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ACCOUNTING

**AUDITING/CORPORATE GOVERNANCE |
ADVANCED**

Video Transcription: The Code of Professional Conduct



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Hello everyone, this video is on the SAICA Code of Professional Conduct, and on ethics, so what I recommend that you do now, is that you go and get the SAICA Code of Professional Conduct from your SAICA handbooks and open it in front of you at the beginning of Part A. It will be very useful as we go through this video.

At the beginning of this I'd just like to highlight that there are two codes that students often come across: one is the IRBA – the Independent Regulatory Board of Auditors (the “I”, “R”, “B”, “A” – their code). The other one is the SAICA Code of Professional Conduct – the one I need you to have open in front of you now. The two codes are substantially the same. The real difference is that one refers to a registered auditor, which is not your concern at this point in your studies, and the other one refers to a chartered accountant. They're both based on the IFAC code, the International Code of Professional Conduct. So please always make sure that you always refer to the SAICA Code of Professional Conduct, and that's the one that you're reading now, and that's the one that you highlight.

Ok, so what is professional conduct about? What is ethics about? Well it's really about right and wrong conduct for a chartered accountant. So when you're looking at a scenario, and you get that feeling that “something's not right here; this is not quite correct”, and it's not a legislative issue, it's not something that has to do with a technical standard; you can see clearly it's an issue that their conduct was either wrong, or they're in a position where they're facing an ethical dilemma – they should act in a certain way, but they have a temptation or an incentive to act in another way – that's when we're in the scope of the SAICA CPC.

So when you're looking at your SAICA CPC, you'll notice that there's three parts: Part A, Part B, and Part C. Very clearly – three parts to the SAICA CPC. Part A is, in many respects, the most used, the section of the code that's going to result in the most questions, and the most marks being awarded. So please make sure that you're very familiar with SAICA CPC Part A. Part A is the general application of the code – it's generally applicable to all chartered accountants. Part B is applicable only to chartered accountants who are working in a public practice position.

What does public practice mean? Commonly misunderstood – public practice does not just mean that the chartered accountant is in the audit space, it doesn't just apply to assurance services. It's defined at the beginning of the CPC. If you go to the glossary right at the beginning, you'll see public practice is when a chartered accountant goes and performs services as a chartered accountant. So that could be audit, that could be review engagements, that could be compiling financial statements, that could be agreed upon procedures, that could be tax consulting, that could be corporate finance advisory, that could be valuation work, that could be accounting advisory, preparing somebody's accounting records; you see that is all work done by a chartered accountant in practice. They are selling their services and time as a professional chartered accountant. Please note that you see that it's beyond the scope, it's further than just assurance audit services.



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Then you've got Part C. Part C is for chartered accountants, like myself, who are in business, who are employed by a company. So Part A would apply to me, Part C would apply to me, but because I'm not offering my services to the public as a chartered accountant, I would not apply Part B to myself. But an auditor, or somebody who runs an accounting or a tax or an advisory services firm, would have to consider Part A and Part B.

It's important to note that SAICA, the chartered accountant profession, take ethics very, very seriously. It is hard to believe that in a board exam, for example, when you get to writing your board exam, it's hard to see a paper that will not have an ethics element to it. It is so important to our profession – it is the starting point of our profession. And that's how the Code of Professional Conduct actually starts. I'd like you to note the wording in Section 100, paragraph one: "A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a chartered accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in a public interest, a chartered accountant shall observe and comply with this code."

So what we're going to do now is talk a bit about Part A, and then a bit about Part B and C. And Part A (remember this is the general application of the code) – it doesn't matter where you work as a chartered accountant, Part A applies. By far the most important part of Part A of the code is understanding the fundamental principles. These are the most important five principles that a chartered accountant must always weigh up in an ethical dilemma or make sure that their professional conduct is in line with the ideas in these five fundamental principles.

What are the five fundamental principles? Well:

1. Integrity;
2. Objectivity;
3. Confidentiality;
4. Professional competence and due care; and
5. Professional behaviour.

Now they're very clearly defined, and you need to know exactly the difference between them.

So integrity is honesty. Objectivity is being unbiased towards any individual, even your employer. You are supposed to always act with objectivity. Just a note here – objectivity is not quite independence. Independence is a concept only in Part B of the code. Independence was not one of the five fundamental principles, because I, as an employee of my firm, I'm not supposed to be independent of them, because I cannot be, because I'm employed by them. But I'm still required to be objective. Independence is something an auditor needs to be in an audit client engagement. So please note the difference in definition between objectivity, which is one of the five fundamental principles, and independence, which is defined in Part B of the code.



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You've got confidentiality – make sure that all professional information that is supposed to be by law, or by right conduct, kept confidential (personal information, credit card information, business information) is just kept confidential from the people that are not supposed to see it. That can show itself in many different contexts.

But the common misconception by students, is they see professional competence and due care, which is one of the five, and then professional behaviour, as very much the same thing, but they're actually quite different.

Professional competency is the obligation on the chartered accountant to act in a way that you would expect from a technical and professional position, to act as a chartered accountant would in that particular environment. For example, I'm not a tax practitioner, so I shouldn't go and market myself as a tax practitioner. I don't have the skills and experience to give tax advice. So if I went and gave services beyond my technical abilities, not adhering to the technical standards that someone would expect of a tax practitioner who's a chartered accountant, that's professional competence and due care.

What is professional behaviour? Professional behaviour is a broad understanding of conduct that would put the profession in disrepute. That's professional behaviour. These two concepts can be seen clearly from the definitions of professional competency and professional behaviour. So please make sure you see the difference.

The next thing is the threats; the threats to the fundamental principles. There are five threats, and we've already talked about five fundamental principles. And I want to make a distinction here – the threats are a future-looking possibility that the five fundamental principles might be contravened. It is incorrect, if somebody has already done something in the past that contravenes one of the five fundamental principles, it would be incorrect to go and say that there is a threat to them contravening the five fundamental principles. Does that make sense?

A threat means that there is a conflict of interest situation that is present. There has been no contravention of the fundamental principles. The threat is forward looking. There is the risk that there will be a contravention of the fundamental principles.

So if you see that Mister X, who's a chartered accountant, has done something wrong, don't go and apply the five threats. Go and explain why they have (using the facts from the scenario) contravened the fundamental principles. But, if you see a situation that puts a chartered accountant, or yourself, in a position where you may – there is incentive, there is the risk that, there is the temptation, given the circumstances, that you may, or the person may – contravene the fundamental principles, that's when the five threats come into play.



So what are the five threats? Well you've got:

1. Self-interest (there's a self-interest threat);
2. Self-review threat;
3. Advocacy;
4. Familiarity; and
5. Intimidation.

Well-defined in Part A of the CPC. Please make sure you have a look at them.

The most commonly misunderstood one is probably advocacy. Advocacy is when the chartered accountant is in a position where they're advocating (maybe selling a product, or selling the shares of the client to which they're doing their services towards, or which they're employed with). It can create an incentive to not adhere to the fundamental principles. Self-interest and self-review are the two most common threats used in questions, but all five are used, so please make sure you see the difference between them.

So how do you get marks in a conflict of interest situation? Well, first of all, remember a conflict of interest situation is when there is a threat to the fundamental principles. That's what conflict of interest means. It wouldn't make sense to say: "There is no threat, but it is a conflict of interest situation". A conflict of interest situation means there is a threat of some sort, one or more of the five threats, to one or more of the five fundamental principles. If that person is in a conflict of interest situation, you are going to get your marks by getting the right threat linked to the right fundamental principles (and remember, it could be a many-to-many relationship, there could be two threats to one fundamental principle, or one threat to two fundamental principles), and then taking the factors, the facts from the scenario – this is very important – take the facts from the scenario, to justify why you believe it's, say, self-interest to objectivity. There's got to be facts that justify why it's self-interest, and why it's a threat to them not acting in an unbiased manner (which is objectivity).

I'd just like to discuss two more issues before we move on to Part B of the code, the first one being in a conflict of interest situation, what do you now do if there is a chartered accountant, or yourself, because remember that sometimes you might be a member of the audit team, which means that you are maybe not a chartered accountant, but you are a member of SAICA. You have signed as a trainee accountant with SAICA, which means that you are also obligated under the SAICA Code of Professional Conduct.



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So if you find that a person is in a conflict of interest situation, what do they do? In Section 100 and Part A of the code, it describes an appropriate thought process, and courses of action to follow, in reporting to those more senior to you, eventually to those charged with governance who really sit above management (remember those charged with governance being your non-executive directors, who often sit, are then sitting on your audit committee). And if the issue is still unresolved, you do not succumb to those threats, you put the reasons for your conflict of interest, and why that this is unethical, and perhaps there might be legislative issues involved in the scenario, put that in writing in your resignation letter, and you resign from the company. So it does direct you as to how to deal with a conflict of interest situation.

The other issue I'd like to talk about is confidentiality, which is one of the five fundamental principles. Please note that there are circumstances in which the chartered accountant is obligated to break confidentiality. For example, if there's a professional obligation to do so, for example if there is a legal obligation to do so. So please make sure that you see, under the discussion of confidentiality, the different circumstances in which the chartered accountant must actually break confidentiality.

What we're going to do now is talk about Part B. Part B is important when the chartered accountant is in a public practice role. We talked about what public practice is – it is broader in understanding than just audit. Now this section is long, it is longer than Part A and Part C. What I'd like you to do is go to Part A and have a look at the table of contents. The table of contents really helps you understand what Part B is talking about, and in my thinking – this is what I do – when I look at that table of contents, I divide it into two aspects. One is Section 290; Section 290 and everything else. Everything else is talking about a chartered accountant who's not in an audit position, therefore independence is not an issue, and how they must remain professional in their conduct, remain ethical in all their services that they provide to the public and to clients. That's everywhere else in Part B, except for Section 290.

So Section 290, if you go to Section 290, it is the longest section in the whole part of the SAICA CPC. It's the longest section in the whole of the SAICA CPC. It is so long that it actually has its own table of contents. So just turn to Section 290. What does it deal with? It deals with the auditor in assurance engagement in audit. That's what it's doing. What are the threats to independence for an auditor?

Now I need you to become familiar with the different sections of Section 290, because this is where you're getting marks for using those same five threats, but not to the five fundamental principles from Part A, but to independence. Remember we said objectivity, which is one of the five fundamental principles, is not exactly the same concept as independence of the auditor.



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One of the most important characteristics of an auditor is their reputation, yes, but the fact that they are seen to be, and are, independent. So please become familiar with the concept of independence, and how it is different to objectivity. Section 290 talks about the independence obligation for an auditor when they have an audit/client relationship – when they are the auditor of a company. So when you are looking at independence, you are still looking at the five threats to independence:

1. Self-interest threat to independence;
2. Self-review threat to independence;
3. Familiarity threat to independence;
4. Advocacy threat to independence; and
5. Intimidation threats to independence.

And what are the different circumstances that could be in a scenario that will compromise the independence of the auditor? Well, Section 290, if you have a look at the table of contents in Section 290 – please note this is not the table of contents for Part B as a whole; you go to Section 290 and it's got its own table of contents – you will see all the different scenarios which can present a threat to independence, one section at a time.

For example, if there is a long-standing relationship with the client, there's a section that deals with long-standing relationships with a client. What happens if a member of the audit team is now working for the client? Or the other way around; if a manager or an employee of the audit client in days gone by, is now working for the auditor? There's a section that deals with both of those scenarios.

What happens if a member of the audit team, or a family member of an audit team member has a direct or indirect financial interest in the audit client (in the company)? What should the auditor think? To what degree is it a threat to independence? Well, there's a section dealing with that. And then you will see clearly that there are a number of sections, sub-sections, that are dealing with non-assurance services, because the most common way in which an auditor's independence is compromised, is when the auditor performs non-assurance services, which means non-audit services, at the same time as performing the audit.

So if you get asked to do tax advisory, as well as be the auditor, there's a clear threat to independence. What kind of threat? Well self-review threat, if you are going to be auditing the work which you have been consulting on, but also a self-interest threat if the amount of the fee for the non-assurance services is significant, because then you have a self-interest to maintain both engagements, because they're both lucrative, which will impair your independence as the auditor. So please have a look (we're not going to go into any detail on this video). It requires you to, when you're working through a scenario, to note – Section 290 will often speak to every scenario where a threat to independence is presented.



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Lastly, Part C of the code. Part C, remember, is for chartered accountants in business, so that would be when a chartered accountant is not providing their services as a chartered accountant to the public, which would be Part B, this is Part C. So remember Part A applies to everyone, Part B just if the service are in public practice (which includes audit, but extends beyond audit services), and Part C is someone like myself, where I work for an employer. I'm a chartered accountant in business.

Now there's not much added to Part A in Part C, so what you'll usually find in a scenario – nine and a half times out of ten – you'll find that Part C is not applied in the solution. Why? Because Part A has the threats to the fundamental principles, which still apply in Part C. So please have a quick look at Part C; you'll see it's not very long. Where do you need to spend your time? Fundamental principles, threats to the fundamental principles, and then threats to the independence of the auditor.

Outside of all of this is the concept of safeguards. A safeguard is like a barrier, so if a car is going around a sharp bend, often they will put a barrier around the outside of the road; that's to prevent the car from going over the cliff, or off the road. That's really what a safeguard is. So when safeguards are asked of you, and the CPC talks about safeguards, what is their purpose? Their purpose is when there is a conflict of interest situation. What is a conflict of interest situation? There's a threat to the fundamental principles, or there's a threat to independence. That means independence has not been contravened yet, or the fundamental principles have not been contravened yet, because there is a conflict of interest situation. But there can be certain actions, policies and procedures put in place to mitigate that threat. Mitigate means reduce that threat to an acceptable level. That is the purpose of a safeguard.

So you will read about safeguards in Part A, in Part B, and in Part C. Their purpose is to directly intervene in the scenario where there's a conflict of interest situation, to put a plan of action in place, to put a policy in place, to do something different to that scenario which will reduce that threat to an acceptable level.

Well that's the end of the video, thank you for watching it. This has dealt with the SAICA Code of Professional Conduct, and I hope it has been helpful to you.