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01. Introduction to the ICAEW Code of Ethics

After studying this module you will be able to:

- identify who should comply with the Code;
- explain why there is an ICAEW Code of Ethics;
- explain why the code is principles- rather than rules-based;
- understand the consequences of not complying with the Code; and
- advise on general sources of ethics guidance.

VIDEO - Introduction

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1.1.1 Overview

ICAEW believes that:

1. chartered accountants play a vital role in ensuring public trust in business reporting and practices;
2. high standards of integrity and ethical behaviour are the hallmark of the profession; and
3. a principles-based approach to ethical standards helps to ensure a robust framework which encourages ethical behaviour.

ICAEW's Code of Ethics (the Code) is a key source of guidance to help professional accountants maintain a high standard of efficiency and professional conduct. It is not a rulebook, but rather a conceptual framework to help accountants make the right decision in a professional situation. ICAEW's Code of Ethics applies to all members of ICAEW, whether they work in business, practice, the public sector, charities or elsewhere.

Video – The importance of Ethics

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1.1.2 Overview

The Code is split into four parts:

Part	Title
Part A	General application of the Code
Part B	Professional accountants in public practice
Part C	Professional accountants in business
Part D	Professional accountants undertaking insolvency work

You can view or download the Code by visiting icaew.com/ethics

ICAEW is committed to enforcing its Code; failure to follow it may result in disciplinary action ranging from fines to expulsion from membership.

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1.1.3 Overview

Learning outcomes

After studying this module you will be able to:

1. identify who should comply with the Code;
2. explain why there is an ICAEW Code of Ethics;
3. explain why the Code is principles- rather than rules-based;
4. understand the consequences of not complying with the Code; and
5. advise on general sources of ethics guidance.

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1.1.4 Overview

Why does the ICAEW Code of Ethics exist?

To answer this question think about how you would feel if you had to share your key personal information with someone else. How would you know if you could trust them to look after and use your information effectively?

Chartered accountants use their reputation for the highest professional standards to win new clients and keep existing ones. It is therefore vital that the profession protects this reputation in order to survive and thrive.

The ICAEW Code of Ethics is a conceptual framework, based on the professional duties expected from professional accountants under the Royal Charter.

The Royal Charter

ICAEW was originally awarded its Royal Charter in 1880. All that ICAEW does and is responsible for – the provision of education and training, the maintenance of professional standards and delivering technical excellence in the public interest – is defined by the bye-laws and regulations contained within this Royal Charter.

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Real-life example: Enron

Enron corporation filed for bankruptcy in December 2001 after the revelation that it had been hiding billions in debt from failed deals and projects. Company executives had achieved this deception through poor financial reporting, misleading the board of directors and audit committee and pressurising the auditors, Arthur Andersen, to ignore the issues. At the time of collapse it was the biggest corporate collapse in history and the biggest audit firm failure.

The auditor was criticised as ‘not fulfilling its professional responsibilities in connection with its audits of Enron’s financial statements’.

This scandal reduced public and stakeholder confidence in the work of auditors and challenged whether the standards followed by audit firms were good enough for the pressures of the global, increasingly complex nature of many companies.

Real-life example: MG Rover and the Phoenix Four

The directors of Phoenix Venture Holdings Ltd bought MG Rover for £10 in 2000 and paid themselves £40m in pay and pensions over a five-year period before the company collapsed in 2005 with debts of £1.3bn and with the loss of 6,000 jobs.

An independent report in 2009 found that the directors had enriched themselves while mismanaging the company.

The former directors of Phoenix Venture Holdings (PVH) and MG Rover Group agreed in 2011 not to hold any company directorships for up to six years.

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1.1.5 Overview

Why does the ICAEW Code of Ethics exist?

The newspaper test

There are countless examples of newspaper headlines reporting the latest accountancy scandal (Enron is one very high profile example). Such stories are very damaging to the reputation of the accountancy profession.

One way to determine whether your actions might risk damaging the accountancy profession is to apply the newspaper test ie, if you went ahead with a particular course of action would you be comfortable with a newspaper publishing a description of your activities?

If the answer to this question is ‘no’ then you should seriously consider whether you should go ahead with that course of action.

Because of the nature of their work chartered accountants may sometimes find themselves in complex situations where they need guidance to help ensure that their actions do not bring them, or the profession, into disrepute. The Code of Ethics effectively constitutes the basic requirements of professional behaviour that every member and provisional member of ICAEW should adhere to.

Remember that you do not just owe a duty of care to your clients. You must also act in the public interest, considering the interests of clients, employers, investors, governments and the general public, and any other group that relies on the integrity and objectivity of the accountancy profession.

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1.1.6 Overview

VIDEO - Seeking ethical guidance

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1.2.1 Who should comply with ICAEW's Code of Ethics?

ICAEW's Code of Ethics applies to:

1. members;
2. provisional members (ie, students);
3. affiliates;
4. member firms, in all of their professional and business activities, whether remunerated or voluntary; and
5. employees of member firms.
   These groups must comply with the ICAEW Code of Ethics and may face disciplinary action if they do not.
   ICAEW welcomes other non-member groups to voluntarily follow their Code of Ethics if they wish to.

Members

All ICAEW members must comply with the ICAEW Code of Ethics

Provisional members

Whether in business or practice ICAEW trainees must comply with the ICAEW Code of Ethics and may face the same face disciplinary action as a full member if they do not comply.

Affiliates

An affiliate is a non-ICAEW member who is an ICAEW licensed insolvency practitioner, or a non-ICAEW member who is an employee or a responsible individual in a firm of ICAEW registered auditors.

Member firms

A firm is eligible to be an ICAEW member firm if it meets any of the following criteria:

(a) a member of ICAEW engaged in public practice as a sole practitioner; or
(b) a partnership engaged in public practice of which more than 50% of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership are held by chartered accountants or by another member firm(s); or
(c) a limited liability partnership engaged in public practice of which more than 50% of the rights to vote on all, or substantially all, matters of substance at meetings of the partnership are held by chartered accountants or by another member firm(s); or
(d) any body corporate (other than a limited liability partnership) engaged in public practice of which: (i) 50% or more of the directors are chartered accountants or another member firm(s); and (ii) more than 50% of the nominal value of the voting shares is held by chartered accountants or by another member firm(s); and (iii) more than 50% of the aggregate in nominal value of the voting and non-voting shares is held by chartered accountants or by another member firm(s); and

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(e) provided that in the case of a firm that is a parent entity, more than 50% of the income of the group is derived from public practice and, in the case of a firm that is a subsidiary entity, more than 50% of the income of the group is derived from public practice and the subsidiary entity is engaged in public practice.

Employees of member firms

The principals of member firms (partners or directors) are responsible for the professional conduct of non-member employees.

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1.3.1 Principles v Rules

ICAEW's Code of Ethics is based upon principles rather than rules. There are a number of reasons for this.

1. There are an infinite number of potential ethical scenarios that you might come across during your professional life. A rules-based approach would not be able to anticipate every possible contingency.
2. Ethical scenarios are sometimes not black and white. A principles-based approach encourages you to make judgements on the most appropriate course of action that you should take.
3. The principles-based nature of the Code is helpful in giving examples of problem situations that you can then apply to other circumstances.

Rules-based approach
A rules-based approach is guidance which is based on firm rules of what can and cannot be done.

Principles-based approach
A principles-based approach is guidance based on key objectives rather than specific rules.

The "spirit" of the Code

In its introduction the Code explains that you should always follow the spirit of the Code.

The fact that a particular conduct does not appear in the list of examples included in the ICAEW Code of Ethics does not mean that it is permitted (and therefore does not exclude it from the scope of misconduct!).

You are expected to follow the spirit of the Code where your professional behaviour is guided by the principles and examples included within the Code.

For example, misleading clients is not mentioned specifically in the Code but that doesn't mean that you are allowed to do it.

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1.3.2 Principles v Rules

Being principles based means that the Code can avoid being excessively legalistic and prescriptive, and instead is a conceptual framework within which you carry out your professional duties.

The Code does include a number of specific requirements that you should follow. These are shown by the use of the word “shall”. These will be covered throughout the course.

Have courage!

Although ethical situations can be complex there is usually a common sense course of action that you can take to help ensure that you don’t breach your obligations to the code. The difficulty often lies in having the courage to follow this course of action as the consequences may often result in you being left in a difficult position, especially if the only action you can take is to resign.

It is vital that you have the courage and integrity to carry out the most appropriate course of action regardless of any negative consequences. Remember the consequences of not doing the right thing could well turn out to be much worse!

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1.4.1 Non-compliance with the Code

ICAEW is committed to enforcing its Code; failure to follow it may result in disciplinary action.

If you deliberately act in a way that goes against the Code then you may face disciplinary action from ICAEW.

ICAEW has a duty to investigate reports of non-compliance when it is made aware of such instances. This usually happens when a complaint is lodged about a member or firm.

Anyone can lodge a complaint to ICAEW, including the general public and ICAEW itself.

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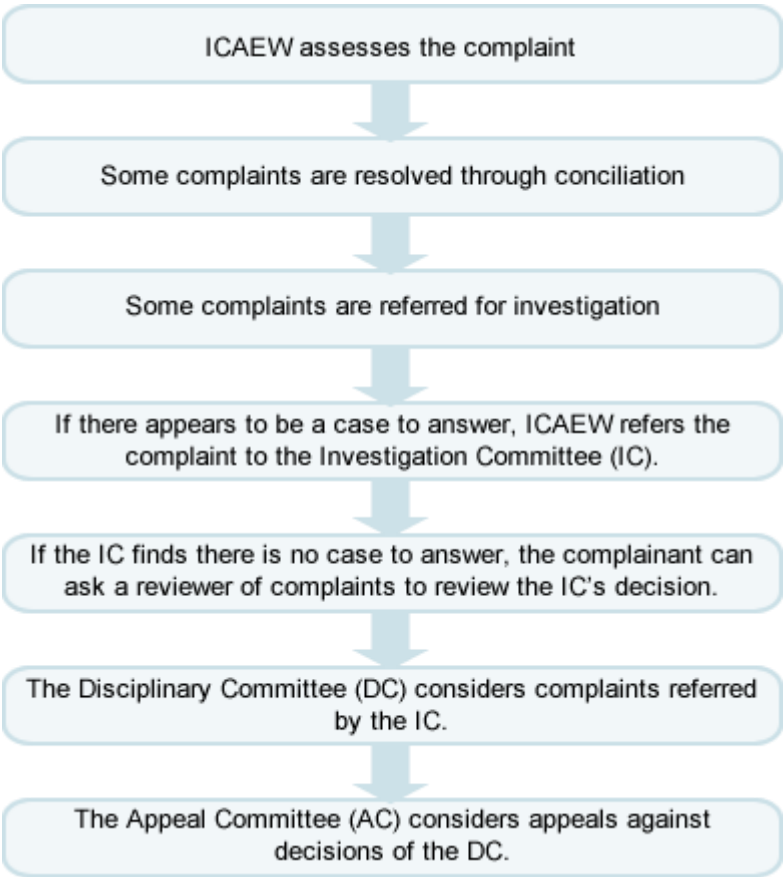
1.4.2 Non-compliance with the Code

Disciplinary action

If a member or firm is found to have breached the ICAEW Code of Ethics then it could be disciplined in a number of ways, including:

1. financial penalties;
2. cautions;
3. negative publicity (ICAEW publishes disciplinary action taken);
4. removal of the firm's licence to practise as a registered auditor or insolvency practitioner; or
5. expulsion from ICAEW.

How does ICAEW handle complaints?



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1.5.1 Other sources of guidance

As well as the ICAEW Code of Ethics there are a number of other sources of ethical guidance available to members and firms, notably:

1. International Ethics Standards Board for Accountants (IESBA) Code of Ethics
2. APB Code of Ethics
3. helplines and other guidance
4. legislation and regulations.

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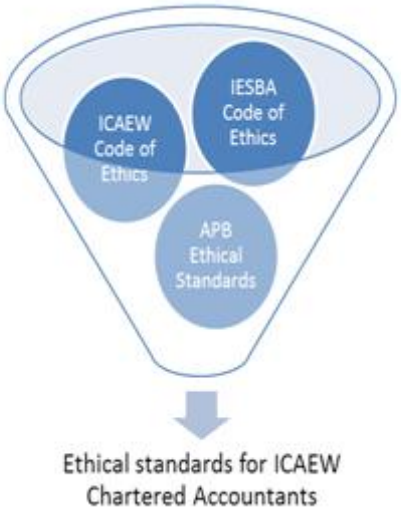
1.5.2 Other sources of guidance

International Ethics Standards Board of Accountants (IESBA) Code of Ethics

The ICAEW Code of Ethics is derived from IESBA (a sub-committee of the International Federation of Accountants) Code of Ethics. Both Codes are similar and based on the same fundamental ethical principles, which will be covered in Module 2.

You can view or download the full version of the IESBA Code of Ethics by visiting http://www.ifac.org/publications-resources/2013-handbook-code-ethics-professional-accountants



Auditing Practice Board (APB) Ethical Standards

When conducting audits in the UK and Ireland, you need to comply with the APB's Ethical Standards, which consists of five standards:

ES1 Integrity, Objectivity & Independence

ES2 Financial, Business, Employment & Personal Relationships

ES3 Long Association with the Audit Engagement

ES4 Fees, Remuneration and Evaluation Policies, Litigation, Gifts & Hospitality

ES5 Non-Audit Services Provided to Audited Entities.

An additional standard also exists for small entities. This is called ES Provisions Available for Small Entities (ESPASE).

You can view or download the full version of the APB Ethical Standards by visiting www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx

The APB has stated that it is not aware of any significant instances where the relevant parts of the IESBA Code of Ethics are more restrictive than APB's ethical standards. Therefore compliance with the ICAEW Code of Ethics should ensure satisfactory compliance with APB's ethical standards.

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1.5.3 Other sources of guidance

Other sources of guidance

As a member or student of ICAEW there are a number of practical services to help you with ethical guidance. A few of the more common ones are listed below.

Source	About	Contact
ICAEW's Technical Advisory Services	Speak to an adviser for ethical guidance. All conversations are strictly confidential and will not be reported.	T: +44 (0)1908 248 250 E: ethics@icaew.com
The Support Members Scheme	This is a free helpline run by volunteer members of ICAEW from a wide range of backgrounds. All conversations are strictly confidential and will not be reported.	T: +44 (0)800 9173526
ICAEW website	Additional information on ethics, including case studies.	icaew.com/ethics

Working with non-accountants

You may often find yourself working with other professionals from other industries who themselves are bound by their own body's code of ethics and regulations. Examples include solicitors, valuers and actuaries.

You should always consider and respect other profession's codes of ethics and regulatory requirements that affect their own engagement.

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1.5.4 Other sources of guidance

Real-life example: Sarbanes-Oxley

The Sarbanes-Oxley Act was introduced as part of the US's response to the high profile corporate scandals that occurred towards the end of the last century. It requires companies (and their accountants) to follow strict corporate governance guidelines. One key feature of the legislation is that it is applicable not just to US companies but also affiliates of US companies, regardless of where they are based in the world.

As such companies that have been acquired by US firms usually have to comply with this legislation.

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1.6.1 Legislation v ICAEW's Code of Ethics

Some areas of accountancy are subject to specific laws and regulation, which if breached could lead to legal proceedings against members and firms. For example, in the UK auditors must comply with the requirements of the UK Companies Act 2006.

In some circumstances there may be a conflict between the ICAEW Code of Ethics and local legislation in a jurisdiction. In such circumstances you should always follow the laws and regulations ahead of the Code.

As a last resort you should consider taking legal advice if you believe that there might be a significant conflict between local legislation and appropriate ethical behaviour.

Real-life example:

In the UK the Child Support Agency (CSA) has wide-ranging powers to help it to enforce payments by parents.

This includes the right to require accountants to disclose information about their clients who owe money to CSA. This conflicts with the confidentiality principle of the ICAEW Code of Ethics which states that professional accountants must not disclose client information to third parties. In the case of the CSA, as there is a legal obligation on the professional accountant to disclose requested information on their clients, they can override their duty of confidentiality.

The consequences for a professional accountant who refuses to disclose client information to CSA include criminal prosecution.

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1.7.1 Review

This module has covered:

- why the ICAEW Code of Ethics exists;
- who should comply with the Code;
- principles- v rules-based approach;
- non-compliance with the Code;
- other sources of ethical guidance available to professional accountants; and
- legislation v ICAEW's Code of Ethics.

This module is based on Section 1 (Approach, Scope and Authority) of the ICAEW Code of Ethics. You can access a full version of the Code at icaew.com/ethics

Learning points

The key learning points of this module are summarised below.

- In order to survive and thrive it is vital that the accountancy profession maintains its reputation for the highest professional standards. ICAEW's Code of Ethics is a key source of guidance to help professional accountants maintain a high standard of efficiency and professional conduct.
- ICAEW members, students, affiliates, firms, and employees of ICAEW firms must all comply with the ICAEW Code of Ethics.
- The ICAEW Code of Ethics is a conceptual framework based on principles rather than rules. This approach allows professional accountants to make appropriate judgements in situations which could compromise their obligations to the Code.
- Non-compliance with the Code can lead to disciplinary action being taken against professional accountants.
- Apart from the ICAEW Code of Ethics there are several sources of ethical guidance available to professional accountants including the APB Ethical Standards and IESBA Code of Ethics.
- In a situation where local legislation and regulations conflict with the guidance given in the ICAEW Code of Ethics, laws and regulations always take precedence.
- You have now reached the end of this module. Press the 'Exit' button to close this window.

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