

# [International federation of accountants code of ethics](https://assignbuster.com/international-federation-of-accountants-code-of-ethics/)

Code of Ethics is essential for both accountants and auditors as they hold positions of expectation that the community rely on them and the capability. The Code of Ethics is regulated by International Federation of Accountants (IFAC) at international level. Due to the company failures such as Enron and Equitable life, ethical behavior and independence has become more important. The Enron case clearly demonstrates the value work of IFAC. (ACCA, 2002)

Therefore, IFAC’s Code of Ethic is broadly defined as code of conduct based on a set of moral principles or values that indicates how an individual should behave. (Velayutham, 2003) Through this, if an auditor is incompetent, the parties to the contract will place little or no value on the service provided. (Messier et al., 2007). Furthermore, auditors are required to be independence to apply unbiased judgment and objective consideration to establish facts in giving an opinion. It is essential because the users expect the auditor to have an unbiased viewpoint when forming opinion on the true and fairness of the financial statement. If the auditors are not independence, then the value of audit is lost. (Gomes, 2010) [Online]. It is vital to provide assurance services as it can increase confidence of users of the information and to avoid conflicts of interests that may occur towards the auditor.

## 2. 0 Main report

## 2. 1 Critically evaluate of the role of IFAC’s Code of Ethics for professional accountants in strengthening independence of auditors.

Over these years, IFAC has been revising a newer Code of Ethics to clarify requirements for all professional accountants and to enhance the independence of auditor. (IFAC, 2009) [Online]. This Code of Ethics are follow up and practiced by its members until it becomes a system in the organization.(Ravendran, 2006) [Online]. Principles-based approach is remained in the revised Code of Ethic and it establishes a conceptual framework for professional accountants and external auditor to follow. This is to make sure they are compliance with fundamental principles of professional ethics. It is important for fundamental of principle to remain the same, as it would be more flexible for all professional accountants and the external auditors. (Ward, 2006) [Online]

The IFAC Code of Ethic has constantly revised to meet the changing needs of the profession and the expectations of stakeholders in Malaysia. (MIA, 2006) [Online]. Therefore IFAC Code of Ethic is set as a good example to follow because of its holistic approach that considers many aspects of the issue. (Gomes, 2009) [Online]. External auditors to find out possible threats and evaluate how it could affect the audit are using conceptual framework. They have to apple safeguards on the identified threats to reduce them to an acceptable level. (MIA, 2006) [Online]

Furthermore, auditors play an important role to provide a high-quality financial statement because any loss in carrying out their work will give a bad impact on investor protection and confidence. For example, many auditors failed to give their opinion leading to compromising the shareholders of public listed companies. (Izma, 2009) [Online] . As a result, independence of auditors is affected. In solving this kind of situation, auditors will need to follow the fundamental of principles to reduce this threat. (MIA, 2005) [Online]

By applying a principle-based approach, it can also help to standardize the IFAC’s Code of Ethic globally. Through standardizing the international standards, the auditors will have high quality standards in auditing the financial statement. (Ward, 2006) [Online]. If each country standardized the preparation of financial statements, making it flexible for cross-border securities listing globally. This will enable the company for a better flow of resources, using it systematically. (Kumar, Porwal, 2003) [Online] . Therefore opinion form by auditors will be more credible and reliable in ensuring auditors to be more independence.

On the other hand, the behavior of a human cannot be justified by just following the IFAC’s Code of Ethic. This is because personal behavior cannot be control and it depends on how they want to behave. (MIA, 2006) [Online]. For example lack of ethical code, especially one client may jeopardized another client’s business due to the financial difficultly they faced.(Gomes, 2009) [Online] The reasons why auditors cannot control themselves, probably due to the characteristic of the auditors are self-centered, greedy and unprincipled, thus this will create a self- interest threat for the auditors.( Jackling et al., 2007)

As such, it is not good to understand the principle only, the knowledge of ethical code need to be apply. (Gomes, 2010) [Online]. If not independence of auditor will be influence and then nobody would be able to trust them just like ‘ Arthur Anderson’. Due to the cases like Enron or WorldCom, which ended up as a fraud, IFAC’s has revised stronger ethical code and stringent rules that a company must follow. However, the revised IFAC’s Code of Ethic cannot be perfect all the time. Somehow, loopholes can be found, as it may not fully capture the culture, belief and practice the code and it will make auditors to be unable to enhance independence. (ACCA, 2009) and external auditors may not adapt to this standards as there are changes to the ethical code.

It can also make mistakes as the environment is changing, so does the culture and the personality of the auditor as well. Therefore, without a proper guidance, certain parts of the organization may interpret the code differently and IFAC’s Code of Ethic cannot promise that very country or auditor may process the ethical code. For example as the culture in the world is changing so as the behavior of an auditor and for that auditor may do what they want, as the Code of Ethic is not included in the law system. In general, by maintaining the same code is not possible, as it has to change consistently. (Pflugrath et al., 2007)

## 2. 2 Evaluate the important of maintaining principle-based approach in the Code of Ethics.

Many corporation failures has shows the need of principle- based approach is essential. The suggested ways for IFAC’s Code of Ethic to strengthen the independence of auditors are by having a principle-based approach, as it is flexible and easy for the auditors and accountants to adapt. With a strong principle-based, this will enhance the auditor to perform a high quality standards of auditing in making decisions and the public would have more trust towards them (IFAC, 2009) [Online]. By having a principles- based approach, problems it maintaining will be reducibly and there are ways of resolving it. (MIA, 2008) [Online]

Furthermore, the IFAC’s body has agreed that principle-based are better compared to rules-based approach as threats and safeguards better serves the public interest, which cannot provide for all circumstances. (Bagshaw, 2006) [Online]. As such, the Code of Ethic has been revised in principles- based approach primarily to encourage auditors to make a high quality judgment(MIA, 2006) [Online]. Therefore, assurance is critical in making sure that their judgments are ethical enough as the auditors and accountants holds these responsibilities. (Haron. H et al., 2010)

Other than that, a principles- based approach can adapt to the changes of the environment. This is because every country has a different culture and this culture will generally affect the behavior of that person. Therefore, with principle-based, it can minimize standards behavior for each auditor and accountant globally. (ACCA, 2009) and therefore it is important to maintain a principles-based in the IFAC’s Code of Ethic. Moreover, with the high quality of ethical code, auditors can make a good judgment and this will avoid them from having a financial scandal. (Ismail et al., 2010)

Somehow, some aspects that may considered as a threat towards a principle-based approach. External auditors and professional accountants that are use to comply with rules- based in Code of Ethics find themselves in a difficulty to switch to principles- based. The most important concern is whether a purely principle-based approach is strong enough to deal with a complicated transactions.(Yong, 2004) [Online]. Due to the different culture in every country International codes such as the IFAC’s Code cannot fully comply with basic principles and practice. (ACCA, 2009)

The fact is that auditors and accountants will need to apply judgments according to the principles, which is impossible because Code of Ethic cannot include all situation and dilemmas and by applying judgments blindly, auditor’s independence are affected. (Gomes, 2009) [Online] Despite that, every now and then judgment are use to manipulate financial outcomes so a strong ethical behavior and commitment is required for the auditors to avoid temptations from resist client pressuring. (Yong, 2004)[Online]

Besides that, the lack of clarity in principle-based approach as ethical code can perceive to be to technical jargon. As such auditors will have a difficult time to understand certain parts especially when the ethical code is translated, auditors finds themselves that the meaning become weaker thus auditors will find it hard to revise the Code of Ethics and because of this ethical code may not be widely used all over the world. (MIA, 2005) [Online] (ICAEW, 2006) [Online]. Therefore every country needs to adjust to have a simpler Code of Ethics.

## 2. 3 Recommendation

In general, all companies differs from one and another in terms of functional operations, its legal systems, institutional base works and cultures, therefore it is critical that every organization must have good corporate governance for survival. Hence corporate governance is another way to enhance the independence of auditors besides having Code of Ethics. The objectives are to make sure that company’s management is organized care and certain requirements that auditors and accountants must comply. Other than that, corporate governance systems are to make sure that threats to independence do not happen. (ICAEW, 2001) [Online]

As audit committee are parts of the corporate governance, it is important for them to monitor the external auditor’s work by checking the financial report. By doing so, external auditor’s assurance will be improved. Besides this, audit committee can give some opinions to external auditor especially when problems occur. (ACCA, 2009). Therefore, with the help of audit committee, financial report would be more reliable. Moreover, audit committee can also review the timing and nature of reports as well as the findings of the external auditors. (ACCA, 2009) Hence, this will be able to enhance the independence of auditors

Besides this, Continuing Professional Development (CPD) is another good substitute besides Code of Ethics. This program is great to ensure auditors and accountants are updated with the market developments and changes affecting the accountancy profession and the auditors. Further, it helps the auditors to maintain and raise standards to professional judgments thus this will give auditors to be more up to date in the Guide of Professional Ethics. Through CPD, auditors will have the advantage to improve the capacity to exercise the highest standards of professional judgement. (ICAEW, 2010) [Online]

CPD also provides information, support and guidance towards the auditor thus auditors are more confident in making a good decision without affecting the financial report. (ICAEW, 2010) [Online] By adopting this new approach, auditors will be able to follow up with current issue, which can affect their professional works, and to be committed in the job as they are responsible to the clients, stakeholders and the employers. (MIA, 2006) [Online]. Finally, CPD will help them to be more knowledgeable and will enhance them to develop higher level of quality standards (MIA, 2007) [Online]

## 3. 0 Conclusion

Overall, it is important that IFAC’s Code of Ethics is revised every few years to make auditors and accountants are able to adapt with the changes made in the Code of Ethic. Ethical code is needed for the auditors and accountants as the public rely on them to perform the audit work efficient and effectively. Due to this, maintaining a principle-based is in need for every auditors and accountants as it is more flexible and thus it is globally used. However, there are still some negative aspects of ethical code, which auditor finds it difficult to comply with but somehow they manage to resolve it. As such, it is important that auditor and accountants knows when to apply the ethical code and not just understanding the principle only.

Nevertheless, by having a good judgment, auditors will be able to make a good decision without getting influence. Therefore, with a strong ethical behaviour, auditors will be able to give a reliable and credible financial report and as a result, independence of auditors can be enhanced. Apart from this, it is essential, that every country will be able to adopt the IFAC’s Code of Ethics, as it will give high quality standards in the financial statement. Ethical Code cannot guarantee ethical behavior or resolve all dispute ethical behavior should result from a personal commitment to engage in ethical practice. Audit committee and CPD can also help to enhance the independence of auditor’s.

Lastly, Ethical Code is an essential element of the surroundings in which auditors work and it is important that proper guidance to be given to them.