



## Are you acting in accordance with the Code of Ethics for Professional Accountants?

A 2015 EY survey on fraud conducted with employees of large Asia Pacific companies revealed that colleagues of one in four respondents do not comply with their organization's code of conduct.

Another survey relating to ethical conduct carried out by the University of Notre Dame and Labaton Sucharow LLP in 2015 within the United States and the United Kingdom financial services industry revealed equally frightening results. Forty-seven percent of all respondents believe that their competitors have engaged in illegal or unethical activities to gain an edge in the market. Another 34 percent of respondents in a high income group have first-hand knowledge of wrongdoing in the workplace.

Corporate scandals involving unethical behaviour also reflect that management are finding it difficult to manage the pressures of achieving strong profit margins along with maintaining ethical obligations. For example, it was uncovered that strict profit targets pressured executives and employees to overstate

accounting profits during the course of several years at Tesco and Toshiba in 2014 and 2015, respectively.

Closer to home, well known Hong Kong companies have also had their fair share of corporate scandals over the years:

- The collapse of Carrian Group in 1983 revealed corruption, accounting fraud, the murder of a bank auditor, and the suicide of the firm's adviser.
- Graft involving a former government official and a former executive of Sun Hung Kai Properties exposed millions of dollars in bribes paid between 2005 to 2007.
- Illicitly drawn funds from the bills financing business of China Citic Bank Corporation and Agricultural Bank of China uncovered this year.

Most companies and professional accountants are required to comply with ethical conduct but it is evident that:

- Internal control mechanisms,

policies and procedures can fail.

- Collusion across individual staff and executives can occur even if there is a system of corporate oversight in place.
- Corporate misbehaviour can stem all the way up to leadership and senior professional staff charged with governance responsibilities.
- There will always be incentives and opportunities for staff and executives to behave unethically.

### What does this mean for our members?

The *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of CPAs states that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Members of the Institute have a duty to act in accordance with the code of ethics, which is to comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and



professional behaviour. Safeguards should be created to eliminate or reduce any threats that may lead to non-compliance with these fundamental principles. Parts B, C, D and E of the code of ethics provide examples of safeguards.

Ultimately, any safeguards that are implemented to prevent or detect unethical behaviour will be run by leaders or senior management of an organization.

However, the public also relies on other individuals within the organization, including professional accountants, to report unethical conduct.

**Regulatory references**

Responding to public interest needs, the International Ethics Standards Board for Accountants recently issued two exposure drafts on *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1* and *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*, with the intent of improving the structure

of the code of ethics and revising safeguards in the code of ethics to clarify their meaning and relationship to identified threats.

To assist and encourage organizations in developing a clearly-defined, well-communicated and effectively-implemented code of conduct, in 2008 the Institute together with the International Federation of Accountants, the Hong Kong Institute of Directors, the Hong Kong Exchanges and Clearing, the Hong Kong Ethics Development Centre of the Independent Commission Against Corruption jointly issued an International Good Practice Guidance: *Defining and Developing an Effective Code of Conduct for Organizations*. The guide is available on the Institute’s website.



This article is contributed by the Institute’s Standard Setting Department

