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Looking Towards Change

By Gael McDonald and Terry Reid*

PAST Institute President John Hagen once commented that, “The most telling feature that distinguishes a profession from a trade is its active promotion and implementation of a Code of Ethics.”

The Institute’s Professional Practices Board is currently reviewing and updating both the Code and Ethical Guidelines. This is not surprising given the concerted effort by the Institute to develop professional standards among its members.

A notable feature of this activity has been the integration of significant ethical components into the Accounting Technicians’ programme, Professional Competency Examination (PCE) 1 and the Chartered Accountants’ programme, PCE 2.

Having initiated strong ethical dimensions in these programmes over the past two years, the Institute is now investigating the adequacies of the current Code and Guidelines, and the means by which they are disseminated and (hopefully) adopted by members.

As part of the review process, the Board is consulting with key individuals in an effort to ensure that the approach adopted is not only appropriate but also inclusive of all current ethical issues affecting the profession.

The current Code

Although still early in the review process, the Board has expressed concern that the current Code of Ethics may not serve the profession well for the future.

A fundamental issue is the basic intent behind the Code — improving the ethical performance of accountants.

Another concern is that while many of the expectations of Chartered Accountants will continue to be relevant, it has been suggested that the manner in which the Code has been drafted appears to create some confusion and misunderstanding. This ambiguity may serve to devalue the role of the Code.

It is also becoming apparent that certain expectations, such as independence and objectivity, have widened internationally, and that the Institute’s Code of Ethics needs to be adequately maintained and kept up to date to reflect international trends.

For a code to be of any value to the profession overall, and to individual members, it is imperative that it be fully understood, easily applied and address current issues.

Members are seeking guidelines and suggestions to everyday dilemmas with outcomes that are not only appropriate but also workable. It is important that members are guided not just by specific provisions, but also by the spirit of the Code. The Board has set a deadline of December 1999 to release a Draft Code of Ethics to members.

Issues under consideration

In this article we:

- Highlight some initial comments regarding the ethical dimensions of the accountancy profession, notably...
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from an educational perspective:
- Consider the current issues that need to be raised in a review and revision process.
- Outline possible steps for the revision process.

Commentary on ethical dimensions in the profession

Leading businessperson Stephen Tindall recently observed that, "The greatest challenge facing New Zealand business is ethics. Some companies have started to lead the way in honesty and integrity and some still need to get up to speed."

A recent survey of business managers also revealed comments such as "ethics and business practice is at the core of how business is carried out." In an ideal world ethics should apply in a person's business life as it does in their private life; however, not everyone's private ethics are up to an acceptable level.

Another sobering comment from this study: "When I look at people with talent who have failed in business, it is principally because they have lacked ethics. Long-term success requires a sense of fair play, honesty and moral responsibility."

The conflict that frequently prevails in business today is the competition between ethics and commercial considerations.

As Adrian Cadbury has noted, the difference now is that a more widespread and critical interest is being taken in our decisions and in the ethical judgements which lie behind them.

The accountancy profession intends to provide significant support in this judgement process by providing professional codes and guidelines. However, it is unfortunate that these provisions appear to be falling short as adequate support mechanisms.

Younger Chartered Accountants will rely on the Code in resolving ethical dilemmas as their practical experience is at an early stage of development. Therefore it is worth noting their experience of using the Code as a support tool.

The following comments were taken from the Chief Examiner's report for PCE 1, March 1999.

The question on ethical issues in business and the profession was deemed to be "the least well-answered question, with candidates seeming to find it more difficult to relate abstract ethical principles to the facts of the scenario presented."

Concerns about the adequacy of ethical decision-making skills in young accountants is shared by one of the writers of this article, who, as a facilitator, observed that PCE 1 candidates have difficulty drawing connections between ethical principles and rules contained in the Code and their application to topical dilemmas.

When faced with an ethical dilemma, the immediate reaction was to randomly locate a relevant rule from the Code without consideration of the appropriateness and application required for resolving the dilemma.

This approach, which is encouraged by the Code — while technically and academically correct — fails to give young accountants an understanding of what ethical principles actually are, how principles may conflict and need to be prioritised, as well as how they are relevant to real scenarios.

A further problem with this approach is that if an appropriate rule is not found, the issue is simply ignored.

Given the importance of the Institute's Code and Guidelines in providing internal control mechanisms for the profession and maintaining external public confidence, several issues could be considered in the forthcoming review.

Issues to consider in the revision process:
- Content — There appears to be a pressing need to update some of the content and specific issues that Chartered Accountants may encounter in today's business environment. For example, developments in e-commerce, environmentalism and international trade bring new dilemmas for accountants to deal with.
- International parity — Given the...
considerable effort being put into the area of professional codes by other institutes around the world, the International Federation of Accountants (IFAC) and International Accounting Standards Committee (IASC), and the international transfer of skills, there may be a need for international parity of codes.

- **Relationship between professional and corporate codes** — Within the ethical decision-making process, an individual brings to bear a combination of personal, professional and organisational codes. Thus, a professional code could frequently be used to supplement corporate codes.

  Recognition needs to be given to the reconciliation of differences that may occur and the prioritisation required between professional and corporate codes.

- **Moral agency** — A related issue is the difficulty of recognising who, in an ethical situation, might be the moral agent.

  For a Chartered Accountant, identification of the decision-maker and where responsibility lies can be difficult, with questions of whether the ultimate responsibility belongs to the client, the firm or the individual.

  Too often there may be a temptation for the Chartered Accountant to abdicate their ethical responsibility by viewing the moral agent as not being themselves, but the organisation they work for, or more commonly, their clients.

- **Terminology** — There are eight fundamental principles within the Code of Conduct relating to public interest, integrity, objectivity, independence, confidentiality, technical and professional standards, competence and due care, and ethical behaviour.

  It is worth asking ourselves just how clear our understanding is, in practical terms, of such concepts as integrity and stewardship.

  While more senior members of the Institute may have the wealth of experience to support these dimensions, to many, and particularly the new accountant, these phrases are too broad and without practical meaning.

  The abstract terms provide broad domains of professional concern but frequently do not translate well into useful guidelines for managing everyday situations.

  As David Jackson has implied in his article “Update, Ethics and Professional Responsibility” (in the September 1998 issue of this journal, page 41), the Code should be aiming for true professionalism — not merely minimalist professional requirements.

- **Operational definitions** — Related to the above issue is the need for the Code to contain reference to specific operational definitions of unethical behaviour as we move from the more general normative guidelines to specific behaviours that would easily be identified in the workplace.

- **Scope of involvement** — Professional codes of ethics could be examined in terms of five types of obligations.

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These are the obligations to:

- Society
- Employers
- Clients
- Colleagues
- Other professional organisations.

When reviewing the current Code, we may need to widen the scope.

For example, when dealing with confidentiality, former IFAC Director-General John Gruner has recognised that while confidentiality has always been a basic tenet of the profession, sometimes what is best for the public good must be addressed.

In doing so, we have broadened the obligations from employer, client and ultimately to society.

- Ethical needs vary according to organisational level — When dealing with ethical issues, the dilemmas — while governed by a common set of principles — may vary for different levels in the profession and organisations. For example, Accounting Technicians, Chartered Accountants and directors all experience different circumstances and for the Code to be of value to each it must reflect the needs of all of them.

  Accounting Technicians will primarily be concerned with the accurate fulfilment of technical standards, whereas directors are less likely to be interested in these, but instead to value support in relation to issues of corporate governance and compliance.

- Industry variations — Similarly, different circumstances are often dealt with in alternative industries where variations not of the principles, but of the content of the Code for sector domains may be required.

- Impacting on actual behaviour — It is important to distinguish between thinking about ethical behaviour and actual ethical behaviour. Being fully conversant with the critical dimensions of the Code required for Institute recognition and qualification may not necessarily translate into behaviour. The intent behind the Code, although optimistic, is to influence behaviour — not just the cognitive process.

- Decision-making skills — It is appropriate for a code to present fundamental requirements. However, these guidelines could be further extended to include some element of decision-making.

Codes are relatively easy to implement when principles are clear-cut and mutually exclusive. But what happens when these principles conflict — for example, in the areas of public interest and confidentiality?

The Code could go further than providing a prescriptive list of standards by helping to develop decision-making skills.

This would enable Chartered Accountants, when faced with dilemmas such as those that involve conflicting principles, to use a structured decision process. This approach is more appropriate than knee-jerk ad hoc responses, which fail to take full consideration of stakeholder
consequences and alternatives relative to the profession’s principles.

In doing so, the Code would not only help the individual to resolve ethical dilemmas but would also promote moral courage in a business context.

◆ Organisational pressures — While the Institute is tireless in its efforts to promote ethical awareness of its members, it would be naïve not to acknowledge that many members are working in organisational contexts that may inhibit their ethical development.

The Code and Guidelines may wish to recognise the supervisory and organisational contexts that frustrate members.

Consideration could also be given to the means of strengthening additional support through ethical mentors and hotlines. The Code should clearly indicate the means of accessing this support.

◆ Communication — The means by which the Code is communicated is well worth examining. At present it comes in booklet form with few “bells and whistles”.

There is a need for a more creative presentation of concepts, taking into consideration different learning styles, written, aural and visual.

It should be noted that the current PCE 1 ethics material is presented in written and CD-ROM formats and this methodology could easily be applied to the Code and Guidelines.

Ethics does not need to be boring; in fact it requires stimulation.

◆ Sanctions against violations — What control mechanisms are instigated against individuals who violate a professional code.

What constitutes ethical or unethical behaviour may need to be further supported by identifying the consequences of violation — what steps will be taken for investigation, the possible fines and the extent and means of media notification.

Further consideration needs to be given to the shift to a collegiate honour system whereby membership is of value and whistleblowing of errant members is not unknown but encouraged.

This approach may be anathema to the New Zealand psyche, however it is imperative if a professional code is to exist in any meaningful way and be defended.

Common process
While voluntary codes of conduct vary, they tend to have a common, maturing process. Their structure is often as follows:

◆ First-generation codes contain broad statements of principle and references to statutory obligations, and are issued in written form to all members.

◆ Second-generation codes are more prescriptive, fully disseminated, partially adopted through supplementary training and may include compliance measures and review mechanisms.
They are characterised by internal censure.

- **Third-generation codes** revision is undertaken on an annual basis, full adoption is witnessed, and additional supporting mechanisms are provided — for example, ethics hotlines and external censure via media for non-compliance. Compliance checks are formalised with independent enforcement. Personal decision-making skills are developed to a high level.

**Possible steps**

Without intending to dictate the format of the review process, possible steps that could be undertaken as part of the process are:

- **Full consultation** — With members within the profession, those who are teaching and future accountants, asking what members feel would be vital elements to be contained in the Code and what might be deemed appropriate mechanisms of enforcement.

  Invite submissions that will flag intent, encourage discussion and provide a focus and input of ideas.

- **Review existing codes** — The existing Code and Guidelines should be reviewed in light of recent changes, environmental developments, international changes and input from the consultation process.

  Consideration could also be given to other professions that are examining similar issues. Transfer of experiences would be invaluable.

- **Summarise proposed changes** — Changes should be summarised and presented to key stakeholders for comment in order to finalise proposed objectives, structure and content of the Code.

- **Re-write** — Are-writing of the Code and Guidelines should be undertaken and may involve restructuring rather than merely restating the principle. It may be appropriate to support the principle with rules and practical examples.

  For example, the principle under consideration could be objectivity, the related rule could be concerned with conflict of interest and the practical example might be not participating in the tendering process where one of the submissions is from your best friend. This might be referred to as the “three Ps” approach to writing Codes of Conduct — principle, prescription and practice.

  Consideration should also be given to other dimensions of the Code indicated above — decision-making skills, disciplinary action and support mechanisms.

- **Implementation** — Consideration needs to be given to the means by which the Code and Guidelines are communicated — for example, tape, video or CD ROM as well as paper-based copy.

  As part of the implementation process a launch, as well as training and support strategies need to be developed.

  From our experience, codes in isolation often sit in the bottom of the office drawer and create an illusion that the profession has done something positive when in fact it has not.

**Conclusion**

Our comments are intended to raise issues for evaluation.

While not all these issues need to be resolved immediately, there needs to be detailed discussion to ensure full consideration. It is also important to realise that codes are subject to continual review.

The review and revision process is to be encouraged, with full realisation that the changing of a professional code could create a new set of ethical problems and prompt members to come up with new and inaccurate interpretations of their obligations.

That aside, it is an exercise well worth undertaking.

**Footnote**


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Ethics are the Heart of PCE 1

By Helen Prangnell*

WHAT is the difference between morality and ethics? Is being ethical the same as abiding by the law? What, really, is the meaning of "integrity"? These are just some of the questions posed during the Professional Competency Examination (PCE) 1 Ethics Workshop.

Ethical awareness is a critical element of the Institute’s Professional Competence programme. This article outlines the approach taken in PCE 1 (which is a requirement for admission to all colleges of the Institute) to raise the ethical awareness of prospective members.

About half of the PCE 1 programme relates to ethics. The programme comprises a half-day Ethics Workshop followed by a formal examination, one-third of which relates to ethical matters. To pass PCE 1, candidates must achieve competency in at least one ethics component.

The overall aim of the PCE 1 Workshop, as shown in the list of objectives in Table 1, is to enable candidates to become familiar with the broad concept of ethics and discuss the importance of ethics to society, business and, specifically, to the accounting profession.

Conflict and awareness

The intention is to expose candidates to the ethical dimensions of business and the accounting profession. This is done in the belief that exposure to situations with potential for conflict will not only encourage awareness and early recognition of potential ethical issues, but will also stimulate development of decision-making skills to evaluate and resolve these issues.

Each workshop comprises approximately 20 candidates and two facilitators. Before attending, each participant receives a CD Rom and an Ethics Workbook (developed in conjunction with the Institute of Chartered Accountants in Australia).

Reviewing the material in the workbook and working through the interactive exercises on the CD Rom is the first step in creating ethical awareness.

In addition, candidates (and facilitators) are expected to have a good knowledge of the Institute’s current professional pronouncements. During the workshop, an opportunity is given to apply the knowledge gained from self-study to actual ethical scenarios.

Table 1: Objectives of PCE 1 Workshop

- To develop an awareness of the foundation role of ethics in societies
- To stimulate awareness of ethical issues and dilemmas in business and the professions
- To generate knowledge of the nature of a profession and of professional ethics
- To develop a better understanding of the current professional codes as they apply to Institute members
- To impress on candidates the importance attached to the Institute’s ethical requirements
- To develop skills in the application of the Institute’s ethical requirements
- To gain practice in the skills associated with ethical decision-making.

Method

To achieve the stated objectives, the workshop programme includes the following sessions:

- Ethics overview — In this session, candidates are asked to consider what they understand by the term “business ethics”, and what it is like to work in an organisation and in a profession with ethical standards.

Questions such as these are discussed by the group: “If you had to describe an organisation with ‘integrity’, what would be the characteristics of that organisation?” And, “What are the benefits of having an established set of professional and/or organisational standards with regard to acceptable and unacceptable behaviour?”

The main learning outcome being promoted is awareness of the foundation role of ethics in society.

- Ethical scenario discussion — This is a further facilitated discussion, with the whole group, of a variety of business and professional ethical dilemmas.

Facilitators are instructed that because there are often no definitive answers or clear-cut solutions to many ethical

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situations, their role is to create an environment where candidates are able to express their opinions, while at the same time being challenged to consider other viewpoints.

The main learning outcome addressed in this section is awareness of ethical issues within the profession (and business in general).

Example 1 presents an example of a case that may be discussed at this point. How would you respond to this scenario?

**Example 1: Short Ethical Scenario**

You are a partner in a medium-sized accounting firm. You have been involved in compilation and compliance work for Dodgy Limited for a number of years. You have recently discovered that Dodgy is employing questionable business practices — billing “customers” for work never performed. You are uncomfortable in this knowledge but don’t want to sour the good relationship you have with the management of Slippery. Besides, it is really “none of your business” so you intend to say nothing and carry on as before.

There is an obvious dilemma here. On the one hand you wish to remain on good terms with your client and owe the client a duty of confidentiality. However, consideration could also be given to the ethical principles of, for example, integrity, a desire to do what is right, fairness and the public interest. Further, how would it affect your reputation, and that of the profession, if the practices of Dodgy Limited are subsequently revealed, together with the fact that you had knowledge of it and did nothing?

- **The Institute’s professional requirements** — This session considers the Institute’s professional and ethical pronouncements.

Candidates are required to work through a series of short scenarios, applying those pronouncements. A sample of situations is included in Example 2.

Try testing yourself. What is the Institute’s position in relation to these scenarios?

**Example 2: Application of Professional Pronouncements**

1 Ambitious & Co, Chartered Accountants, have been approached to carry out a review engagement for Up & Coming Ltd, a small, but rapidly expanding, unlisted company. Up & Coming has never engaged a Chartered Accountant in its short history. Ambitious & Co can see the potential for future revenue should they be successful in obtaining this review engagement, and so intend submitting a fee estimate below the expected cost of the review.

2 Barry Jones is an audit intermediate for a major accountancy firm. In his spare time he prepares tax returns for friends and acquaintances on a professional basis.

3 Linda Smart becomes aware during an audit engagement that the directors of the client intend to close down one division of their operations. Linda has a good friend who is an employee in that division. It is likely that this friend will be made redundant as a result. Linda decides to encourage her friend to look for another job, but does not tell her the reason for the advice.

4 To cover a temporary cash shortage, an accountancy firm borrows a sum of money from its trust account. The money is later repaid.

5 During 1998 your client, General Manufacturing Ltd requested that you conduct a review of their current computing and other facilities for Y2K problems. You don’t feel technically competent to accept this work so decline the appointment, but you recommend WhizzKidz, a company run by your nephew who has extensive experience and expertise in this area. You have an arrangement with WhizzKidz whereby you earn a 10% commission for any work referred.
Case study analysis — Candidates are required to consider a longer ethical scenario. The workshop is divided into groups of approximately five candidates.

Groups have about 40 minutes to analyse the case through the use of one of the four ethical decision-making models they should be familiar with through their study of the Ethics Workbook and their use of the ethics CD Rom.

They are then required to make a formal presentation to the rest of the workshop, applying their own decision-making model to the case and stating, with justification, how they would act given the same set of circumstances.

The learning outcome being addressed in this section is development of skills associated with ethical decision-making and application of the Institute's ethical requirements.

Written ethical analysis — Candidates are presented with a further written case and asked to analyse the scenario, this time working individually.

Their written analysis is handed in and formally assessed. Example 3 illustrates the type of case used for this activity.

Example 3: Written Case Analysis

Alastair Percy is an audit partner in a local accountancy firm. He currently has a team of auditors working at Jadeco Limited, a company selling high-quality jade souvenirs in central Auckland.

The audit supervisor has just reported to Alastair that they have discovered that Jadeco is in financial trouble due to the combination of the lost revenue during the power blackout early in 1998 and the decline in the number of Asian tourists.

At a party, Alastair meets up with an old friend, Michael Brown, a self-employed computer programmer.

Alastair is shocked to discover that Michael's daughter, Hazel, is extremely ill and in need of an urgent operation only available in Australia.

The New Zealand Government will contribute $80,000 towards the cost of this operation. Michael is required to raise the additional $20,000 needed.

Michael's business has not been going well over the last few months but he is optimistic that he can get Hazel the operation she needs as he has been fortunate to get a short-term contract with a company called Jadeco Limited, designing an inventory costing/control system.

This should generate enough funds to meet the shortfall.

What's required:

1. Discuss the ethical issues facing Alastair in this scenario.

2. Use one of the ethical decision models to assist you to evaluate and resolve this issue.

3. What would you do in Alastair's position?

Conclusion

The aim of the workshop session is to enable participants to practise and develop the skills associated with ethical decision-making.

The intention is not to "teach ethics" but to achieve an awareness of potential problem areas that might arise, to provide suggestions as to what is considered acceptable and unacceptable behaviour in the context of the Institute's professional requirements, and to impart tools that could be utilised for resolving ethical issues.

It is often said that "ethics is the heart of a profession". Institute members need to recognise that in order to enjoy the privileges that come from being part of a profession, we must be prepared to be professionally accountable.

To gain a pass in the overall workshop assessment and the ethics component of the PCE 1 examination, and thus to be able to proceed along the path to membership, candidates need to demonstrate the level of competency that can reasonably be expected of a professional accountant.

The PCE 1 programme attempts to impart an ethical ethos at the level of entry into the profession. Only time will tell whether this is being achieved.

References


Code of Ethics, Ethical Guidelines 1 and 2; Professional Standard 1

SPIRAL model, AAA model, Mary Guy model, Laura Nash model.