

RELEVANT TO ACCA QUALIFICATION PAPER F1 AND
FOUNDATIONS IN ACCOUNTANCY PAPER FAB

A question of ethics

In December 2011 ACCA introduces the first exam papers for the new Foundations in Accountancy Suite of qualifications. Thereafter, ACCA will offer the Accountant in Business exam as the Paper F1 and FAB components of the ACCA Fundamentals Knowledge module and the Diploma in Business respectively. The latter replaces CAT Paper 5, *Managing Systems and People*, the last sitting of which took place in June 2011.

The majority of subjects that have to be studied for these qualifications from December 2011 are carried over from the previous CAT Paper 5 syllabus and from the previous Paper F1. However, there are several changes, including the addition of a whole new section on ethics. This article gives an overview of ethics and provides a platform for further study on this vitally important aspect of the work of the professional accountant. An article on the differences between the previous syllabuses and the new ones – for this and the other two papers at this level – was published in the [June issue](#) of *Student Accountant*.

The new Paper F1/FAB *Syllabus* states that, on completion the student should ‘recognise that all aspects of business and finance should be conducted in a manner which complies with and is in the spirit of accepted professional ethics and professional values’. The *Study Guide* sets out four sets of learning outcomes (Sections F1–4):

- fundamental principles of ethical behaviour
- the role of regulatory and professional bodies in promoting ethical and professional standards in the accountancy profession
- corporate codes of ethics
- ethical conflicts and dilemmas.

These are considered in turn in this article. It must be stressed that this is intended to be an introduction, and further detailed study will be necessary to acquire the required level of knowledge and understanding.

FUNDAMENTAL PRINCIPLES OF ETHICAL BEHAVIOUR

What is ethics?

Ethics is concerned with what society considers to be right or wrong. It therefore relates to standards of behaviour. At first this may appear to overlap with one purpose of law, in that law seeks to address behaviour of which society disapproves. However, ethical principles may be adopted that discourage behaviour that is undesirable but legal. For example, during the expenses scandal that arose in the UK in 2009 regarding claims for reimbursement by politicians, one politician responded to criticism by stating that she had done nothing illegal. This rather missed the point, as the general public may still regard legitimate expenses claims as inappropriate, and therefore unethical.

Ethics lacks the certainty usually provided by the law, as individuals may consider some things that are legal to be unethical. In turn, views on morality differ, so even

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when ethical principles are codified by professional bodies or commercial organisations, they may be regarded differently according to the moral principles of each individual.

All professions rely on their practitioners adopting not only legal but ethical standards. If accountants behave unethically, their clients will lose confidence in their services, and society in general will no longer trust them or feel that they act in the public interest. The potential effects of this would be devastating, not only to accountants themselves, but the profession and its stakeholders, including individuals, organisations and others affected directly or indirectly by their work.

Approaches to ethics

Ethical behaviour may be defined in terms of **duties**. Many philosophers have argued that certain core duties are imperatives, and as such will always apply, regardless of circumstances. Absolutists (or dogmatists) admit no exceptions, as these duties are believed to be sacrosanct. They often have their foundations in religion or deeply embedded values, universally accepted by society. The most common examples are the duties not to kill and to always tell the truth. This approach to ethics is sometimes called the deontological approach (from the Greek word 'deon', meaning 'duty').

Relativists (or pragmatists) accept that duties are important but are prepared to admit exceptions. For example, they may argue that it is right to kill if the cause is just, or to tell a lie if the purpose is noble. So if a frail and terminally ill loved one asks 'Am I dying?', it may sometimes be right to lie.

Codes of conduct issued by professional bodies, and corporate codes issued by business organisations, define responsibilities in terms of duties, and may provide guidance on the more common exceptions that apply. As it is impossible to define the appropriate response to every single human interaction, these codes can only serve as sets of minimum standards and have to rely on the inherent willingness of practitioners to deduce what is right or wrong.

Ethical behaviour may also be defined in terms of **consequences**. This is sometimes referred to as the teleological approach (from the Greek word 'telos', meaning 'the end'). Here, the right course of action is that which will result in the most acceptable outcome. Most acceptable to whom? This is dependent on the ethical stance of those who determine what is an acceptable outcome.

Utilitarians regard the right course of action as that which will benefit the majority, or serve the 'greater good'. In doing so, the ethical decision may disregard any impact on the minority, believing that they should defer to the greater needs and influence of the majority. On the other hand, pluralists pursue consensus in order to accommodate the needs of both the majority and the minority. Finally, egoists favour courses of action that are right for them. This last, seemingly selfish approach to right and wrong was supported by Adam Smith, the 18th century UK economist, who suggested that pursuit of self-interest is often a catalyst for the creation of prosperity through entrepreneurial innovation and risk taking.

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A practical application of these concepts may be considered in relation to the conflicting views on the use of mobile telephones on commuter trains. Should railway users be denied the right to use their mobile telephones while travelling on trains? If one assumes that the majority will tolerate constantly ringing telephones and loud conversations during a railway journey:

- the utilitarian will propose that mobile telephones are acceptable to most commuters, so the minority will have to put up with them
- the pluralist accommodates both groups by setting aside a limited number of 'quiet' carriages in which mobile telephones cannot be used
- the egoist decides on the course of action that is most desirable for him, which may in turn be based on profit motive or personal belief.

Using the duty-based and consequentialist-based approaches to ethical decisions may result in different potential outcomes. Consider the case of a highly successful and dynamic chief executive officer who has been caught up in a scandal relating to his personal life, reported widely in the national newspapers and on television, with resultant embarrassment to his organisation. Should he resign? The duty-based approach may suggest that, as a senior executive, he should adopt high moral standards in and out of work, and because he has failed to meet those standards, he should resign. The consequentialist may agree, stating that by not resigning it will result in damage to the reputation of the organisation as long as he remains in office. However, the consequentialist may also disagree, arguing that by resigning the chief executive officer deprives the organisation of his knowledge, skill and experience, which will result in a lack of leadership and direction, at least in the short term. This argument may be reinforced by the view that, in future, other organisations may choose to accept resignations on the same basis, even though the individual's personal life should have nothing to do with his work.

Ethical principles

Led by international bodies such as the International Federation of Accountants (IFAC) and its many member associations and institutes, several principles have been identified as being of crucial importance to the profession:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behaviour.

These are discussed in more detail later in the article, as they form the fundamental principles of the ACCA Code on Ethics and Conduct.

It is not adequate to simply identify and articulate the above principles. In order to put them into practice, organisations must adopt values that will promote adherence to the principles, thereby maintaining the confidence of stakeholders. Accountants have to recognise that their duties are not limited to what clients expect of them, and must accept that they have a **fiduciary duty**, or duty of absolute trust, to a wide range of stakeholders. Table 1 sets out additional values that should be adopted.

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Table 1: Organisational values

Value	Meaning
Openness	Being full and complete in the provision and disclosure of information and reasoning behind decisions
Trust	Relying on the judgments and information provided by other professionals, and embracing values that encourage others to rely on our judgments
Honesty	Not only telling the truth, but being prepared to give complete information on which others can fully depend
Respect	Treating others with dignity and adopting a professional manner
Empowerment	Ensuring that those who are entrusted with responsibilities have the authority to carry out the tasks necessary to fulfil their duties
Accountability	Taking full responsibility for the outcomes of our work, including work carried out on our behalf by others

CORPORATE CODES OF ETHICS

Corporate codes of ethics are published by private sector organisations in order to communicate their values and beliefs to stakeholders. These include:

- customers, whose buying decisions may be influenced by ethical considerations
- shareholders, whose investment decisions may be influenced by ethical factors
- employees, who have to know the standards expected of them
- suppliers, who need to understand the expectations of their customers and also that they will be treated ethically during the course of the commercial relationship
- lobby groups, who may have specific interests in certain practices of the organisation
- the community in which the organisation is situated, which may seek reassurance that the organisation will act in its interest as an employer and as a good 'corporate citizen'.

The contents of a typical code of ethics are set out in Table 2.

Table 2: Contents of a code of ethics

Commitment	Content
Core principles	These should refer not only to its commercial objectives but the manner in which they will be pursued. For example, they may state social and environmental commitments as well as best practices that will be adopted
Financing	How share and loan capital will be raised. This must also allude to how the organisation will deal with providers of share and loan capital, confirming that its published statements will be honest

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Customers	Customers may refer to the statement in order to confirm the minimum standards that can be expected from their purchases, especially in terms of benefits to be derived from the products and services. They may also be interested in matters such as customer service and distribution channels, supply chain policies (such as 'Fairtrade' commitments, organic ingredients, and so on) and animal testing
Suppliers	The code may refer to how suppliers will be chosen and the standards to which they must adhere. It may also set down the terms of business on which suppliers are engaged
Employees	The code should confirm employment practices in relation to engagement of workers, including equal opportunities and diversity, working conditions and how employees will be developed
Community	Organisations bring value to the community by providing employment and generating income, but may also have adverse effects through traffic congestion, emissions and even unemployment if the company decides to downsize or relocate. The code may provide assurances in respect of such factors
Lobby groups	Lobby groups express specific concerns relating to factors such as raw materials, working conditions and environmental impact. The code may address such issues by stating broad policies

THE ROLE OF REGULATORY AND PROFESSIONAL BODIES

Ethical behaviour can be promoted, or even enforced, in several ways.

If specific unethical practices are considered to be widespread and detrimental to the public at large, a national government or supra-national authority may take action to curtail such practices by making them illegal. The most obvious examples are discrimination in the workplace and selling high interest consumer loans to vulnerable people. Many governments have outlawed various forms of discrimination by passing national legislation and have introduced disclosure requirements at pre-application stage when personal borrowers are considering taking out loans that may not be in their best interests.

It is not possible to legislate on every matter of concern, however, so professional bodies have a vital role to play in controlling unethical behaviour. Professions are characterised by offering specialist services that are underpinned by certain minimum educational standards. Unfortunately, although it is possible to teach ethics, this does not ensure that those who learn about it will necessarily become ethical as a result. For this reason, most professional bodies set ethical standards to which all their members are expected to adhere. Failure to do so may result in censure or even removal from membership.

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The accountancy profession has to consider ethical issues not only nationally but also in a global context. It is in this regard that IFAC has a role to play. IFAC is a global representative body for accountants, with 164 members and associates from 125 countries. It develops international standards on ethics, auditing and assurance, education and public sector accounting standards. Under the auspices of IFAC, the International Ethics Standards Board for Accountants (IESBA) develops ethical standards and guidelines. In turn, the work of IESBA is overseen by the Public Interest Oversight Board.

The **IFAC Code of Ethics** is available free of charge at www.ifac.org. It sets out internationally agreed standards, starting with a definition of fundamental principles and going on to elaborate on specific matters relevant to accountants in public practice and accountants in business. When preparing for Paper FAB, it is useful to refer to this Code. It is also relevant to Papers F8, P1, P3 and P7.

In common with other major accountancy bodies, ACCA publishes a **Code of Ethics and Conduct**, as well as a non-examined, online Professional Ethics module. Both are available at www.accaglobal.com. All ACCA members are bound by the provisions of this code, so it is not only desirable but essential reading. The ACCA Code also defines fundamental principles. It elaborates on the principles discussed earlier in the article as follows:

- Integrity – ‘Members should be straightforward and honest in all professional and business relationships.’ The *ACCA Rulebook* (and the IFAC Code of Ethics) goes on to state that integrity implies not merely honesty, but fair dealing and truthfulness.
- Objectivity – ‘Members should not allow bias, conflicts of interest or undue influence of others to override professional or business judgements.’
- Professional competence and due care – ‘Members have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. Members should act diligently and in accordance with applicable technical and professional standards when providing professional services.’
- Confidentiality – ‘Members should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority, or unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of members or third parties.’
- Professional behaviour – ‘Members should comply with relevant laws and regulations and should avoid any action that discredits the profession.’ The *ACCA Rulebook* goes further, and states that members should behave with courtesy and consideration towards all with whom they come into contact in a professional capacity.

The Code then goes on to elaborate on specific responsibilities in relation to many aspects of practice, including money laundering, whistleblowing responsibilities, advertising and publicity, the descriptions of members and firms, changes in

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professional appointments, legal ownership and access to books and other documents, professional liabilities and clients' monies.

ETHICAL CONFLICTS AND DILEMMAS

As the number of human interactions in business is infinite, it follows that professional accountants will be faced with conflicts of interest and ethical dilemmas that they have to address.

Conflicts of interest arise from various sources. The accountant may be asked to:

- take a decision on a matter in which the individual has a personal involvement, such as where the accountant has a family or personal relationship with the client
- advise a company that is in direct competition with an existing client
- support two clients who are in competition with one another.

The ACCA Code provides clear guidance on conflicts of interest. It states that members should not accept engagements in which such conflicts arise, or even where there is a possibility of such conflicts arising. Members should evaluate the threats arising from conflicts and apply relevant safeguards against the threats materialising. If in doubt, the accountant should disclose the conflict to relevant parties.

Ethical dilemmas arise when the accountant has to consider two or more seemingly incompatible ethical obligations. For example:

- he may be asked by a manager to remain silent about certain matters that would have an adverse impact on the financial accounts of an organisation, thereby testing the accountant's loyalty to his manager on the one hand, and his responsibilities as a professional accountant on the other
- he may consider that the policies of his employer are unethical and may find it difficult to reconcile personal values with those of the organisation
- he may be advising a long-standing client who is also a personal friend, only to discover that one of the client's family is behaving dishonestly, thereby playing the bond of friendship against the professional duty to give objective, truthful advice.

The **IFAC Code** offers a framework through which ethical dilemmas may be addressed. When faced with ethical conflicts, the decision taker should consider:

- the facts of the situation
- the ethical principles involved
- related fundamental principles
- relevant internal procedures
- the alternative courses of action
- consequences of each alternative course of action.

CONCLUSIONS

Ethics is not an easy subject but one that has become critically important in a business environment in which failure to adhere to proper standards can have a devastating effect on organisations, investors, suppliers, employees and, of course, customers. Looking back over the past 25 years, there have been several high-profile corporate scandals that have all involved the human ethical failings to some degree. They include Enron and WorldCom in the US, Parmalat in Italy and Maxwell Communications, Polly Peck and Barings Bank in the UK. Arguably, the revolution in

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information communications technology has meant that more people know about these issues, and more quickly than ever before, and that such events are nothing new. Perhaps this is one of the very reasons why professions must constantly reaffirm their commitment to ethical values and high standards of moral behaviour.

Bob Souster is examiner for Papers F1 and FAB