

The ifac code of ethics for profession accountants



Introduction

Nowadays, independence is major issues to attain highest level of performances to meet the public interest requirement. (Messier et al, 2006) Therefore, International Federation of Accountants (IFAC) has its mission to provide consistently high quality of service in the public interest by continues establish and strengthen the worldwide economic development and enhancement the accountancy profession with harmonized standards. (ICEAW¹, 2005)[Online]. An IFAC Ethics Committee which also known as The International Ethics Standards Board for Accountants (IESBA) has been established by IFAC Board to develop the issues of the mission and therefore published the Code of Ethics for professional accountants to emphasize the independences and principle-based approach to its professional ethics. (IFAC¹, 2010)[Online]

The Code of Ethics for Professional Accountants (The Code) is guidance for professional accountants identify, evaluate and respond to threats in providing independent audit and assurance service. Independence in assurances services are always being discussed in the Code in terms of a principles-based approach which takes into account threats to independence, accepted safeguards and the public interest.(Rick Hayes et al, 2005) It is very important since they implicitly set limit for unethical behaviour and provide guidance in auditing.(Gary Pflugrath, 2007)

IFAC code always focuses on the issues of independent. Auditing is virtually worthless without independent as it is referred as cornerstone of auditing. An auditors should unbiased, and unaffected by conflict of interest in their

viewpoint to provide a true and fair view of the entity's audit report. (Brenda Porter, 2008) It is important to independent to avoid possible threats and access to confidential and sensitive information when carry out their work with professional and due care. Public always rely on the auditors knowledge, skills and expertise in order to form an independent opinion when providing assurance engagement. (ACCA¹, no date)[Online]

Main Report

2. 1

The role of IFAC's code of ethics is strengthening the independent of external auditors to provide reasonable assurance service. With comply with fundamental principles and the conceptual of framework, the Code can provides information that is more confidential and reliable in public practise while maintaining professional competence and independence. (Graham W. Cosserat, 2009) . These fundamental principles fulfil their obligation for public interest and achieve objective of accounting profession. The conceptual framework of professional conduct and ethics also provided to identify evaluate and respond to threats with compliance with the fundamental principles are not compromised. (ICAEW¹, 2005)[Online]. The Code also prohibiting members from incompatible activities like allowing commission or brokerage that soliciting clients or encroaching upon other members work. (Emmanouil Dedoulis, 2006)

For positive aspect, the code of ethics provides high quality standards and strong professional accounting to serve public interest in a transparent, efficient, and effective manner. Independence plays a vital role for truthfulness and confidentiality financial reporting to investor to serve public

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interest. (IFAC², 2004) [Online]. As the public interest continually increase in demand, the revised Code of Ethics has been issued and maintain in principles-based approach to strengthen independent requirement. The revised code is regarding the ethical responsibilities of the auditors who encounter illegal acts and fraud by developing additional guidance. Newer safeguard also has been applied into the revised safeguard to provide guidance for more quality framework from professional accountants. (IFAC³, 2008)[Online] The revised code is addressing relationships and previous and current interest which related to new entity that may affect independence. Relationship and interest may create significant threats that objectivity could be compromised. (IFAC⁴, 2009)[Online]

Apart from that, Mr. George has point out that the Code also helps in facilitate the global harmonisations. (IFAC⁵, 2010)[Online]. Global harmonisation is important because it is to reduce complexity and provides decisive strategic for future global capitals market. It provides greater confidence and sensitive in reliable and transparent information for individual companies. Therefore, it needs high quality accounting framework to develop the truly global set of the standards.(PWC, 2007)[Online]

Independence helps to provide high quality work which are meeting the information needs for capital market to allow the market operate efficiency, smoothly and effectively. This has improves the ability for investor and stakeholders to global basis to achieves substantial benefits from capitals market and lowers their risk and error of judgement. (ACCA², 2006) [Online]

On the other hand, the revised code of ethics has its negative side. It takes times to adopt the revised Code of ethics as all the professional accountants

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needs to absorb new information, knowledge, technical and skills in order to strengthen up the requirement of independent. It is also need to incur extra costs to provide training and preparation to adopt the newer information and requirement. Besides that, it needs to have extra communication for clearly understood all the requirement involving in revised Code of Ethics to minimise uncertainty and confusion. (ACCA², 2006) [Online]

The practice of professional accounting may create loopholes activities which may discredit the profession. Independent of profession accountants will hard to resolve this situation because the code is difficult enforcing by legally. (ACCA P1, 2008) [Online] Because the IFAC is not in a legislative position, the Code of Ethics contains no formal sanctions. (Hansrudi Lenz, 2008). Therefore, the auditors can choose to accept and comply with such a code without coercion. In such situation, the Code will fail to comply because they appear out-of-touch on ethics as they are unwilling or too busy to take the responsibility. (ACCA P1, 2008)

Other than that, the code of ethics consists moral norm in provides guidance to strengthen up independence. Unfortunately, it has been fundamentally questioned about the moral base of the profession. It is neither a pure-lip-service nor a strict self-binding agreement in the sense of the Code of ethics. The independence may fail to maintain via the Code as there are self-binding that create opportunity to transgress a moral norm since independence of mind are difficult to observe. (Hansrudi Lenz, 2008) There is empirical evidence that shows moral norm are useless if the human natural are neither truly altruistic nor truly egoistic of the human behaviour. A selfish person will

leave no room for moral obligations and maximise self-interest in decisions making which creates the ethical conflict of interest. (Sara Ann Reiter, 2000)

2.2

The IFAC code of ethics for profession accountants is essentially to maintain the principles-based approach in applying the fundamental ethics principles and conceptual framework. The IESBA have highlighted the principles-based approach as vital roles in auditing which gives guidance to resolving conflicts of interest. (ACCA P7, 2007). IFAC are more preferable to principles-based approach rather than rules-based approach as rules-based approach professional conduct and ethics cannot provide for all circumstances. There may result in inappropriate or inadequate safeguards for fundamental principles of ethics when the rules-based approach lead to unquestioning compliance to rules. (Philomena Leung, 2009)

In positive aspect, the IFAC code with accordance with principles-based approach provides numerous set of specific rules for each ethical situation that had been identified. There are varied in the nature of engagement and work environment to professional accountants. (Messier, 2006) Therefore, the code with principles-based approach provides suitable guidance for every possible identified situation that involves ethical consideration with compliance with the fundamental principles that are not compromised. It is therefore the principles-based approach is acts as a driver to provide high quality work of audit. (IFAC, 2004) [Online]

According to IFAC, external auditors' independences are more preferable to principles-based approach because it creates the robust structures and

applied to varied and diverse circumstances faced by professional accountants as it is continues to applicable in the rapid change of environment. (IFAC, 2010) [Online] As it is applicable to global environment, it helps professional accountants to avoid technical evasion of detailed rules. The Code is more robust and capable of more consistent application as the IFAC code clarifies the absolute restrictions or prohibition. (IFAC, 2009) [Online]

The principles-based of the Code are potentially very flexible because it provides flexible framework for multi-culture, multi-lingual, and multi-jurisdictional environment. (IFAC, 2004) [Online] This approach also provides best suited to the rapid change in business environment which allows multitude circumstances that may arise in practise. As such, the standards of the Code can be responsive to the changing needs of the public interest and serves better for the requirement and interests for both user and financial markets. (Intosai, no date) [Online]

Conversely, principles-based approach in the Code of ethics may have potential drawbacks. Although the Code provides basic principles to guidance, it is however that a lack of precise guidelines may create inconsistencies. (IVSC, 2007) [Online] As there are many similar circumstances to follows, the illustrative examples can be mistakenly interpreted.(ACCA P1, 2008) The professional accountants may convey the false impression in descriptions of situation where it may be misguide the work in practise. Hence, they may not establish any basic principles or essential procedures to be followed in audit review, other assurance and related services engagement. (IFAC, 2009) [Online]

The Code with principles-based approach does not and cannot capture all ethical circumstances and dilemma unless the professional accountants have very good and clear understanding in the underlying principles. (ACCA P1, 2008) Ethical dilemma can be inevitably occurring when the code cannot be honoured without apparent breach of another. (FIG, 2007) [Online] As there are argue in the regional variations in cultural, social and ethical norms, the IFAC code cannot capture important differences in emphasis in some part of the world. In additional, the Code of ethics is not technically enforceable in any legal manner although there are sanctions exists in breach of the code in some jurisdiction. Therefore, the voluntary and perhaps for the ethical code is less effective. (ACCA³, no date) [Online]

Principles-based approaches are required auditors to exercise or apply judgement because specific audit may apply laws and regulations that impact on the audit objectives. However, it is depends in the ethical conduct of the auditors. (Gary Pflugrath, 2007) Fairness expression are necessary require in the audit opinion which limits of the consistent application. Auditor may not to be able to express unqualified opinion and judgement if there are uncertainties affecting in the financial statement. Materiality by nature or by context may found in consideration. (Intosai², no date) [Online]

2.3 Other recommendations

Apart from Code of ethics, there is support evidence that shows positive relationship between audit committees and auditors' independence which means that audit committee can enhance auditor's independence. (Nur Barizah Abu Bakar, 2005) Audit Committee is a committee of independent non-executive directors that provide independent point of reference to

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auditors with view of a company's affairs other than executive directors. By providing additional channel of communication, the audit committee are strengthening the independence of external auditors. (United Nations, 2006) [Online] The audit committee might provide an impartial body for auditors to consult conflict of interest. Audit committee will also lead to increasing public confidence in the credibility and objectivity of financial report. (ACCA P7, 2009)

Besides that, audit effectiveness and independently can be raised through audit quality control process. The international Standard on Quality Control (ISQC) further enhancing confidence in independent audit by encourage stakeholders work together with open and constructive dialogue in order to contribute the work of government and regulators by generating practical ideas. (ICEAW², 2006) [Online]. ISQC also provides guidance for auditor to acquire required capabilities and competences by impose quality control in perform audit and reviews financial statement and other assurance and services engagement. The ISQC require all professional accountants perform all professional responsibilities with integrity and maintain objectivity which gain the public's confidence in the credibility of their work. (Brenda Porter, 2008)

In additionally, IFAC also issued the Continuing Professional Education programme (CPE) to enhancing the professional technical skills and competences which help to develop independent of professional accountants. CPE provides high level of training to helps it members acquire the knowledge they need to face the contemporary rigors and challenges of the professional. (MIA, 2007). CPE provides rapid development in legislation, <https://assignbuster.com/the-ifac-code-of-ethics-for-profession-accountants/>

accounting standards and guidelines, technology development and increase public expectations of the services to maintain professional competence and ensure due care at all times. (MIA, 2005) [Online] By developing the higher professional standards and fostering greater sharing information between member and expert of the industry, it geared enhancing the quality of the profession. (MIA, 2007)

Conclusion

IFAC code of ethics plays an important element for professional accountants to serve public interest. The Code has emphasize the important for external auditors to be independent in provide reasonable assurance engagement. With guidance by the Code, the professional accountants can provide high-quality standards works with access of truthfulness and confidentiality financial reporting.

From positive view, the independence can be strengthen up by the code of ethics with comply with the fundamental principles and conceptual of framework which allow professional accounting achieve their objective of accounting profession and maintain competences in practices. Besides that, the code of ethics had been revised in order to strengthen independences requirement. The code also helps in facilitate harmonisation.

The code always based on principles-based approach to provide flexible for professional accountants. Principles-based approach in the Code also provides numerous set of guidance for every possible situation. Apart from that, the principles-based approach of IFAC code provides robust structure to

many different circumstances. It is also suitable for business environment that rapid in changing to allows multitude circumstances.

Whereas from negative view, the Code needs time consuming and cost incurred to absorb the new information, new technologies and knowledge and skills. The Code also creates loopholes from professional accountants which will possible discredit the profession. Independent cannot be strengthening because of pure-lip-service and self-binding agreement that transgress moral norm.

The principles-based approach of IFAC Code has some deficiencies. The guidance's examples may mistakenly interpret as it is lack of precise guidelines. IFAC Code also does not and cannot capture all ethical circumstances and dilemma. The principles-based approach also requires the professional accountants provides too many judgement which may brings to uncertainties of financial statement.

Thus, besides the IFAC code of ethics, the professional accountants are advices to further develop other international standards or regulated body such as audit committee, ISQC and provide CPE to strengthen independent of auditors in providing assurance service.