

ETHICS IN ACCOUNTING



Accounting



It provides information on financial position and profitability of operations

foundation of countries' fiscal, monetary & financial systems

The accountancy profession comprises individual accountants, firms of accountants and accountancy bodies

Roles of accounting Professionals



The traditional external audit function

Tax

Corporate finance advice;

Finance, accounting and treasury functions in industry and commerce

Analysis & decision making for top level management

Tarnished Image



The commercial interests of large firms of accountants had overwhelmed the allegiance to professional integrity

Now a days, The moral and ethical practice of accountancy professionals is questioned by the regulators / legislators / investors / stakeholders

Accounting Scandals

Company	Year	Audit Firm	Country	Type
Xerox	2000	KPMG	United States	Falsifying financial results
Enron	2001	Arthur Andersen	United States	Hide debt from failed deals and projects
AOL	2002	Ernst & Young	United States	Inflated sales
Halliburton	2002	Arthur Andersen	United States	Improper booking of cost overruns
Kmart	2002	PricewaterhouseCoopers	United States	Misleading accounting practices
Nortel	2003	Deloitte & Touche	Canada	Distributed ill advised corporate
Satyam Computer Services	2009	PricewaterhouseCoopers	India	Falsified accounts

Ethics



Ethics can be defined broadly as a set of moral principles or values

That many commonly held ethical values are incorporated into laws

It is practical to have laws that deal with cheating, stealing, lying or deceiving others

It is far more difficult to establish meaningful laws that deal with integrity, loyalty and the pursuit of excellence

Ethics for Professionals



Professionals are expected to conduct themselves at a higher level than most other members of society

The term professional implies a responsibility for conduct that extends beyond satisfying people's responsibilities to themselves and beyond the requirements of our society's laws and regulations

Ethics for Accountants



CPAs and chartered accountants, as professionals, must have a responsibility to the public, to clients and to fellow practitioners that includes honorable behavior, even if that means personal sacrifice

Management and external financial statement users must have the confidence in the quality of the services from a CPA or chartered accountant

Troubles in Recent Year



Increased competition made the public accounting firms more concerned about keeping clients and maintaining profits than with providing high quality audits for users

Public accounting firms are implementing philosophies and practices that are frequently referred to as improved business practices

Regulatory Body



International Federation of Accountants (IFAC) on International Standards of Auditing (ISA);

International Accounting Standards Committee (IASC);

In line with the instructions of professional accounting body of the country; and

In compliance with requirements of corporate laws and relevant regulatory bodies and legislation.

IFAC Code of Ethics



Code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles

Framework for Code of Ethics



Identify threats to compliance with the fundamental principles

Evaluate the significance of the threats identified

Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level

Threats



Self-interest threats

Self-review threats

Advocacy threats

Familiarity threats

Intimidation threats

Self-interest threat



The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior

Self-Review Threats



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



Familiarity Threat occurs when, by virtue of a close relationship with a client, its directors, officers or employees, an auditor becomes too sympathetic to the client's interests.

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

Safeguards



Safeguards created by the profession,
legislation or regulation

Safeguards within the client

Safeguards within the firm's own
systems and procedures

Safeguards created by the profession, legislation or regulation



Educational, training and experience requirements for entry into the profession

Continuing professional development requirements

Corporate governance regulations

Professional or regulatory monitoring and disciplinary procedures

External review by a third party of the reports, returns, communications or information produced by a professional accountant

Safeguards within the Client



When the client's management appoints the firm, persons other than management ratify or approve the appointment

The client has competent employees to make managerial decisions

Policies and procedures that emphasize the client's commitment to fair financial reporting

A corporate governance structure, such as an audit committee, that provides appropriate oversight and communications regarding a firm's services

Safeguards in the work environment



Leadership that stresses the importance of independence and the expectation that members of the teams will act in the public interest

Policies and procedures to implement and monitor quality control of the engagements

Documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the identification and application of safeguards to eliminate or reduce the threats

Conclusion



Reasonable trade-off between the degrees of responsibility and the audit cost to society

A regular monitoring of the accounting firms

Relying on the law-or a set of professional codes may not be always adequate

It is in the profession's self-interest to maintain public trust in the competent performance of the accounting profession

Q & A





Thank You