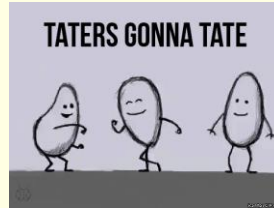
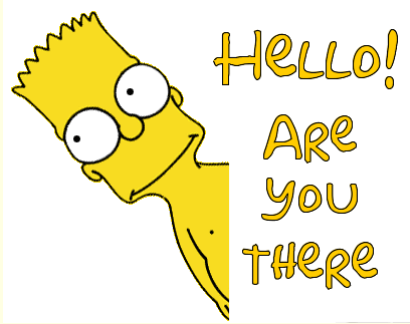
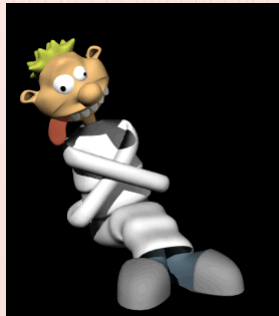


Code of Ethics



Code of Ethics



Presented By:
Ricky Wong
and
Albert Chui

Code of Ethics

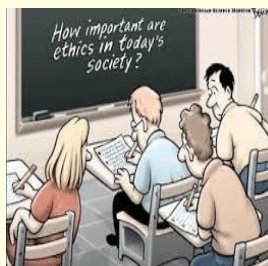
- Part A – Introduction
- Part B – Fundamental Principles
- Part C – Summary
- Part D – Short Case



Code of Ethics (Introduction)

What are Ethics ?

- A sense of agreement in a society as to what is right and wrong.
- A set of moral principles, rules of conduct or values.
- Apply when an individual has to make a decision from various alternatives regarding moral principles



Code of Ethics (Introduction)

Teaching ethics

A lawyer talks to his young boy, James, about ethics. “James, suppose that one day a gentleman comes into my office with a simple question. Upon answering the man’s question, I charge him \$200. He is outraged at the bill for such a simple question but agrees to pay. The man reaches in his wallet and grabs a hundred dollar bill and thrusts the money into my hand. Upon his leaving, I notice that the man has, in fact, given me three \$100 bills. Hey, James, here is the question: shall I share the extra bill with my partner? If I don’t, it is not ethical.....

What do you think?



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Code of Ethics (Introduction)

Why professionals need Ethics ?

- Professionals have a responsibility to consider the public interest and maintain reputation of their professions. Personal self-interest must not prevail over these duties.
- Ethical codes are required as people rely on them and their expertise.
- Reliance extends beyond clients to the general community.



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Code of Ethics (Introduction)

Professional Accountants and their employees are subject to Code of Ethics, which are based on the guidance of the International Federation of Accountants ("IFAC")

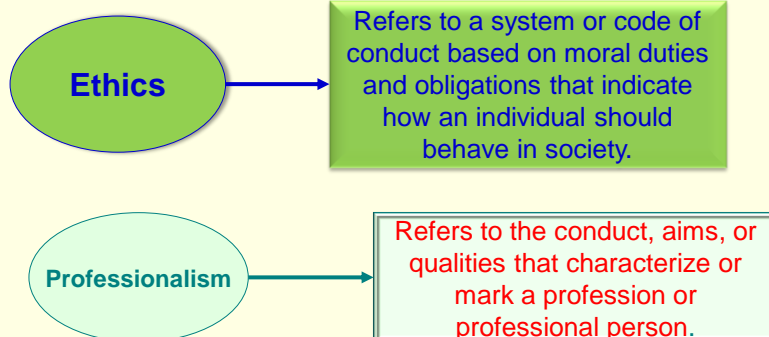


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Code of Ethics (Introduction)

Compliance with a shared set of ethical guidelines gives protection to accountants. IFAC believes that issuing guidance will improve the degree of uniformity of professional ethics throughout the world



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Code of Ethics (Fundamental Principles)

- The Code issued by IFAC establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply to:
 - Identify threats to compliance with the fundamental principles;
 - Evaluate the significance of the threats identified; and
 - Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level

A Professional Accountant shall use professional judgment in applying this conceptual framework

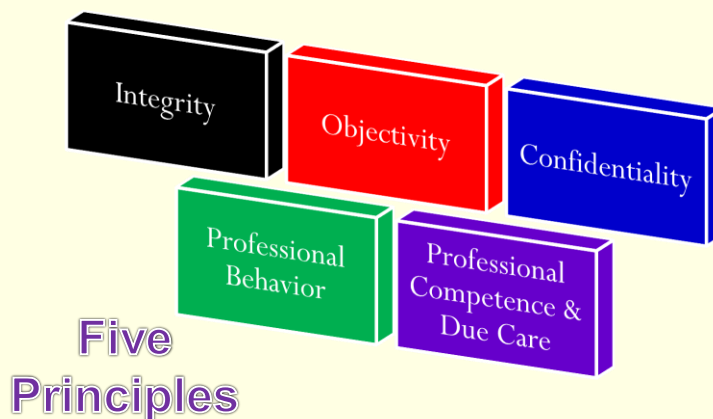


Code of Ethics (Introduction)

IESBA code of ethics for professional conduct

<u>Part A</u>	<u>Part B</u>	<u>Part C</u>
Establishes five fundamental principles	Describes how framework applies in certain situations	
Evaluate and eliminate threats	Accountants in public practice	Accountants in business

Code of Ethics (Fundamental Principles)



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Code of Ethics (Fundamental Principles)



A professional accountant shall comply with the 5 fundamental principles:-

- **Integrity** – straightforward and honest in all professional and business relationships
- **Objectivity** – no bias, conflict of interest or undue influence of others to override professional or business judgments
- **Professional competence and Due Care** – maintaining professional knowledge and skill based on current developments in practice, legislation and techniques, and act diligently and in accordance with applicable technical and professional standards
- **Confidentiality** – respect confidentiality information acquired and not to disclose any such information to third parties without proper and specific authority, unless by legal or professional right or duty, nor use the information for personal advantage
- **Professional Behavior** – comply with relevant laws and regulations and avoid any action that discredits the profession

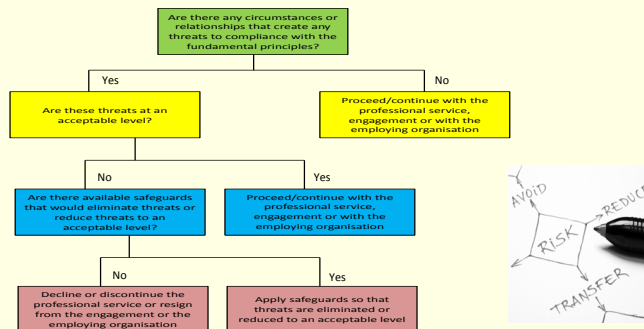


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Code of Ethics (Fundamental Principles)

The conceptual framework



"Acceptable level" means a level at which a reasonable and informed third party would be likely to conclude - weighing all the specific facts and circumstances available to the accountants at the time - that compliance with the fundamental principles is not compromised



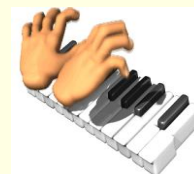
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Code of Ethics (Fundamental Principles)

Threats and Safeguards

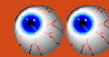
- Threats may be created by a broad range of relationships and circumstances
- When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise a professional accountant's compliance with the fundamental principles
- A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle



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Code of Ethics (Fundamental Principles)



Threats fall into one or more of the following 5 categories:

- **Self-interest threat** — the threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior; (e.g. having a financial interest in a client)

- **Self-review threat** — the threat that the results of a previous judgement or service performed by a member will not be appropriately evaluated by the member before it is relied upon in forming a judgement as part of the current service; (e.g. auditing financial statements prepared by the firm)



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Code of Ethics (Fundamental Principles)



Advocacy threat — the threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised; (e.g. promoting client's position by dealing in its shares)

Familiarity threat — the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and (e.g. audit team member having family at the client)

Intimidation threat — the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant (e.g. threats for replacement due to disagreement)



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Code of Ethics (Fundamental Principles)

Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level.

They fall into two broad categories:

- Safeguards created by the profession, legislation or regulation; and
- Safeguards in the work environment. Definition of “Work Environment” means location where a task is completed.



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Code of Ethics (Fundamental Principles)

When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:

- Relevant facts
- Ethical issues involved;
- Fundamental principles related to the matter in question;
- Established internal procedures; and
- Alternative courses of action.

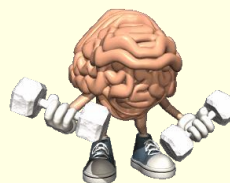


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Code of Ethics (Fundamental Principles)

- Having considered the relevant factors, a professional accountant shall determine the appropriate course of action, weighing the consequences of each possible course of action
 - If the matter remains unresolved, the professional accountant may wish to consult with other appropriate persons within the firm or employing organization for help in obtaining resolution
- Where a matter involves a conflict with, or within, an organization, a professional accountant shall determine whether to consult with those charged with governance of the organization, such as the board of directors or the audit committee



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Code of Ethics (Fundamental Principles)



- It may be in the best interests of the professional accountant to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue
- If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors
 - The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege



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Code of Ethics (Fundamental Principles)

Non-public interest entities

a) Provision of accounting services to audit clients

Issue: To provide services related to the preparation of accounting records and financial statements to the audit client

Analysis:

Identified threat	Self review threat
Threat evaluation	<p>The client must take the responsibility for accounting records preparation. The existence and significance of the threat depends on factors such as:</p> <ul style="list-style-type: none"> • Whether the services are of a routine or mechanical in nature; <ul style="list-style-type: none"> ▪ Recording transactions for which the client has approved the appropriate account classification; ▪ Posting transactions coded by the client to the general ledger, etc. • Whether the management is familiar with accounting practices and/or principles, consider. <ul style="list-style-type: none"> ▪ The complexity of financial reporting requirements. ▪ The level of judgment and/or subjectivity involved in the recognition, classification and measurement of the accounting transactions.
Safeguard application	<p>Examples of safeguards include:</p> <ul style="list-style-type: none"> • Arranging services performed by an individual not a member of the audit team; • If services performed by a member of the audit team, using a partner or senior staff member with appropriate expertise not being a member of the audit team to review the work performed. <p>If the treat cannot be reduced to an acceptable level by the application of safeguards, such non-assurance service shall not provided.</p>



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Code of Ethics (Fundamental Principles)

b) Tax return preparation service to audit client

Issue: To compile financial information for tax return preparation

Identified threat	No applicable
Threat evaluation	<p>Compilation of such financial information is within the scope of tax return preparation services</p> <p>Tax return preparation services generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law and established practice</p>
Safeguard application	Such service does not generally create a threat to independence if management takes responsibility for the returns including any significant judgements made



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Code of Ethics (Fundamental Principles)

c) Calculation of current and deferred taxation for accounting entries for audit clients

Issue: To provide services on calculating current and deferred tax liabilities (or assets)

Identified threat	Self review threat
Threat evaluation	<p>The client must take the responsibility for the preparation of accounting entries.</p> <p>The existence and significant of the threat depends:-</p> <ul style="list-style-type: none"> • Complexity of the relevant tax law and degree of judgement necessary in applying that; • The level of tax expertise of the client's personnel; and • The materiality of the amounts involved to the financial statements.
Safeguard application	<p>Examples of safeguards include:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; and • If the service is performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the tax calculations.

Code of Ethics (Summary)

- It is required by the Code of Ethics for professional accountants to be "Independence" from clients.
- If no safeguard is available, it is only appropriate to:-
 - Eliminate the interest or activities causing the threats; or
 - Decline or discontinue engagements



Code of Ethics (Summary)



...circumstances that are so significant that a reasonably informed third party, having knowledge of all relevant facts (including safeguards applied), would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity, or professional scepticism had been compromised.

