

Ethics for Accountants: A Permanent Imperative

“Professional Ethics is critical for the future and the growth of the accounting profession in India and everywhere else. An ethical accounting profession is a powerful boost for social welfare,” says the author, the Chairman of IESBA as he stresses the importance of professional ethics for the present as well as future, in India and elsewhere. He commends and acknowledges that ICAI has already moved towards adoption and implementation of the restructured and revised International Code of Ethics and the Independence Standards, which is an important strategic decision with both national and international ramifications. “It is enabling the profession (in India) to strengthen its public interest role, to enlarge its broad social contribution to financial integrity and transparency, and thus to consolidate the trust and high reputation that it deserves.” Read on...



Stavros B. Thomadakis

The author is Chairman, International Ethics Standards Board for Accountants. He can be reached at StavrosThomadakis@ethicsboard.org or eboard@icai.in



“Chartered Accountants Day” is a very special occasion for Indian Chartered Accountants and ICAI. On this distinguished occasion, I am happy to address the Indian audience and to underline a simple message:

Professional Ethics is critical for the future and the growth of the accounting profession in India and everywhere else. An ethical accounting profession is a powerful boost for social welfare.

The Centrality of Ethics

In our dynamic and competitive world, there are major forces that propel change: new technologies that engulf analysis, intelligence and the exercise of judgement; the developmental struggle against inequality and poverty; the quest for global sustainability and cooperation; and rising public demands for transparency, accountability and integrity within public and private governance.

The complex of current pressures

will doubtlessly lead to changes in institutions and behaviours. To all those changes ethics can provide an anchor of commitment to fundamental values.

Ethics in general, and professional ethics in particular, is not only about punishing “bad” behaviours. It is also, and most emphatically, about sustaining, homogenising and raising “good” behaviours. General improvement is always two-faced: restraining the “bad” and elevating the “good” aspects of behaviour are the dual aims of ethical awareness.

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Unlike many other professions in the corporate world, the accounting profession has articulated since decades ago its International Ethics Code. Many changes have been made to this Code over time, due to changes in circumstances and techniques that affect professional practice. Nevertheless, the foundations of the Code, the core principles of ethical behaviour and the conceptual framework have not changed. The five fundamental principles – integrity, objectivity, professional competence and due care, professional behaviour and

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confidentiality – stand as the permanent and indispensable guiding lights to ethical behaviour: the overriding duty of the professional accountant in any role and any sector is to comply with the fundamental principles and take all possible precautions to overcome obstacles to compliance. And of course, the overarching aim of ethical behaviour is that professional accountants act, and are seen to act, in the public interest.

However, a sound code of ethics cannot be simply a statement of fundamental principles. It must specialise and guide their application depending on tasks, roles and circumstances. We can all think of many such instances.

For example, a professional accountant in an auditor role is required to apply *independent judgement vis-à-vis* company management when auditing the

financial statements of an entity.

Or, for another example, any professional accountant is required to *abstain from accepting or offering inducements to behaviours that violate the fundamental principles.*

Or, a professional accountant *must not be associated knowingly with false or misleading information.*

Or, for an even more far-reaching example, a professional accountant *must not turn a blind eye to non-compliance with laws and regulations (NOCLAR) that is discovered or suspected in the course of his/her duties.*

What do these examples represent? They represent applications of the fundamental principles of ethics in challenging situations and in the face of ethical dilemmas. That is what any code of ethics must do: illustrate and cover, as much as possible, challenges that professional accountants have to tackle; and provide applicable pathways to ethical solutions. These are desiderata that any code of ethics must fulfill, if it is to meet with broad acceptance, successful application, and enhanced reputation of those who abide by it.

India and the Restructured International Code of Ethics

It is our firm hope and belief that the restructured and revised *International Code of Ethics (including International Independence Standards)*, which is effective as of June 2019, meets those tests in comprehensiveness, relevance and responsiveness to global needs of today and tomorrow, as compared to earlier versions.

Besides clearer language, more transparent structure and easier-to-navigate architecture, the restructured Code includes significant enhancements, such as

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the NOCLAR, Long Association and Inducements standards, as well as important improvements in the conceptual framework, the definition and application of safeguards and provisions about breaches.

ICAI has already moved towards adoption and implementation of the restructured and revised International Code of Ethics and the Independence Standards. This is an important strategic decision with both national and international ramifications.

The important national ramification in my view is that India, a jurisdiction with a populous and thriving chartered accountancy profession, has proceeded to arm this profession with a most comprehensive body of behavioural standards that are both modern and internationally acclaimed. It is thus enabling the profession to strengthen its public interest role, to enlarge its broad social contribution to financial integrity and transparency, and thus to consolidate the trust and high reputation that it deserves.

The international ramification of the adoption of the new Code is equally significant. India is joining the class of “early adopters” of the restructured and revised International Ethics Code, both among the global audience but also, importantly, among the G-20 jurisdictions. Indeed, this adds

significantly to an already visible global momentum whereby jurisdictions such as Australia, Russia and South Africa have already joined, and many others are well on the way, notably Japan, Saudi Arabia, China, Indonesia, Korea, the UK and several other European jurisdictions.

There is also a significant regional aspect to India's adoption of the restructured International Ethics Code. As a very important member of the South Asian Federation of Accountants (SAFA), India is offering a leading example to other economies in the region, encouraging them to proceed with adoption of the new Code.

A short time ago I had the privilege to visit a SAFA conference and was impressed by the regional links and cooperation among the accounting profession in the region. At IESBA we believe that such regional links are valuable levers of progress. The adoption of the restructured Code throughout South Asia will make up a very tangible step of progress and a strong enhancement to regional cooperation and harmonisation.

Future-Ready Ethics: Challenges and Strategies

Living in a dynamic and competitive world, it is obvious that we all have to comprehend, analyse and respond to the challenges of the future. From our perspective of global standard-setting, we have confidence that the new restructured Code of Ethics is "future-ready". It captures the critical areas of practice and its structure offers a sound platform for adjustments to changing circumstances and practice.

I would like to underline especially two areas of challenge: (a) technological change and (b) the uniform implementation of the standards.

(a) The technological revolution around us is comprehensive. Methods of gathering, storing and organising information have revolutionised. Analytics with large bodies of data now perform algorithmic functions at great speed and lead to unprecedented richness of conclusions and understanding of variations and co-variations. These imply that the organisation of production and delivery of services, the coordination of collaborating entities will acquire new forms; furthermore, necessary skills and capabilities of accountants will become differentiated.

From the perspective of the Code of Ethics, we must keep reviewing how our fundamental principles will be applied in the new technological circumstances. It is clear that some of our fundamental principles will come to encompass new dimensions: for example, professional competence will embrace knowledge of multiple technological applications. Confidentiality will encompass considerations of data security.

The principles of integrity and objectivity are highly linked with independence. So, a deeper question relates to professional judgement: To what extent will judgement be relegated to algorithmic intelligence? What will professional scepticism mean about self-learning machines? What will be the necessary safeguards for independence in the light of sub-contracting agents who will combine different streams of analysis towards formation of an overall opinion? These are valid questions both for the standard-setter and the practitioner. An intensified global dialogue is a clear aim, in this regard.

(b) As economies grow and change, new spaces are opened for accounting practices in the private and public sectors. New

firms and new roles are created and the public sector expands its initiatives. That means that ethical standards must be adopted by practices among new professionals and in new circumstances. This implies that awareness-raising about Ethics must intensify and that resources must be channeled into standards' implementation both at the level of individual practices and at the level of professional accounting organisations.

Special care must be devoted to the needs of small and medium practices, as they seek to apply effectively the Code of Ethics. The IESBA is making available many tools for better understanding and more consistent application of the Code, including an interactive digital facility that has just come live, the eCode. It is available on our website!

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Concluding Reflection

As the accounting profession enters new areas of practice and gears to respond better to its public interest responsibilities, it would be very helpful if other professions, and other actors in the corporate and public sectors, work up and abide by commensurate codes of ethics. One of the high duties of professional accounting organisations is, in my opinion, to raise awareness and lobby for parallel codes of ethics.

The generalisation of ethical behaviour can only act as a strong force for the well-being of economies and societies. ■