

**Continuing Professional
Development Program**
on
**Professional Ethics- A Management
Accountant's Perspective**

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ICMAB

THE INSTITUTE OF COST AND MANAGEMENT
ACCOUNTANTS OF BANGLADESH

**PROFESSIONAL ETHICS AND INTEGRITY-A
MANAGEMENT ACCOUNTANT'S PERSPECTIVE**

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**PROFESSIONAL ETHICS AND INTEGRITY-
A MANAGEMENT ACCOUNTANT'S PERSPECTIVE**

This humble paper is prepared on the premise that Ethics and Integrity are not concepts that exist only in the textbooks and corporate Code of Conduct, these are values ingrained in our mind and heart and brain, and as essential and indispensable as the air we breathe.

In this context, I quote the great visionary leader Lee Kuan Yew who said that:

“We don’t have to be lawyers to understand right, wrong, good, evil. This is basic and fundamental in the values of a people”.

-Lee Kuan Yew (1967)

Ethics is a vast field of study that raises the most basic question that any human can ask: **How should I live my life?**

One reason to study ethics is to help you to decide right from wrong, to decide what you should do. Another reason is to help you to decide they type of person you should be.

All professionsmedical, legal, engineering and of course accounting, have their own code of ethics, evolving over the ages. In our case, there appears to have been a reference to ethics even is Luca Pacioli’s book, the first book in the world on book-keeping and accounting. To quote the Wikipedia entry on **Accounting ethics**.....it “ is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics. Accounting ethics were first introduced by Luca Pacioli, and later expanded by government groups, professional organizations, and independent companies.”

Robert H. Montgomery, describing ethics in accounting has said that:

“Accountants and the accountancy profession exist as a means of public service; the distinction which separates a profession from a mere means of livelihood is that the profession is accountable to standards of the public interest, and beyond the compensation paid by clients.”

The nature of the work carried out by accountants and auditors requires a high level of ethics and integrity, mainly for the reason that external stakeholders and users rely heavily on the work that we perform as management accountants (in preparing the financial statements) and auditors (in verifying and expressing an opinion on the statements).

Shareholders, potential shareholders, and other users use this information to make an informed decision about investment.

Knowledge of ethics can help accountants and auditors make a right choice which, although it may not benefit the company, will benefit the public who relies on the accountant/auditor’s reporting. This puts us, the professional accountants, often in an ethical dilemma because the choice we are required to make, may cost us an attractive job, or a lucrative client.

And may be that is the reason why some great thinkers say that “Integrity” does not only mean Honesty, it means both Honesty *and* Courage.....to make the right choice, to defend it, and to accept the consequences.

Ethics and Integrity for a Management Accountant

More often than not, when we talk about Professional Ethics for Accountants, we mean the accountants in practice. Indeed, the code of ethics for practicing accountants is much more formalized, publicized, monitored, and enforced. However, the management accountants or alternatively, the accounting working in industry and business also need to follow professional ethics, and have to nurture a strong sense of professional integrity.

Unfortunately, this is easier said than done, often there is an apparent conflict between professional ethics and business ethics. Perhaps no other discipline faces the amount of skepticism that commonly confronts business ethics. Many people view ethics as a mixture of sentimentality and personal opinion that gets in the ways of efficient functioning of business. After all, if anything is seriously wrong, the law would prohibit it, right?

Well, it is not right to let things go on until, or if at all, the law is enforced. If things are allowed to go out of hand.....we know what happens. Enron, for example. Enron is more than a story about a company going bust, it is about a business system that is characterized by power abuse, conflict of interest and an aggressive in-your-face attitude towards laws and rules of accounting and basic accounting ethics.

Not only Enron, the accounting profession around the world suffered a massive blow to their image as well. CFO Andrew Fastow was condemned as much as the Chairman Ken Lay, and CEO Jeffrey Skilling. New laws were promulgated to bring CFOs under more strict scrutiny, and last but not the least, the mighty Arthur Andersen, one of the then Big 6 Accounting Firms, collapsed.

VARIOUS GUIDELINES FOR PROFESSIONAL ETHICS AND INTEGRITY

IFAC Guidance for Professional Ethics and Integrity

Our main guidance for Professional Ethics and Integrity is the Handbook of the Code of Ethics for Professional Accountants, published by the International Ethics Standards Board for Accountants (IESBA). According to the Preface, this publication was published by the International Federation of Accountants (IFAC). Its mission is to serve the public interest by: contributing to the development of high-quality standards and guidance; facilitating the adoption and implementation of high-quality standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants, and promoting the value of professional accountants worldwide; and speaking out on public interest issues.

Part C of the Guidelines deals with Accountants in Practice, it has several sections, namely:

Section 300 Introduction	
Section 310 Potential Conflicts	
Section 320 Preparation and Reporting of Information	
Section 330 Acting with Sufficient Expertise	
Section 340 Financial Interests	
Section 350 Inducements	

The Guidelines, originally issued in 2013, have been amended, and this paper contains the extracts of the Guidelines as an Annexure.

ICMAB Code of Ethics

ICMAB's Professional Ethics and Code of Conduct, which is enclosed with this paper, is a very valuable and comprehensive document, which provides detailed guidance for our members, both in practice, and in employment. The fundamental principles are the same as that on other international professional bodies, e.g CIMA.

The Code of Ethics recognize that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objectives require four basic needs to be met:

- (a) Credibility in information and information systems;
- (b) Professionalism identified by employers, clients and other interested parties;
- (c) Quality of service carried out to the highest standards of performance; and
- (d) Confidence that there is a framework of professional ethics to govern the provision of services.

In order to achieving the objectives of the accountancy profession, Cost and Management accountants have to observe fundamental principles, which are:

(a) Integrity

A cost and management accountant should be straightforward and honest in performing his services.

(b) Objectivity

A cost and management accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.

(c) Competence

A cost and management accountant must refrain from performing any service which he is not competent to carry out unless proper advice and assistance is obtained to ensure that the service is performed to the satisfaction.

(d) Confidentiality

A cost and management accountant must not disclose information acquired during the course of his engagement and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

(e) Professional Behaviour

A cost and management accountant should act in a manner consistent with the good reputation of the profession.

As professionals in the field of Cost and Management Accounting, the members of the Institute are bound by a code of professional ethics. This code stipulates and binds them to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

ICMAB Guidelines are hereby setting standards for code of ethics of Cost and Management Accountant such that a member will:

- (i) maintain at all times independence of thought and action;
- (ii) not express an opinion on cost / financial reports or statements without first assessing her or his relationship with her or his client to determine whether such Member might expect her or his opinion to be considered independent, objective and unbiased by one who has knowledge of all the facts; and
- (iii) when preparing cost / financial reports or statements or expressing an opinion on cost / financial reports or statements, disclose all material facts known to such Member in order not to make such cost / financial reports or statements misleading, acquire sufficient information to warrant an expression of opinion and report all material misstatements or departures from generally accepted accounting principles.
- (iv) not disclose or use any confidential information concerning the affairs of such Member's employer or client unless acting in the course of his or her duties or except when such information is required to be disclosed in the course of any defense of himself or herself or any associate or employee in any lawsuit or other legal proceeding or against alleged professional misconduct by order of lawful authority or any committee of the Society in the proper exercise of their duties but only to the extent necessary for such purpose;
- (v) inform his or her employer or client of any business connections or interests of which such Member's employer or client would reasonably expect to be informed;
- (vi) not, in the course of exercising his or her duties on behalf of such Member's employer or client, hold, receive, bargain for or acquire any fee, remuneration or benefit without such employer's or client's knowledge and consent; and
- (vii) take all reasonable steps, in arranging any engagement as a consultant, to establish a clear understanding of the scope and objectives of the work before it is commenced and will furnish the client with an estimate of cost, preferably before the engagement is commenced, but in any event as soon as possible thereafter.
- (viii) conduct himself or herself toward other Members with courtesy and good faith;
- (ix) not accept any engagement to review the work of another Member for the same employer except with the knowledge of that Member, or except where the connection of that Member with the work has been terminated, unless the Member reviews the work of others as a normal part of his or her responsibilities;
- (x) not attempt to gain an advantage over other Members by paying or accepting a commission in securing management accounting work;
- (xi) not act maliciously or in any other way which may adversely reflect on the public or professional reputation or business of another Member.
- (xii) at all times maintain the standards of competence expressed by the Institute from time to time;

(xiii) undertake only such work as he or she is competent to perform by virtue of his or her training and experience and will, where it would be in the best interests of an employer or client, engage, or advise the employer or client to engage, other specialists.

CIMA CODE OF ETHICS

Another important source of guidance is the CIMA Code of Ethics, January 2015 edition. This is a 58 page document, which discusses Ethical Issues in detail. This is available on the internet, and may be downloaded for self-study.

CIMA is committed to upholding the highest ethical and professional standards and to maintaining public confidence in management accounting. CIMA members and students are required to comply with the CIMA Code of Ethics and to adopt its five fundamental principles to their working lives.

	<p>(a) Integrity – to be straightforward and honest in all professional and business relationships.</p>
	<p>(b) Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.</p>
	<p>(c) Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.</p>
	<p>(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.</p>
	<p>(e) Professional Behaviour – to comply with relevant laws and regulations and avoid any action that discredits the profession.</p>

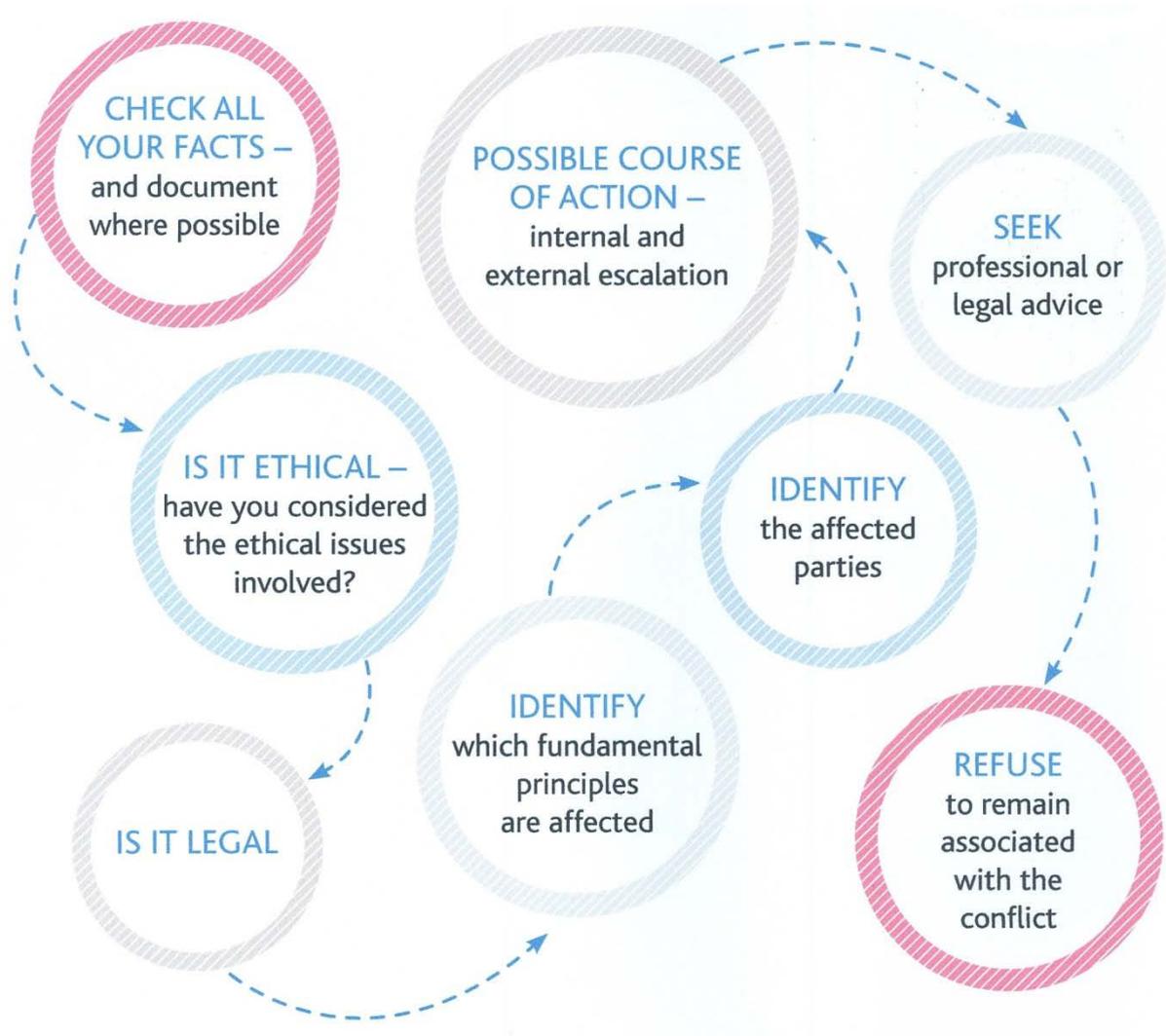
CIMA ETHICS CHECKLIST

There is another valuable reference material, which is the CIMA Ethics Checklist, which is reproduced here. This is concise, comprehensible, and easy to follow. It's message is simple:

“YOU NEED TO ACT QUICKLY WHEN FACING AN ETHICAL DILEMMA”

The longer you leave it, the more chance there is for repercussions for the organisation, yourself

and the standing of the profession. CIMA's Code of Ethics can help you identify and deal with situations where professional integrity may not exist.



The Checklist is as follows:

1. Check all your facts – and document where possible

- a. Identify all relevant facts.
- b. Do not rely on word of mouth, or assumptions. Is it really your problem?
- c. Can anybody else help?

2. Is it ethical – have you considered the ethical issues involved?

- a. Does it feel right?
- b. How would you feel if you saw it in a newspaper?
- c. How would you feel about your peers, friends, family knowing about it?
- d. Have you referred to the CIMA Code of Ethics?
- e. Have you referred to your internal Code of Ethics/Conduct and other internal policies?

3. Is it legal?

- a. Is the issue in question regulated by the law – national and international?
- b. Does it comply with rules, policies, standards and contracts imposed by relevant regulators/bodies and by your employer?

4. Identify which fundamental principles are affected

- a. Integrity
- b. Objectivity
- c. Professional competence and due care
- d. Confidentiality
- e. Professional behavior

See next page for the fundamental principles in more detail.

5. Identify the affected parties

- a. Who are the individuals, organizations and key stakeholders affected?
- b. In what way are they affected?
- c. Are there conflicts between different stakeholders?
- d. Understand the effects of non-action to the organisation, to yourself and to society.

6. Possible course of action – internal and external escalation

- a. Escalate internally; consider grievance procedures.
- b. Document every action you take to resolve the conflict.
- c. Escalate externally to auditor, legal advisors, professional body.

7. Seek professional or legal advice

- a. Your internal whistle-blowing or speak up helpline.
- b. Legal advisors.
- c. CIMA ethics helpline: free to members and students.

8. Refuse to remain associated with the conflict

- a. If resolution seems unlikely, disassociate yourself from the issue – in writing if necessary.
- b. Legal advice may be needed if this affects your employment status or if you are implicated in any way with the issue.

IMPLEMENTING PROFESSIONAL ETHICS AT THE WORKPLACE

The Guidelines and the Codes provide us the rules and regulations. However, practical implantation of these guidelines in the workplace requires our own judgement. We have to apply these considering many practical factors. The starting point would be to develop good work ethics.

Your personal values, and the way you act according to them, are your ethics. Your ethics are displayed in what you do, what you say, how you deal with people, and generally, in the way you live your life. The following are some of the ways you can demonstrate good ethics in the workplace:

1. Maintain personal dignity by wearing proper clothes, using proper language, and practicing good manners.
2. Be sincere and competent in your work. Make efforts to improve your efficiency.
3. Be punctual. Any changes and delays in meetings or other programs must be communicated to your counterpart without delay. Always apologize for unintentional and unavoidable delays.

4. Be courteous and respectful to superiors; and polite and gracious to your subordinates. Be sensitive and considerate of other people.
5. Be honest in your financial dealings. Do not use company resources for your personal purpose. Do not accept bribes from, or get into any private deals with company clients and suppliers. Do not inflate expenditures or submit fake documents. Do not tamper with the accounts.
6. Be pleasant and positive in your relationship with your colleagues. Be a good team player. Appreciate other people's achievements, and do not be jealous. Offer constructive criticism and recommendations, only if considered necessary and appropriate. Encourage and help others to do their best.
7. Accept criticism in a sporting manner. Pay attention to valuable advice and constructive criticism, and make efforts to improve yourself.
8. Do not avoid responsibilities, and dump your work on others. If any of your colleagues has shared your work in case of an unavoidable emergency, be thankful, and return the favour some other time.
9. Do not participate in office gossip. Do not try to victimize anyone else. Do not pry into, or interfere in the personal affairs of other people.
10. Make an effort to preserve the dignity of another. Keep confidences and maintain confidentiality
11. Do not try to take credit for other people's achievements. Do not try to steal other people's ideas.
12. Honour your commitments to the company, colleagues and the clients. Be loyal and do not try to sabotage the reputation of your company, its products, and its employees. If you have access to confidential information, the company may require you to sign a non-disclosure agreement. Do not violate the agreement.
13. Remember that you are responsible for the work performed by your subordinates, so review their work carefully, and accept responsibility if any mistakes are discovered. Take corrective action promptly.
14. Be aware of situations which may cause conflict of interest, e.g a close relative is an applicant for a position, and you are one of the interviewers, or a close relative has submitted a bid where you are the evaluator. Make proper and timely disclosure, voluntarily.

RISK OF WEAK ETHICS AND INTEGRITY

Holding a position of power without having strong ethics and integrity makes us vulnerable to many temptations, which, in the worst case scenario, may lead to fraud and corruption. In this context, we refer to certain findings of the 2014 Global Fraud Study entitled "Report to the Nations on Occupational Fraud and Abuse" conducted by the Association of Certified Fraud Examiners (ACFE), the largest Anti-Fraud organization in the world. Some of the findings were as follows:

1. 42% of occupational frauds were committed by employee-level perpetrators, 36% by Managers, and 19% by owner/executives.
2. It takes about 12 months to detect a fraud committed by an Employee, frauds committed by Managers remain undetected for as long as 18 months.
3. About 50% of the perpetrators of fraud were within the age limit of 36-50 years.
4. A fraudster's tenure with his or her employer tends to have a strong correlation with the size of the fraud. Individuals who have worked for an organization for a long time might engender

trust from their co-workers or supervisors, which can mean their work is not reviewed as closely as it should be. Long-term employees might also be more familiar with an organization's anti-fraud controls – and the gaps in those controls.

5. Perpetrators with a university degree caused median losses that were twice as high as those with only some university education, and two-and-a-half times higher than those with high school degree or less.
6. There were seven departments that each accounted for 5% or more of all fraud cases: Accounting, Operations, Sales, Executive/Upper Management, Customer Service, Purchasing and Finance. The department with the greatest incidence of fraud was Accounting.

BRINGING A CHANGE IN THE WORKPLACE

With a sound background in professional education, and awareness of professional ethics, the management accountants can bring a positive change in the organizations they work for. They should lead from the front in creating an ethical environment. They may achieve this by the following means:

- Formulating a Code of Ethics and Code of Conduct
- Ensuring that the existing employees and new joiners are aware of the Code
- Hold periodic training on Code of Ethics
- Establish a sound screening system at the time of recruiting employees
- Establish a reporting system (Whistleblowing / Hotline)
- Make sure that the information received from whistleblowers are verified, discreetly
- Take adequate follow up action
- Ensure that nobody is reprimanded or punished without proper evidence

CONCLUSION

As members of a respectable and honourable profession, as responsible members of the society, and most importantly, as parents and heads of families, it is essential for us to be constantly conscious to maintain our professional integrity and ethics. Lack of ethics has far reaching impact, as Mr. Vinod Rai, former CAG of India has said in his book Not Just An Accountant:

“History is witness to the fact that any dilution of morality has eventually led to degeneration of societal values, pushing the country into a quagmire from which it takes ages to emerge. In fact, any ethical lack leads to inefficient or even bad governance. As a direct and immediate consequence, economic growth bypasses the poor, and we fail to reap the full potential of development. “

End