

1

Principles of professional ethics

this chapter covers . . .

The aim of this chapter is to introduce you to the principles of professional ethics. We will look at what 'professional ethics' means and describe the fundamental ethical principles that members of the AAT should follow. These principles are followed in 'Guidelines on Professional Ethics' published by the AAT.

Specific areas covered include:

- *the fundamental principles of professional ethics*
- *the people to whom these ethics apply*
- *the reasons why professional ethics are necessary*
- *the objectives of the accounting profession*

AN INTRODUCTION TO PROFESSIONAL ETHICS

what are ethics?

Firstly, a definition:

The professional ethics of an organisation are the moral principles or standards that govern the conduct of the members of that organisation.

You may have heard people refer to the fact that a person or an organisation has done something that is 'unethical', or that they themselves wouldn't do something because it was unethical. For example, you would consider it unethical for a doctor to give information to a newspaper about the treatment given to a celebrity patient without the patient's consent.

So why do we feel that this is unethical on the part of the doctor? In this case the doctor would have broken patient confidentiality – ie released information that is 'secret' and 'private' to that patient – and the doctor's actions would be considered unethical because of this.

Members of professional bodies are expected to maintain the standards of their organisation. As part of this they are expected to behave in a professional and ethical manner. Within the published rules and guidelines of most professional organisations there will be specific sections covering professional ethics. If you have online

access, try doing a search on the phrase ‘professional ethics for accountants’ to appreciate how important the topic is.

professional ethics and the AAT

In the example above the doctor will be governed by the specific standards of the medical profession in the country in which he/she practises. However, as trainee accountants you are interested in the standards that affect you in your training and when you are qualified. As a professional body the AAT has published the **Guidelines on Professional Ethics** (referred to in this text as the ‘Guidelines’) which have been designed to help its members maintain the high standard of professionalism that is expected of them.

Decisions made by members of the AAT in their professional life can have real ethical implications. The Guidelines are designed to help members with these decisions. Specifically they state that they:

- set out the expected standard of professional behaviour
- help protect the public interest
- help to maintain the AAT’s good reputation

Throughout this book we will examine in detail a number of possible areas where AAT members are faced with ethical dilemmas and we will show how they should be dealt with ethically.

to whom do the AAT Guidelines apply?

The AAT Guidelines on Professional Ethics apply to all fellow, full, affiliate and student members of the AAT. Therefore, as student members you are required to uphold the high professional standards of the AAT even before you have qualified and become a full member.

Some members of the AAT, when they become qualified, will decide to set themselves up in practice rather than continuing to be employed. Whilst the general ethical principles within the accountancy profession will be the same for members whether they are employed in business or in practice, there are a number of different legal and ethical issues that are specific to each group of members.

The AAT has recognised this and has separated the Guidelines into three separate consecutive parts:

- Part A applies to **all members**
- Part B represents additional guidance which applies specifically to **members in practice**
- Part C applies specifically to **members in business**

what parts of the Guidelines do you need to study?

The three-way split in the Guidelines has also been recognised in the three learning outcomes that make up Unit 32, Professional Ethics:

- learning outcome 1 covers the general principles and procedures within the accounting section
- learning outcome 2 covers employer/employee situations
- learning outcome 3 concentrates on ethics in public practice

This Unit requires that you should study all three learning outcomes as they relate to the Guidelines document. Consequently, even if you currently work as an employee you are still expected to have a clear understanding of professional ethics in public practice and vice versa.

OBJECTIVES OF THE ACCOUNTING PROFESSION

So far in this chapter we have identified the people who are expected to maintain the professional standards of the AAT with regard to professional ethics, and have described where guidance can be obtained. We will now move on to the objectives of the accounting profession (including the AAT).

The specific objectives of the accounting profession are shown in italics below. Each one is explained separately.

- (i) *Mastering of particular skills and techniques acquired through learning and education and maintained through continuing professional development.*

As you will know from your studies, in order to become a member of any of the professional accountancy bodies, individuals must go through a demanding series of exams and assessments. This will normally involve a number of years of study linked to relevant training within the workplace, all of which is designed to ensure that the individual is fully trained to be a member of the accountancy profession and to take on the responsibilities of the role.

In addition to their training, qualified members of all the professional bodies are expected to keep their accounting knowledge up-to-date. This is done through **continuing professional development (CPD)**. As the name suggests, this involves members undertaking activities, such as attending AAT seminars, to keep their knowledge and skills fully up-to-date so that they can carry out their jobs to the highest possible standards. We will look at CPD in more detail in Chapter 2 (page 27).

An example where a member of the accounting profession requires some CPD follows:

example**the need for CPD**

James Trebor is a member of the AAT and has a successful practice preparing the financial statements of various local businesses. James completed his training in 2002 and although he is competent at what he does, he is not familiar with the new International Accounting Standards (IASs). In order to ensure that the accounts he prepares for his clients comply with the new standards he has obtained copies of the IASs and has also arranged to go on an appropriate course run by the AAT.

- (ii) *Development of an ethical approach to the work and to employers and clients, acquired by experience and professional supervision under training and safeguarded by a strict ethical and disciplinary code.*

When training with a professional accountancy body, the most important thing is to pass your exams and assessments and to qualify. However, throughout your training you will also be learning from your supervisors and managers. Whilst this should obviously cover the processes and procedures involved in your job it will also teach you how to approach your work in a professional manner.

Managers who are qualified accountants should 'lead by example' and should ensure that all members of their staff work to the high standards expected of a professional accountant. As part of this they should be demonstrating strong ethical values and ensuring that they maintain the standards of the profession in their work and their dealings with clients.

For example, a manager who tells junior staff that 'it's okay to add a bit extra to their travel expenses claim because everyone does it' is clearly not acting in an ethical manner and is certainly not setting a good example for his or her staff.

- (iii) *Acknowledgement of duties to society as a whole in addition to the employer or the client.*

It should be clear that professional accountants have specific duties in relation to their employers and, if they are in practice, in relation to their clients. In addition to this, the accountancy profession understand that they have a duty of care to the general public. Consequently when they are carrying out their work they should always be aware of the wider picture and should consider the implications on society as a whole, as in the example which follows.

example

a duty to society

Whilst preparing the year-end accounts of Flexilock Plc. the accountant, John Bailey, has discovered that the company has been disposing of untreated chemical waste in a local river. John believes that this is illegal.

What should John do with the information that he has obtained?

John is in a difficult situation: he is employed by the company and does not want to risk his job. However as a professional accountant he has a duty to society as a whole, who are likely to be harmed by the actions of the company. Initially John should raise his concerns with someone more senior in the company. If no action is taken John has an obligation to society and should report this information to the relevant authorities.

- (iv) *An outlook which is essentially objective, obtained by being fair minded and free from conflicts of interest.*

A person who is **objective** is someone who bases his/her opinions and decisions on real facts and is not influenced by personal beliefs or feelings. Accountants should always be objective. In addition, when they are faced with a conflict of interest, it is their duty not to let their own self-interest – or the interests of the firm that employs them – affect the professional decision that they make. The following example shows how a conflict of interest might arise.

example

a conflict of interest

Jill Saunders is in practice and has been the accountant for Stallone Ltd, a local firm of house builders, for a number of years. The company has two options for its next building project and the directors have asked Jill to draw up a business plan incorporating these options. The directors' preferred option involves purchasing a plot of land directly behind Jill's house and building 20 three and four bedroom houses. Currently Jill has unspoilt views from her house. There is clearly a conflict of interest here. Jill does not want the houses to be built behind her house and consequently can no longer be objective in these circumstances.

It is very important that Jill informs the directors of Stallone as soon as possible of this conflict of interest so that they are then able to make a decision as to whether they wish her to continue to prepare the business plan.

(v) ***Rendering personal services to the highest standards of conduct and performance.***

This objective can be looked at in two parts. Firstly, accountants must ensure that they carry out every piece of work to the best of their ability. They should allow sufficient time to complete the work, and should never ‘cut corners’ or compromise on the quality of the work performed. Secondly, accountants should ensure that they have the necessary skills to perform the work being undertaken. The following example shows how this objective may be compromised:

example

highest standards of conduct and performance compromised

Jasmine Chang was asked to prepare the accounts for Blue Truck Ltd. The Finance Director has asked that they be made available for the board meeting in two weeks time. Jasmine agreed to this timescale; however since then two junior members of her staff have been unwell and so have been unable to work. This has meant that Jasmine has had to prepare the accounts herself in addition to her own work.

Just before the board meeting the Finance Director noticed that the accounts appeared to contain a number of errors. He pointed this out to Jasmine who explained that she had been unable to check the detail in the accounts due to the pressures on her time. She knew that she should have spoken to the Finance Director as soon as she realised that the quality of her work might be affected by the shortage of time available to her to complete the assignment.

(vi) ***Achieving acceptance by the public that members provide accountancy services in accordance with these high standards and requirements.***

The accountancy profession is very focused on ensuring the highest standards from all its members. There is also the objective that accountants should be seen by members of the public to be working to achieve these high standards. In order for this to happen, the perception of the public must be that accountants are professional and trustworthy.

In recent years there have been a number of high profile cases where the standard of work that accountants have carried out has been called into question. The most famous of these is probably the collapse of the American energy company Enron. In 2002 the auditors of Enron, Arthur Andersen, were found guilty of obstruction of justice when there was evidence that they had shredded relevant documents immediately

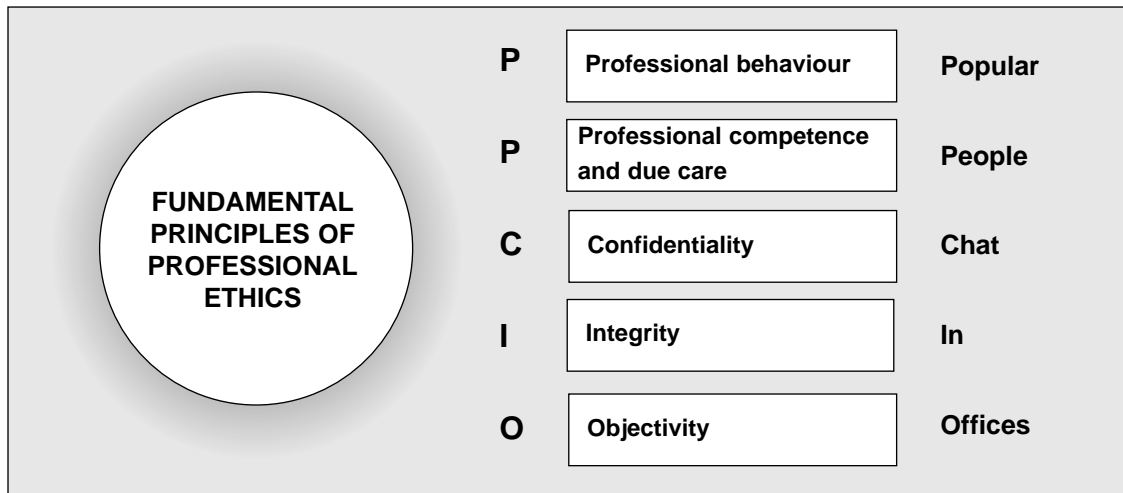
before the firm's collapse. Although this conviction was later overturned, the general public's perception of the accountancy profession was severely damaged by what they saw as highly unethical behaviour on the part of Arthur Andersen.

We can see from these six points above that the accountancy profession, including the AAT, has set a number of demanding objectives for its members to commit to. In the next section we will describe how members can ensure that they achieve these objectives wherever possible.

FUNDAMENTAL PRINCIPLES

In order to achieve the objectives of the accountancy profession that have been explained above, a professional accountant is required to comply with a number of fundamental principles. Each of these is explained below, with practical examples. It is important to realise that many of the issues regarding professional ethics cannot be looked at on their own, but should be seen collectively. Where ethical issues arise, a number of the fundamental principles may be involved in any one particular case.

These fundamental principles can be remembered using the letters PPCIO, which also stands for 'Popular People Chat in Offices'. They are explained in the text that follows the diagram.



Integrity is the quality of being honest and having strong moral principles that you refuse to compromise. An accountant should be straightforward and honest in performing professional work and in all business relationships.

The following situation is an example of where the integrity of an accountant might be tested.

example**a question of integrity**

It is the end of the financial year and the Managing Director has told the Chief Accountant that he wants to maximise the profit for the year. He has asked the Chief Accountant not to set up a provision for doubtful debts of £60,000 against an outstanding amount that the Chief Accountant knows is unlikely to ever be paid as the customer has recently gone into liquidation.

Clearly in this situation the accountant is faced with a difficult decision. He is employed by the company and consequently has a duty to the Managing Director. However, he knows that in order for the accounts to show the true position the debt should be provided against. In order to maintain his integrity in this situation the Chief Accountant should explain to the Managing Director that he is not prepared to ignore the bad debt and that in his opinion it should be provided for in the accounts.

objectivity

As a professional accountant the need to remain objective at all times is very important (see also page 6). This means that any decisions that are made should be based on real facts and should not be influenced by personal beliefs or feelings. The accountant must not let his/her own bias or prejudice or pressure from others affect decisions that he/she makes.

An example where the objectivity of an accountant could be affected is illustrated in the following example.

example**a question of objectivity**

Paula Gradwell is a senior accountant with a small local firm and is currently working on the year-end accounts of Bell & Sons. The owner, Alexander Bell, has asked Paula for her advice on whether the company should make a donation to the political party that he personally supports and how this will be treated in the financial statements. Paula has strong personal views against the party in question.

In this situation Paula must ensure that she remains objective when providing Alexander with advice. She must explain to him how any donation that Bell & Sons makes should be disclosed in the company's accounts. In this situation she must not let her personal opinions affect the advice that she gives.

professional competence and due care

If we first look at **Professional Competence**; professional accountants have a duty to keep themselves up-to-date with developments in the accounting profession, including relevant (international) accounting or auditing standards, and also regulatory and statutory requirements. The way in which they are expected to do this is by completing continuing professional development (CPD) on a regular basis, by reading current information on technical developments in the profession or attending relevant training courses. The topic of CPD will be developed further in Chapter 2.

The influence of international accounting standards is a specific example of the need for professional accountants to update their technical knowledge through training courses run by their own professional bodies.

Ideally, professional accountants should only take on new assignments for which they already have the necessary professional and technical skills. However, in certain circumstances, they may take on new work for which they will need some additional help or advice, as in the following example.

example

VAT expertise

One of your firm's clients has asked you to provide specific advice on the VAT implications of a new product imported from overseas. Although you have come across VAT as part of your AAT studies it is not something with which you feel particularly comfortable. So, what options are open to you in this situation?

- 1 You could decline the assignment on the basis that you are not suitably competent to carry out the work involved
- 2 You could employ someone with the appropriate skills to complete the work you cannot do, or subcontract the parts of the assignment you are unable to undertake
- 3 You could arrange appropriate training for yourself to enable you to carry out the VAT work that the client has requested

In each of the three options above as a professional accountant you are ensuring that the work carried out is performed to the highest standards, either by someone else, or by you with additional training.

The second part of this principle is **Due Care**. This means that when carrying out an assignment an accountant must always take the appropriate amount of care (ie '**due care**') to ensure that the quality of the work performed meets the high standards expected of the accounting profession. Each assignment must be assessed individually in relation to its importance to the client and the time allowed for its completion. Whilst the work should be completed as quickly as is reasonably possible this should not compromise its quality.

Accountants must take particular care where clients are totally unfamiliar with anything to do with accounting or taxation. In such circumstances, accountants must be very careful to ensure that they carry out their work to the required standard. In addition to this they must also ensure that they explain fully to the client the results of the work that they have performed and the implications that this may have for the client.

For example, if two sole traders who do not seem to know much about accounting or taxation approach a professional accountant for financial advice as to whether they should go into partnership together, the accountant must ensure that he/she makes each of them fully aware of all the taxation and accounting implications involved.

confidentiality

At the start of the chapter we introduced the example of a doctor who broke his patient's confidentiality by passing information to the press. All professions need to maintain confidentiality of client information. Accountants accumulate a large amount of information about their clients' affairs in the course of their work. Only in the most serious of circumstances, where there is a legal duty to disclose, would accountants be justified in revealing confidential information about their clients.

The example below raises the issue of confidentiality.

example

a question of confidentiality

You work for an accounting practice with a large number of clients in the local area. One Friday evening you have dinner with a good friend who explains that he has been offered a job with a local firm of publishers. He knows that they are one of your firm's clients and over dinner he asks you what their financial position is like and whether you feel that it would be a good move for him.

How should you deal with his questions?

In order to maintain the confidentiality of your client you should not disclose any information that is not already in the public domain. You should explain the need for confidentiality to your friend. You could suggest that he get the latest set of published accounts from Companies House which would give him an idea of the financial position of the company.

The subject of confidentiality and examples of situations when it can be broken are covered in detail in Chapter 3 (pages 32- 40).

professional behaviour

The final fundamental principle is that of professional behaviour.

As we have seen earlier in this chapter the accountancy profession is respected for the high standards that it requires of its members. Therefore, members must always ensure that they do not bring the profession into disrepute by acting in any way which is unprofessional or does not comply with relevant laws and regulations.

For example, a member of the AAT who sends offensive or inappropriate emails from their place of work would be considered unprofessional. In addition this could reflect very badly on the firm that he works for and also on the AAT.

A much more serious example of a member damaging the reputation of the accountancy profession would be if he or she gave professional advice to a client that the member knew failed to comply with relevant laws and regulations.

Chapter Summary

- Members of all professional accounting bodies should maintain the standards of that organisation.
- The professional ethics of an organisation are the moral principles or standards that govern the conduct of its members.
- The Guidelines on Professional Ethics issued by the AAT give its members guidance in situations where ethical conflicts arise.
- The Guidelines on Professional Ethics document is split into three sections:
 - general principles, applicable to all members
 - guidance specifically for employed members
 - guidance for members in practice
- The Guidelines state that the accountancy profession (including the AAT) is committed to six objectives:
 - mastering skills and techniques through learning and training
 - developing an ethical approach to work and observing a code of ethics
 - acknowledging a duty to society as a whole
 - adopting an objective approach, free from conflicts of interest
 - providing accounting services to the highest standards
 - ensuring that the public knows that accountants provide services to these high standards
- In order to achieve these objectives all members should observe the fundamental principles listed below.
- The Guidance sets out five fundamental principles:
 - integrity
 - objectivity
 - professional competence and due care
 - confidentiality
 - professional behaviour

**Key
Terms**

| | |
|---|---|
| professional ethics | the moral principles or standards that govern the conduct of the members of an organisation |
| Guidelines on Professional Ethics | A document issued by the AAT providing guidance to full and student members regarding professional ethics |
| integrity | members should be straightforward and honest in performing professional duties |
| continuing professional development | members of professional accounting bodies are expected to keep their technical knowledge up-to-date through relevant study, training and by attending courses |
| objectivity | decisions should be made based on true facts and accountants must not let their own bias or prejudice, or pressure from others affect decisions that they make |
| conflict of interest | these arise where the business or personal interests of a member may intervene to prevent the member giving an objective opinion |
| professional competence and due care | members have a duty to ensure that they have the necessary skills to carry out any work that is assigned to them and that they always take sufficient care to ensure that the quality of their work meets the high standards expected of them |
| confidentiality | information obtained during the course of professional work should not be disclosed without proper and specific authority or unless there is a legal duty to do so |
| professional behaviour | accountants should maintain the good reputation of the profession and should not do anything to discredit the profession |

Student Activities

answers to the asterisked (*) questions are to be found at the back of this book.

You work for G Verdi & Co., a small firm of accountants in Oak Town. G Verdi & Co has a number of clients in the area. During the week a number of situations arise which involve ethical issues.

- 1.1*** You are out for dinner in a local restaurant with a friend when you notice that one of the partners in a local firm of solicitors which is a client of yours is sitting at a table nearby. You do not recognise the person with him but know that it isn't his wife or his business partner. As he is making no attempt to lower his voice you hear some of his conversation. He is explaining some confidential information about a number of his clients to his companion and is also saying that he is seriously considering leaving the partnership and setting up on his own.

Explain the ethical issues for you that are raised by this situation and whether you need to take any action.

- 1.2*** A member of your firm's staff has submitted his expense claim to you for approval. When you review the form you notice that he has claimed that it was 20 miles to Brown & Co.'s premises. You have visited them yourself and know the journey is only 14 miles. For a second client he has claimed travel expenses for a week, but you are almost certain that he has been given a lift by another member of staff from your firm who was also working on the assignment.

Should you approve the expense claim? What ethical issues does this raise?

- 1.3*** A local car dealership has asked your firm to provide a training course for its accounting staff entitled 'Credit Control without Tears.' Although you have staff with the necessary technical skills, none of the staff has ever done any training and they are nervous about carrying out this task.

Should you accept the assignment? Justify your decision.

- 1.4** It is the end of the tax year and a large number of your clients require their accounts to be completed and their tax returns to be prepared. A large potential client has approached your firm with a project which they have stressed needs to be completed 'as soon as possible.' All of your staff are stretched with their existing workload.

Would it be ethically correct for your firm you accept this assignment? Explain the fundamental principles that would be relevant in these circumstances?

- 1.5** Your firm is considering extending their current premises and, having gained the necessary planning permission, they have approached three local builders. The following are comments received from these three firms:

- 'We'll do some of the work for cash, that way you can avoid VAT and we can leave it out of our accounts.'
- 'Tell us what everyone else quotes and we guarantee to charge you 15% less.'
- 'Maybe we could come to some sort of arrangement where you do our accounts and we charge you less than full price for the work.'

Explain the ethical issues raised by these comments that would influence the decision of your firm whether to employ any of these builders to carry out the extension work you have planned.