

ETHICS AND YOU
A GUIDE TO THE
CIPFA STANDARD OF
PROFESSIONAL
PRACTICE ON ETHICS
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Introduction

The Standard of Professional Practice (SOPP) on Ethics, June 2006, is published in full on CIPFA's website (www.cipfa.org.uk/conduct/ethics.cfm). It applies to all CIPFA members and students. It replaces the SOPP of December 2000. While it marks no fundamental change in the ethical and behavioural expectations of professional accountants, it is a significantly different document, with important new conceptual underpinning, in the context of a greatly raised profile for ethics. Adherence to the SOPP is an obligation of membership of the Institute, and all members and students are required to act in accordance with it. As is general practice in all professional bodies, departures from the standard may be subject to disciplinary action. CIPFA members and students are therefore encouraged to make sure that they understand the SOPP, and know how to seek guidance if a situation arises in which they are uncertain whether they are complying with it.

This text contains reference to UK legislation. CIPFA members and students elsewhere should inform themselves about relevant local legislation.

Background

Following widely publicised company scandals, in which the actions of accountants both within the organisations concerned and in their external auditors were criticised, there has been a worldwide movement in the accountancy profession to review and update standards. This first covered governance and financial reporting and has now extended to the ethical and behavioural context in which accountants operate. Professional accountancy bodies generally issued guidance on ethics, and adherence to a code of ethics is indeed one of the hallmarks of true professionalism. But they contained differences of emphasis, and their existence did not prevent a number of widely publicised corporate failures, such as Enron, Parmalat, WorldCom.

In response to this the International Federation of Accountants (IFAC) took the initiative to draft a Code of Ethics that would apply to all accountants, all over the world and in all types of work environment, which would address the perceived causes of failure. The Code was agreed by the IFAC Board in 2005, and elevated to the status of a membership obligation. That means that all member bodies, including CIPFA, and other CCAB bodies, must adopt the Code as their own or show that their own code complies with the IFAC Code in all material respects.

CIPFA has adopted the IFAC Code as it stands; a CIPFA foreword has been added highlighting and interpreting ethical issues with particular reference to the public service context in which most CIPFA members work. The IFAC Code with the foreword form the CIPFA SOPP. The original American English (IFAC's working language) of the IFAC document has been retained in the interest of economy and simplicity. This accompanying guide explains how it works and why it is important, including some case studies on applying it. **While this introduction will give a general understanding, and is designed to be more accessible, it is not itself the Standard, to which CIPFA members and students will need to refer whenever a professional ethical dilemma arises.**

The IFAC Code

The IFAC Code is divided into three sections:

- part A applies to all accountants and students irrespective of their work role
- part B is intended only for those who work as auditors in public audit practice
- part C applies to everyone else

IFAC uses the expression 'in business' to describe the general working environment of accountants outside public practice: this description embraces all public and voluntary sector roles, as well as consultancy.

Most CIPFA members and students will therefore need to be familiar with parts A and C. Staff of the United Kingdom national audit agencies (National Audit Office, Audit Commission, Audit Scotland, Accounts Commission, Wales Audit Office, Northern Ireland Audit Office) will be aware that the agencies have agreed that public auditors should in general follow the Auditing Practices Board's Practice Note 10, which is consistent with part B of the IFAC Code. Although IFAC includes public audit within its definition of 'in business', it will be necessary for CIPFA members and students in the national audit agencies to be familiar with part B of the SOPP, and to secure an understanding of how their employing body is applying those parts of the Standard. Any CIPFA member working in an audit firm must become familiar with parts A and B of the SOPP.

This is a principles-based Standard, which, although it contains some highly prescriptive requirements, especially for auditors, needs to be approached by understanding the concepts. It is not a set of rules for all occasions.

The importance of ethical behaviour

The work of accountants needs to be trusted by society at large, as well as by individual employers, clients and other stakeholders. It is expected to be free from personal bias, done competently, and capable of being verified. It is the principal added value of the accountancy professional that such matters are assured by membership of a professional body, which enforces standards of independence and competence; all the more so now that these standards are international in application. CIPFA members should also have in mind that a further expectation of high standards of behaviour is overlaid on those who work in the public services, who are perceived as being in positions of public trust.

Whether by accepting a public role, or by becoming a professional accountant, we put ourselves in the public eye, observed by those around us, and potentially vulnerable to the attention of the media. So what we do reflects not only on ourselves, but on our employing organisation, on the Institute to which we belong, and ultimately on our

profession. As accountants, we submit to rigorous education, training and assessment, coupled with continuing professional development (CPD). This equips us to deal with complex issues, frequently with a high technical content that might not be accessible to everyone who relies on our work. Accepting to be bound by published, high standards of ethical behaviour is a powerful way of creating confidence that we will not use our knowledge power to mislead, or gain personal advantage.

How the IFAC Code and our SOPP work

The Standard is built on two conceptual foundations:

- (i) a set of fundamental principles
- (ii) awareness of **threats** to complying with the principles, which must be addressed by **safeguards**.

Fundamental principles

The principles in the 2006 SOPP cover the same ground as those in the 2000 SOPP, but there are slight differences in wording. The value of this is that it brings CIPFA into line with the principles underlying ethics for accountants everywhere where there is a professional body affiliated to IFAC.

The terms will be familiar, and may cover ground we tend to take for granted, but collectively they are a tough requirement. Occasionally to work through them and ask ourselves self-critically how we stack up against them would be a valuable check. The principles are:

Integrity: this is about being truthful, straightforward and honest, dealing fairly with people and situations; it rules out making misleading or false statements, whether by omission or inclusion of information, either knowingly or without taking care to find out.

Objectivity: the avoidance of bias, whether for personal self-interest, or because of pressure from another, and closely allied to independence.

Professional Competence and Due Care: this is about acquiring and maintaining appropriate technical and other relevant skills and competence to perform our work, doing it thoroughly and correctly, on a timely basis, and ensuring that users of our output understand its context and limitations. (It is why IFAC has also made CPD compulsory in all its member bodies.)

Confidentiality: information about organisations and people encountered in the course of accountancy assignments should not be disclosed, inside or outside the work environment, to anyone who does not have a legal or professional right to it, and especially not to secure a personal advantage for anyone. This principle is overridden only by the force of law. But if information has to be released, for example under the Freedom of Information Act 2000, or other Acts of Parliament (eg as a 'protected

disclosure' under the Public Interest Disclosure Act 1998), the SOPP expects it be reviewed to ensure that it is complete and presented in its proper context. So although at first sight this may appear at odds with the *openness* principle of public life, there is no material conflict.

Professional Behaviour: this is about complying with standards and laws, and avoiding actions that might bring the profession into disrepute, such as making unsubstantiated criticisms of a fellow professional, or exaggerating one's experience.

Principles of public life

In addition to the ethics principles, public sector people are expected to be familiar with, and to apply, the seven 'Principles of Public Life'. Of these, *integrity*, *honesty* and *objectivity* are clear overlaps with the fundamental ethics principles.

Selflessness – the avoidance of doing things for personal gain – resonates closely with the notion of professional conduct, buttressed by the specific prohibition of insider dealing under *confidentiality*.

Openness, as noted above, may seem to sit uncomfortably alongside the exhortation to confidentiality, but in practice they are complementary. Openness recognises that activities undertaken with public money ought to be visible to the public, so that temptation to doubtful or corrupt activity is made harder: so a breach of the confidentiality principle through abuse of a piece of inside information for personal gain would be easier to spot if the consequent transaction was open.

Accountability is required in the overall conduct of business. It applies to public sector accountants as to other public sector employees. It might be argued that this principle is encompassed within *professional competence and due care*, but it is possible to say that this is not a special requirement that marks the accountancy professional out from public service people in general.

Leadership in public life is about setting a good example, implicit for all professional accountants in the fundamental principles. But the SOPP reminds us that the burdens of example setting grow with seniority. So while all professionals must set a good example by their conduct, there is an extra for executives or heads of other functions. All professional accountants who manage staff should ensure that they lead by example, and provide proper training, including in ethics and other aspects of professional behaviour, for their teams.

For the public sector accountant this combination of principles represents a formidable standard to live up to. For some accountants (like the local government Section 151 responsible officer) there are specific additional statutory or regulatory duties to maintain independence. The remit to operate and report ethically applies across the whole range of an accountant's duties, too, including those exercised in a role outside the finance function. Many public sector accountants and students work

in areas that process information about non-financial performance. Recognising that the systems supporting non-financial performance information may not contain all the controls, checks and balances associated with financial figures, there is no less duty on the accountant to report accurately, objectively and fairly – ie professionally– on such measures.

The concept of threats and safeguards

The approach of IFAC and the CIPFA SOPP is to consider the most likely reasons why someone would fall short of the standards of behaviour called for by the fundamental principles. It identifies a series of motivations that could persuade an individual to override objectivity, cut corners, mislead or otherwise breach any of the principles, which it calls **threats**. Some are more likely to be experienced in the circumstances of an audit, where independence may be compromised, but wherever members and students work, the Standard expects us to watch out for them.

A *threat* needs to be countered by a **safeguard**, ie an action or process put in place to make the *threat* unlikely to result in an ethical lapse. *Safeguards* range from removing the threatened individual from the *threat* or entirely eliminating it, to introducing checks and balances in organisational procedures.

While this does not of itself introduce new ethical issues, the systematic consideration of situations to identify whether a *threat* exists, how it might influence matters, and how to counter it with *safeguards* is a useful way of looking at things. The approach strongly resembles what we are accustomed to doing in another context under the badge of ‘risk management’.

Threats

Self-interest can arise in many forms to threaten our professionalism. Any situation in which we have, or someone close to us has, a vested interest in an outcome, over which we have some degree of influence or control, has the potential to tempt us to unethical behaviour. We might be charged with calculating a particular result on a particular outcome of which we might be due a bonus, for example. This threat is not limited to purely financial interests: if something we were working on had the ability to influence a child’s education, a friend’s planning application, a relative’s healthcare, or the activities of a voluntary body on which we serve, our objectivity might be compromised. And a *self-interest* threat would exist if our employment status were under question: it might make us more vulnerable to *intimidation*.

Intimidation involves the exercise of disproportionate pressure by someone in a position of power and influence. At worst this could involve threats of violence against the accountant or someone close, but in the work context is more likely to take the form of a hint at damage to your career, the loss of a contract, or some withdrawal of co-operation that will make your life difficult. In the public sector, top managers and politicians are themselves under significant pressure to achieve, and *self-interest* may occasionally drive them to create downwards pressure to report a particular result, say, that can feel like *intimidation*: the perception of this threat can be as powerful as its actual existence.

Self-review is a threat to independence caused when you are called on to check, audit or approve a piece of work you were involved in originating. This might happen if, for example, you took up a position in a central unit involved with approving investment cases, having moved from a position in a unit where you had been working on the data that justified a case currently under review. A public auditor who had previously worked in an authority that is now an audit client would be vulnerable to *self-review* if later undertaking its audit.

Familiarity arises through long association with individuals, whether in your own organisation, a client, a supplier or a customer. Objective critique of the work of someone you know well becomes harder because it impacts on the relationship. Similarly, long association with a buyer or salesperson may influence the commercial relationship, substituting habit or 'not wanting to upset' an individual for objective analysis and judgement. The offering of inducements becomes a more potent temptation in the context of a relationship of *familiarity*.

Advocacy is a threat to independence mainly affecting auditors who take on a role representing a client, or pushing the client's interest in another context. There are legitimate circumstances for this to happen, but the threat to independence is that in taking the client's part the accountant is compromised if an issue arises where the facts do not suit the case. Accountants in business are expected to promote the interests of their employing organisation: an *advocacy* threat only arises if it leads to making false or misleading statements, or presenting judgement as fact.

Political Bias is not specifically recognised as a threat in the IFAC Code and the SOPP. But in the UK and Ireland it is normally expected that public servants will be politically neutral. So this variant of the *advocacy* threat may arise in any public body where the leadership is democratically elected. Accountants and students in such an organisation should of course act in accordance with its policies: they should however be aware that the fundamental principles require them to ensure that their support of (or opposition to) proposals having a party-political dimension is based on sound evidence and objective analysis. It is unethical knowingly to misstate or falsify a case, or deliberately to suppress relevant information, in furtherance of a party-political position.

Safeguards

The SOPP catalogues many safeguards that can be used to counter the risk of unethical behaviour arising from these threats. It might be helpful to think of them in two broad categories.

Institutional safeguards

Public service organisations and the accountancy profession are heavily controlled by statute and regulation, which include standards of conduct. Extensive safeguards are also built into internal procedures. Financial regulations, schedules of reserved or devolved authority, separation of powers, regimes of corporate governance and internal control, declaration of personal and financial interests, rules for reporting gifts and hospitality and contact with suppliers and so on all exist to create an environment free from abuse, fraud and corruption.

Sound systems like these are the first line of defence against unethical conduct. As professional accountants, particularly in senior positions, we should review such procedural mechanisms to ensure that they are fit for the purpose of countering the *threats* identified above. Operating in compliance with these institutional safeguards should be second nature. But following the rules is not enough on its own: professional, ethical conduct requires us to think about the reasons behind the rules, and constantly to monitor their effectiveness.

Our organisation may also have adopted a code of conduct for all its people. This is another helpful safeguard. In this case we should ensure that it does not conflict with any of the ethical requirements of the SOPP, and work to secure changes to the local code if necessary. And we should make sure we understand where the SOPP imposes ethical considerations specific to our profession. In auditing organisations the SOPP specifically requires the creation of dedicated controls and monitoring of ethical issues, with a very senior person holding an ethics brief.

Unethical conduct is always less likely in an open organisation subject to public scrutiny. Where public feedback and complaint is encouraged, even though it probably usually focuses on operational performance, it can be monitored for hints of ethics issues. The existence of 'whistle-blowing' procedures also provides a route to detection of unethical conduct.

Personal safeguards

Although this expression does not occur in the SOPP and IFAC Code it is included here as a reminder that ultimately the responsibility for our ethical conduct is a personal one for each of us. However good the procedural framework is, sometimes the *threats* will be strong enough to create pressure to bypass a control, ignore the procedures, and breach the ethical standards. Whether it is we ourselves or a colleague who has reached that point, if we have analysed the threat as suggested above, we should at least recognise the situation. The ethics principles should guide what we should do, but some situations are not clear-cut. In such cases, taking guidance from a fellow professional would be a sensible step.

This would normally take place within the organisation, but if the matter concerns a colleague, and particularly a superior in the reporting line, one may need to seek advice outside the organisation. For such situations CIPFA offers the opportunity to get confidential, informal advice on ethical issues from members of a carefully selected group of members – the Ethics Sounding Board.

A conflict of interest is best resolved by removing its cause. This can be achieved by withdrawing from the activity or decision that involves the conflict, by passing it to a colleague, perhaps in a different department or to someone more senior: devolving the matter to someone who reports to you may put them under pressure if they know your interest, and is not guaranteed to remove the *threat*. Where extreme conflict of interest exists, possibly fostered by intimidation, it may be impossible to apply sufficient safeguards: in such a (hopefully extremely rare) case the situation may become intolerable for the accountant. Where the employment context does not permit compliance with the fundamental principles (for other than legal reasons), resignation may be the only remaining course.

Financial interests

A financial interest in the outcome of a matter you are dealing with can often simply be disposed of. If the interest is material and the link to your activity direct, that would be essential. From an ethical point of view the potential beneficiary may be, for instance, a family member or someone close to you, not necessarily yourself.

Gifts and hospitality

Just as openness and transparency work at the organisation level to reduce the risk of unethical behaviour, documenting and disclosing potential threats to objectivity and independence is a sound course for an individual. For example, it should be routine to report the offer of hospitality or gifts to a superior, and to consider whether it would appear reasonable to an outside observer. Public service organisations generally have rules on this. CIPFA recommends that register of all gifts and hospitality should be maintained, irrespective of whether they are accepted, declined, returned, or given to charity. Members should be aware of the Public Bodies Corrupt Practices Act 1889, and the Prevention of Corruption Acts 1906 and 1916. Offering or accepting **bribes** is of course illegal, and if there is any doubt about the intention behind hospitality or a gift as an inducement, or the possibility of its being perceived as influencing an outcome such as the award of a contract, it should be declined.

Insider dealing

In contrast there are clearly situations where openness is not the correct response. If you have knowledge not yet in the public domain, whether of a current situation or an impending decision, it is unethical – and probably illegal – to use it for personal advantage or that of another, and care must be taken not to leak it even inadvertently. Public sector work can involve knowledge of future legislative plans, upcoming regulations affecting sectors of industry or individual companies, large contracts, planning applications and a host of other matters that could give advantage to someone having the knowledge in advance. This area is not only concerned with information about clients

Conclusion

The SOPP requires members and students to uphold fundamental principles of *integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour*. In the public services it is expected that behaviour will also accord with the principles of public life, especially, in this context, *openness* and *selflessness*. Because it is a principles- rather than rules-based Standard, it does not attempt to define a set of exhaustive rules to follow, but rather considers how *threats* such as *self-interest, intimidation* and *familiarity* create the conditions in which people might be tempted to act contrary to the principles, and invites the application of *safeguards* in the form of institutional procedural frameworks and personal responses to overcome them.

Although the Standard contains some quite prescriptive actions, neither the SOPP nor this introductory digest can hope to cover all the circumstances that may face the professional accountant in the public services. It is for the individual to become familiar with the principles, and regularly review his or her work situation for threats to integrity, objectivity and independence.

A short series of generic case studies follows, in which some ethical dilemmas are worked through in this way. These are intended to help CIPFA members and students understand the ethical issues in particular circumstances. They are neither prescriptive nor exhaustive, because every ethical dilemma is different.

Where can members get help?

CIPFA members and students should usually find it sufficient to follow the advice in this guide. But if an ethical issue arises, and particularly if a disciplinary case may result, then it is essential to refer to the full SOPP, which will be the benchmark in any disciplinary case. The full SOPP can be found at www.cipfa.org.uk/conduct/ethics.cfm

The Ethics Sounding Board (previously known as the Ethics Advisory Panel) is a list of CIPFA members who are willing to discuss ethical issues with members. It is a confidential service and is separate from the Institute. The advice which may be offered is not considered to be official CIPFA advice and it is not intended that this advice should have any legal status.

Queries should be about ethical issues concerning a member's professional conduct in relation to the Standard of Professional Practice on Ethics.