about the individuals, but nothing about the firm itself.

This new client is engaged in IT providing services to their clients based on block chain technology.

While none of the partners have any knowledge about blockchain other than having heard about cryptocurrencies, one of their recently qualified manager, has started additional studies in that subject matter and has a good understanding of the technology.

A large portion of Cryptoways activities are conducted in England and Joe has found a medium sized firm there to assist with the auditing of the client in the UK.

In the a presentation to the partners of the firm to promote the acceptance of the client none of his partners identified any reason why Crytopways should ot be accepted as a new client and Joe was tasked to finalise the client acceptance procedures.

On the basis of the information provided, should the company be accepted as a new client of Joe Palmer & CO?

SUGGESTED DOCUMENTATION

IN RESPECT OF ETHICAL CONFLICT RESOLUTION

Guidance for the completion of relevant documentation when applying the Conceptual Framework Approach. Consider

Section R120.5:

When applying the conceptual framework, the professional accountant shall:

- a) Exercise professional judgment; section (120.5 A1 to 120.5 A3)
- b) Remain alert for new information and to changes in facts and circumstances; and
- c) Use the reasonable and informed third party test described in paragraph 120.5 A4.

The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Section 120.11

The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

SUGGESTED DOCUMENTATION

IN RESPECT OF ETHICAL CONFLICT RESOLUTION

Steps to be taken:

1. **Identify threats** to compliance with the five fundamental principles
2. **Evaluate the threats** identified
3. **Address the threats** by eliminating or reducing them to an acceptable level.

Fundamental principles to be considered:

1. Integrity
2. Objectivity
3. Professional Competence and Due Care
4. Confidentiality
5. Professional Behaviour

Threats identified	Safeguards – describe or N/A
Self-Interest	
Self-Review	
Advocacy	
Familiarity	
Intimidation	

Describe the relevant facts surrounding the issue on which a decision needs to be made?

Describe the ethical issues that you feel are involved here

SUGGESTED DOCUMENTATION

IN RESPECT OF ETHICAL CONFLICT RESOLUTION

Describe the fundamental principles that are involved in this issue

Describe the procedures that you followed to arrive at a decision

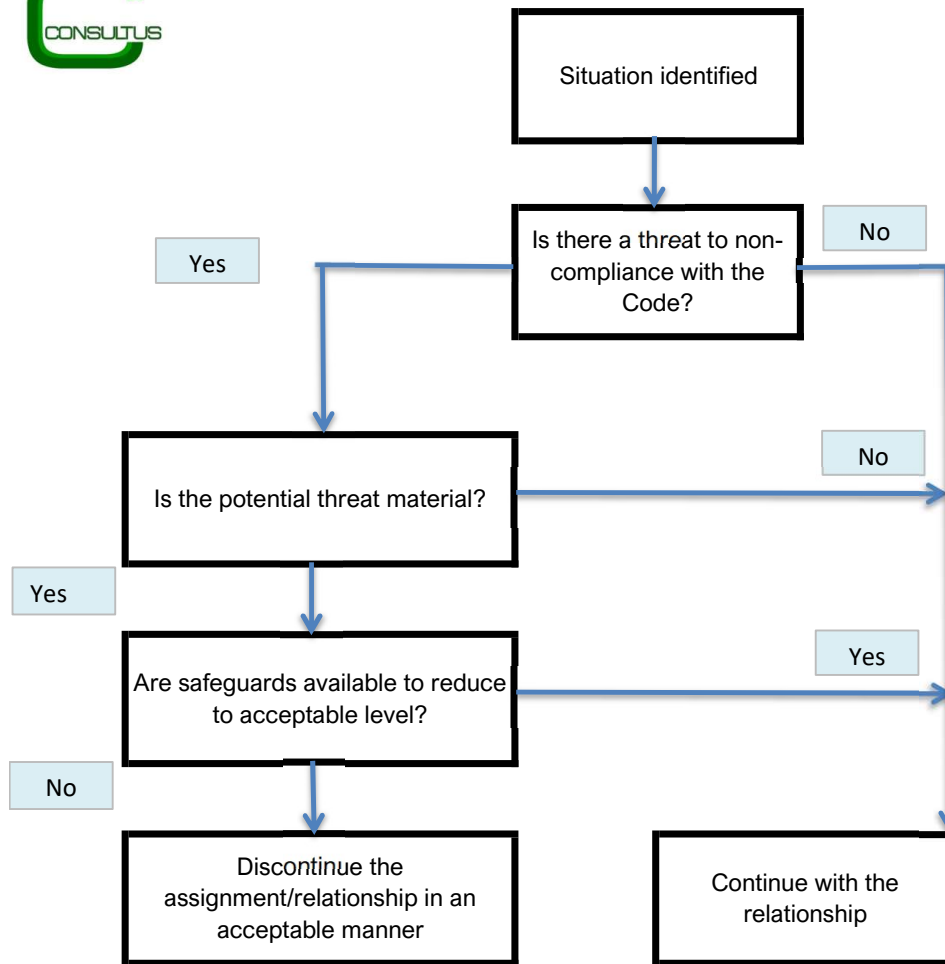
Set out alternatives that you have considered which may be available to address the ethical issue of concern

Your conclusion

Note: Document also any discussion you have held concerning the resolution with relevant parties

Decision Making Guide for Independence

The Conceptual Framework Approach to Decision Making



Note: In respect of each decision, appropriate documentation is required

Note: Each of the conclusions reached, require some documentary evidence and describing circumstances and bases for conclusions

Documentation and the Code of Ethics

Executive Summary

Professional accountants are required to document the basis for decisions that they make when providing professional services. They must act in compliance with the Code and documentation must be carefully prepared so that it is useful to support decisions taken and show how compliance with the Code was achieved.

Introduction

1. Documentation, perhaps not an electrifying subject; but try getting by without it, that's not very easy. Professionals accountants need appropriate documentation for the review of work done, staff performance evaluations, support concerning inspections, or, really important when others institute legal claims against you or the firm.



Code of Ethics requirements

2. Embedded in the Code of Ethics¹ is a professional requirement for documentation, and a professional accountant must always observe these. Sometimes documentation has to be prepared, no option, and at other times the professional accountant is 'encouraged' to document. Be prepared to explain the question why you were not encouraged.

What to document

3. The code of conduct sets out the documentation requirements in different sections of the Code and is descriptive regarding the details that are expected to be covered by the documentation.
4. The more detailed the documented information the better it will be; but documentation can be time consuming costs money and therefore conciseness is of utmost importance. Instances, when documentation is required from professional accountants are coming up more frequently, as the regulators fulfil their functions and the general public is losing trust in the profession. In all instances the Code details that must be covered, but unfortunately, they are different from section to section.

¹ Handbook of the Code of Ethics for Professional Accountants, published by the International Ethics Standards Board for Accountants (IESBA), effective from 15 June 2019

Documentation and the Code of Ethics

5. Particularly in conflict situations the following presents a useful list of topics to be addressed:
 - a) The fundamental principles involved
 - b) The threats to compliance identified and the safeguards employed, detailing their effectiveness
 - c) Description of the relevant facts
 - d) Description of the ethical issues involved
 - e) Description of the procedures employed, references, discussions held
 - f) Alternative solutions considered
 - g) Conclusion reached

When to document

6. Documentation cannot be left as an afterthought when decisions involving professional ethics have been made but must be considered throughout the decision-making process.
7. At times it is argued that documentation is not prepared because of time and fee pressures, but that may soon turn into a false perception when then the professional accountant's professional judgement is challenged. Time spent in responding to enquiries from inspectors, investigators or defending legal challenges, will usually far exceed the time saving gained when documentation is not prepared or poorly written.

Why to document

8. It is straightforward to provide additional information through electronic means, even just in a few words, but indicating that the professional accountant has applied his/her mind to making that decision. It is best to make notes during the process of decision-making and then to document as soon as possible when all relevant details are fresh in mind. The use of template can be very useful and time saving.
9. To demonstrate compliance with the Code, documentation provides best evidence and serves as a record of particular actions and considerations.

How to document

10. Strong documentation is useful when a professional accountant is called upon to defend actions taken; however, poorly prepared evidence can also be used against a professional accountant. Follow the requirements of the Code shown in Appendix 'A' and also the outline provided in section 5 a) to g).

Documentation and the Code of Ethics

11. Usually checklists are used in the work of professional accountants, many of them in an electronic format, but such lists do not show the reason behind a decision, the thought process that were involved, or the research that may have been done to arrive at a response to the item on the checklist, thus great care is advised when using checklists.

Consequences of not documenting

12. Not documenting in compliance with the requirements of the Code and will usually have disciplinary consequences because of the bye-laws of relevant membership bodies and regulators. The failure to comply with the Code can also be used in civil proceedings when the independence of a firm is challenged, or the integrity of a professional accountant is tested when he/she has not adhered to one or more of the five fundamental principles of the Code. Consequences for non-compliance if found guilty in disciplinary proceedings, may vary from a reprimand to the exclusion of membership and can also be in monetary terms

Conclusion

13. Of course, preparing documentation in support of decision-making and action taken can easily be forgotten in the battle to meet deadlines and the heat of the moment. The ethical requirements for documentation in the Code of Ethics have been tightened over the last few years and accountants are best served to become familiar with the prescripts in this regard. In the end documentation pays.

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Appendix 'A'

Documentation and the Code of Ethics

Section of the Code of Ethics which require documentation		
	Section of the Code	Action required
Accountants in Business		
Conflict of interest	210.8 A3	Encouraged
Preparation and presentation of Information	220.10.A1	Encouraged
Responding to non-compliance with laws and regulations	260.23 A1 and 260.27 A1	Encouraged
Pressure to breach the fundamental principles	270.4 A1	Encouraged
Accountants in Public Practice		
Conflict of Interest	310.9 A1, 310.9 A3 and 310.9 A2	Consider
	R310.13	Shall
Responding to non-compliance with laws and regulations	R360.28 and 360.28 A1	Shall
Applying the Conceptual Framework to Independence for Audit and Review Engagements	R400.60 , 400.60 A1, R400.76 , R400.88 and R400.89	Shall
Applying the conceptual framework to independence for assurance engagements other than audit and review engagements	R900.40 , 900.40 A1, R900.54 and R900.55	Shall
All professional accountants		
Complying with the code	100.2 A3	Encouraged

