

CIPFA

**The Chartered Institute of Public
Finance & Accountancy**

Ethics and you (2018)

An introduction to the CIPFA Standard of
Professional Practice on Ethics

October 2018

About CIPFA

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. We are the world's only professional accountancy body to specialise in public services and our qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services.

As a CIPFA member, affiliate, associate or student you are required to comply with Institute's Standard of Professional Practice (SOPP) on Ethics.

The SOPP is based upon the International Code of Ethics for Professional Accountants (including International Independence Standards) published by the International Ethics Standards Board for Accountants (IESBA) in 2018.

- A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the **public interest**.
- A professional accountant's responsibility is **not exclusively** to satisfy the needs of an individual client or employing organisation.
- The SOPP contains requirements and application material **to enable you to meet your responsibility** to act in the public interest.

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Executive summary

CIPFA's 2018 Standard of Professional Practice (SOPP) on Ethics requires members and students to uphold fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. In the public sector it is expected that your professional behaviours will also accord with the principles of public life, especially openness and selflessness.

The SOPP is based on principles, not rules and provides a conceptual framework to identify, evaluate and address threats. It considers how threats such as self-interest, intimidation and familiarity can create the conditions in which you might be tempted or pressurized to act contrary to the principles. It also suggests safeguards in the form of institutional procedural frameworks and personal responses to overcome threats.

In the case of audits, reviews and assurance engagements, the SOPP sets out International Independence Standards, established by the application of the conceptual framework to threats to independence in relations to these engagements.

Although the SOPP contains some prescriptive actions, neither it nor this accompanying handbook can attempt to cover all circumstances that may face you as a professional accountant. It is for you to become familiar with the principles and regularly review your work situation for threats to the five fundamental principles.

CIPFA as a collegiate membership organisation will aim to provide support if you experience ethical difficulties and dilemmas.

Introduction

This short guide summarises not only the ethical standards CIPFA expects of you, but also the standards that members should expect of themselves.

The SOPP uses the term “professional accountant” in its title and throughout the document. Regardless of your role, be it as an accountant, internal auditor, external auditor or any other paid or voluntary role, the SOPP applies to you.

The term “you” is used throughout this document. The SOPP extends to qualified accountant Members, affiliate and associate members and registered students of CIPFA; the SOPP and this guide apply to all in the CIPFA family.

CIPFA has adopted the 2018 International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants TM (including International Independence Standards TM) in full. The IESBA Code, together with a CIPFA foreword, forms the SOPP, which is published in full on CIPFA’s website (www.cipfa.org/members/conduct-and-ethics/ethics).

The SOPP applies to all CIPFA members and compliance is the absolute minimum standard required. A fundamental principle of “professional competence and due care” includes the requirement for continuous awareness of relevant technical, business and professional knowledge. Continuing professional development enables you to develop and maintain the capabilities to perform competently within the professional environment. Therefore, you are strongly advised to read the SOPP and understand the requirements.

As is general practice in all professional bodies, failure to comply the standards expected may cause you to be subject to disciplinary action.

This is a principles-based SOPP and so needs to be approached through understanding the concepts of ethical behaviours. It is not a set of prescriptive rules for all occasions, although it does contain some highly prescriptive requirements.

Requirements in the SOPP are designated with the letter “R” and, in most cases, include the word “shall”. The word “shall” in the code imposes an obligation on a professional accountant or firm to comply with the specific provision in which “shall” has been used. In some situations, the SOPP provides specific exceptions to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording. When the word “may” is used in the SOPP, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

The SOPP is built on a set of fundamental principles and awareness of threats to complying with the principles, which must be addressed by safeguards.

The importance of ethical behaviour

As a professional accountant you may find yourself in the public eye. If you have a public role, "just doing your job", can potentially subject you to media and public scrutiny, especially if you work in the public service. So, what you do reflects not only on yourself, but also on your employing organisation, on CIPFA and ultimately on the accountancy profession.

The work of accountants needs to be trusted by society at large, as well as by individual employers, clients and other stakeholders. Your work is expected to be free from personal bias, done competently, and capable of being verified. Failures in financial reporting and auditing have seen some unprecedented corporate collapses across both the commercial, public and not for profit sectors. The risks and threats to your professionalism are always present. You can make a difference. The SOPP requires you to act in the public interest.

CIPFA members know that a further expectation of high standards of behaviour is overlaid on those who work in the public services, who are perceived as being in positions of public trust.

You should understand that by accepting to be bound by published, high standards of ethical behaviour is a powerful way of creating confidence that you will not use your knowledge or power to mislead or gain personal advantage.

The Standard of Professional Practice (SOPP) and International Ethics Standards Board for Accountants (IESBA) Code

The SOPP is based on the IESBA Code, the *International Code of Ethics for Professional Accountants*™ (including *International Independence Standards*™) which is divided into four sections:

- Part 1: *Complying with the Code, fundamental principles and conceptual framework – applicable to all members irrespective of their work role.*
- Part 2: applies to *Professional Accountants in business*¹.
- Part 3: applies to *Professional Accountants in public practice*².
- Part 4 comprises the *International Independence Standards*;
 - Part 4A: *Independence for audit and review engagements*
 - Part 4B: *Independence for assurance engagements other than audit and review engagements*

CIPFA expects you to be familiar with the parts of the SOPP relevant to your roles(s) and comply with the SOPP as adopted. This will include:

- All CIPFA members must be familiar with Part 1.
- Most CIPFA members must be familiar with Part 2.
- Although IESBA includes public audit within its definition of “in business”, CIPFA members in a national audit agency must be familiar with Parts 4A and 4B of the SOPP and to secure an understanding of how their employing body is applying those parts of the SOPP.
- Any CIPFA member working in an audit firm must become familiar with Parts 1, 3 and 4A and 4B of the SOPP.
- Part 2 applies to those accountants in public practice i.e. audit/consulting firms, when performing professional activities pursuant to their relationship with the firm.

¹ IESBA uses the expression “in business” for professional accountants employed, engaged, or contracted in executive or non-executive capacity in, for example, commerce, industry or service, the public sector, education, the not for profit sector, regulatory or professional bodies well as consultancy.

² National Audit Office, Audit Scotland, Accounts Commission, Wales Audit Office and Northern Ireland Audit Office

PART 1: The Code, fundamental principles and conceptual framework

The five fundamental ethical principles in the SOPP should be familiar to you and covers ground everyone tends to take for granted; taken together and collectively they are a robust requirement. As a professional accountant you must comply with each of the fundamental principles. It may be helpful for you to carry out periodic self-assessments, benchmarking yourself against each principle. The five principles are:

1. Integrity

Being truthful, straightforward and honest; dealing fairly with people and situations; not making misleading or false statements, whether by omission or inclusion of information.

2. Objectivity

The avoidance of bias, whether for personal self-interest or because of pressure from another; closely allied to independence.

3. Professional competence and due care

Acquiring and maintaining appropriate technical and other relevant skills and competence to perform our work; doing it thoroughly and correctly, on a timely basis; ensuring that users of our output understand its context and limitations.

4. Confidentiality

Information about organisations and people encountered in the course of accountancy assignments should not be disclosed to anyone who does not have a legal or professional right to it and especially not to secure a personal advantage for anyone. This principle is overridden only by the force of law.

5. Professional behaviour

Complying with standards and laws and avoiding actions that might bring the profession into disrepute, such as making unsubstantiated criticisms of a fellow professional or exaggerating one's experience.

Professional scepticism

If your role is an auditor, the SOPP requires the exercise of professional scepticism when planning and performing (conducting and determining the outcome of) audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles are inter-related concepts.

If you work outside audit, you are of course, required to consider the fundamental principles. Individually and collectively, the principles of integrity, objectivity and professional competence and due care might also require you to demonstrate "professional scepticism" in any role.

Threats and safeguards

You need to be constantly alert to the risk of threats to your compliance with the fundamental principles of the SOPP and the principles of public life. The SOPP identifies a series of motivations that might persuade you to override objectivity, cut corners, mislead or otherwise breach any of the principles, which it calls threats.

Threats need to be countered by safeguards, i.e. actions or processes put in place by you to make the threats unlikely to result in any ethical lapses. Safeguards range from removing yourself from the situation and not undertaking the task to introducing checks and balances in organisational procedures, so as to reduce the threats to an acceptable level or totally eliminating them.

The SOPP catalogues many safeguards that you can use to counter the risk of unethical behaviour arising from the threats. These are summarised on page 11.

Threats

The conceptual framework specifies an approach for you to;

1. **Identify** threats to compliance with the fundamental principles
2. **Evaluate** the threat identified
3. **Address** the threats by eliminating or reducing them to an acceptable level.

When dealing with an ethics issue, you should consider the context, exercise professional judgment, remain alert for new information and use the *reasonable and informed third party test*. This is whether the same conclusions would be reached by another party who weighs up all relevant facts and circumstances at the time your conclusions are made. The third party does need to be an accountant but would possess relevant knowledge and experience to understand and evaluate the appropriateness of your conclusions in an impartial manner.

Threats to compliance with the fundamental principles fall into one or more of the following categories;

Self-interest

Your financial or other interest will inappropriately influence your judgment or behaviour.

Self-review

Where you fail to appropriately evaluate the results of a previous judgment made or service performed by you, or by another individual within the your firm or employing organisation, on which you will rely when forming a judgment as part of providing a current service.

Advocacy

Where you promote a client's or employer's position to the point that your objectivity is compromised.

Familiarity

Due to a long or close relationship with a client or employer, you too sympathetic to their interests or too accepting of their work.

Intimidation

Where you are deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over you.

Prohibition on assuming management responsibilities

For auditors there is also a threat where an audit firm takes decisions on behalf of the management of the audited entity, particularly when providing non-audit services in relation to which management are required to make judgments and take decisions based on that work. The SOPP states that a firm or network firm shall not assume management responsibility for an audit client.

When you identify a threat, you must evaluate whether the threat is at an acceptable level, using the reasonable and informed third party test.

You should address the threat, by eliminating it or reducing it to an acceptable level. You can do this by;

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce threats to an acceptable level;
- (c) Declining or ending the specific professional activity.

Safeguards

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

There are safeguards created by the profession, legislation or regulation and those in the work environment. Public service organisations and the accountancy profession are heavily controlled by statute and regulation, including standards of expected conduct. Extensive safeguards are also built into internal procedures, such as financial regulations, separation of powers, regimes of corporate governance and internal control, declaration of personal and financial interests, rules for reporting gifts and hospitality and contact with suppliers etc.

Ultimately the responsibility for ethical conduct is a personal one. The responsibility rests with you. However good the procedural framework is, sometimes the threats will be strong enough

to lead to breaches of the ethical standards. The ethics principles should guide what should be done, but some situations are not clear-cut.

Considerations for audits, reviews and other assurance engagements

Independence

If you are an external auditor, working in what the code calls “public practice” you are required by *International Independence Standards* to be independent in all your work. Independence is linked to objectivity and integrity. It comprises:

Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing you to act with integrity, and exercise objectivity and professional skepticism.

Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that your integrity, objectivity or professional scepticism has been compromised.

Professional scepticism

Professional scepticism and the five fundamental principles are inter-related concepts. If you work in public practice you are required to exercise professional scepticism when planning and performing (conducting and determining the outcome of) audits, reviews and other assurance engagements.

PART 2: Professional Accountants in Business

Part 2 deals with eight areas: applying the conceptual framework, potential conflicts of interest, preparation and presentation of information, acting with sufficient expertise, financial interests, inducements, non-compliance with laws and regulations, and pressure to breach the fundamental principles.

This Part gives comprehensive and detailed provisions under each of these areas, summarised in this guide. You are strongly encouraged to read the SOPP to familiarise yourself and ensure compliance with the standards.

Applying the Conceptual Framework

The Code does not seek to hinder your responsibility to further the legitimate objectives of your employer, but addresses circumstances in which compliance with the fundamental principles might be compromised. For example, you must not provide statements that are false or mis-leading as this would create an advocacy threat.

The more senior your position, the greater the ability and opportunity to access information, influence policies, decisions and actions taken by others in the organisation. If you hold a position of seniority you are expected to encourage and promote an ethics-based culture which such actions as ethics education and training, whistle-blowing policies and policies and procedures designed to prevent non-compliance with laws and regulations.

Addressing a threat in accordance with the Code, you may decide to communicate to those charged with governance. You should consider the nature and importance of the circumstance and whether to communicate with a sub-group such as an audit committee or individual charged with governance e.g. Chief Executive, Chief Finance Officer.

Conflicts of interest

If you are a professional accountant in business you may be faced with a conflict of interest when undertaking a professional activity; but it must not be allowed to compromise your professional or business judgment. When addressing a conflict of interest, you are encouraged to seek guidance from within your employing organisation or from others, such as a professional body, legal counsel or another professional accountant.

Preparation and presentation of information

Given the responsibility that you might have for preparing and reporting financial information, you must do so fairly, honestly and in accordance with relevant professional standards so that information will be understood in its context and presented in accordance with financial reporting standards.

You must take reasonable steps to maintain information so that it;

- describes clearly the true nature of business transactions, assets or liabilities
- classifies and records information in a timely and proper manner

- represents the facts accurately and completely in all material respects.

You must not exercise discretion in professional judgments with the intention of mis-leading others, or inappropriately influencing contractual or regulatory outcomes. Do not obscure or omit relevant information to mis-represent a financial outcome or mis-lead.

Acting with sufficient expertise

The fundamental principle of professional competence and due care requires that you only undertake significant tasks for which you have, or can obtain, sufficient specific training or experience. You shall not intentionally mislead an employer or client as to the level of expertise or experience you possess, nor shall you fail to seek appropriate expert advice and assistance when required. A self-interest threat to compliance might include you having insufficient time, incomplete or restricted information, or inadequate resources to complete a task.

Financial interests

You must not manipulate information or use confidential information for your personal gain or for the financial gain of others. The more senior the position that you hold, the greater the ability and opportunity to influence financial reporting and decision making and the greater the pressure there might be from superiors and peers for you to manipulate information. In such situations, you shall be particularly alert to the principle of integrity, which imposes an obligation to be straightforward and honest in all professional and business relationships.

Inducements

These may come in the form of receiving offers, such as gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty, or situations where you are then expected, under pressure, to influence the judgment or decision-making process of an individual or organisation or obtain confidential information. Such pressure may come from your colleagues or superiors but may also come from an external individual or organisation possibly influencing you to act improperly. You must not offer an inducement to improperly influence professional judgment of a third party.

Non-compliance with laws and regulations

You might encounter or become aware of non-compliance or suspected non-compliance in the course of your work. This could relate to health and safety, money laundering, fraud, corruption, bribery, data protection, securities, markets and trading, environmental protection, procurement laws and regulations. Where the non-compliance causes substantial harm in serious adverse financial or non-financial consequences, you must accept the responsibility to act in the public interest.

In some jurisdictions, there are legal and regulatory provisions regarding how professional accountants are to address suspected non-compliance and you should obtain an understanding of any such requirements.

In accordance with the Code, you have a duty to obtain an understanding of the legal or regulatory provisions including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party. The provisions apply regardless of the nature of your employing organisation including whether or not it is a public interest entity.

Pressure to breach the fundamental principles.

You shall not;

- allow pressure from others to result in a breach of compliance with the fundamental principles; or
- place pressure on others that you know, or has reason to believe, would result in the other party breaching the fundamental principles.

You might face pressure that creates threats to compliance with the fundamental principles, such as an intimidation threat, when carrying out professional work.

Pressure can manifest itself in numerous ways, including pressure to report mis-leading financial information, to mis-represent programmes or projects, or to misstate income, spend or rates of return to bias decision making on capital projects. The SOPP includes comprehensive list of such examples.

You should discuss circumstances creating the pressure, consulting with others to evaluate the level of the threat. You are encouraged to document the facts, communications, courses of action and how the matter was addressed by yourself.

PART 3: Professional Accountants in public practice

Part 3 deals with 7 areas: applying the conceptual framework: conflicts of interest, professional appointments, second opinions, fees and other types of remuneration, inducements, custody of client assets and responding to non-compliance with laws and regulations.

This Part gives comprehensive and detailed provisions under each of these areas, summarised in this guide. You are strongly encouraged to read the SOPP to familiarise themselves and ensure compliance with the standards.

The SOPP requires you to:

- Identify threats to independence.
- Evaluate the significance of the threats identified.
- Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

When you determine, using professional judgement, that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, you shall eliminate the circumstance or relationship creating the threats, or decline or terminate the engagement.

Many different circumstances may be relevant in assessing threats to independence, so it is not possible to define every situation. It is therefore your responsibility and that of your firm and members of your audit team to identify, evaluate and address threats to independence.

The SOPP provides examples of the circumstances and relationships that create or may create threats to independence.

Part 4 – sections 4A and 4B deal with independence for audit and review engagements as well as assurance engagements, other than audit and review engagements.

PART 4A: Independence for audit and review engagements

PART 4B: Independence for assurance engagements other than audit and review engagements

Part 4A and 4B of the SOPP deal with the issue of independence for audit and review engagement (4A) and assurance engagements (4B). The two Parts cover a wide range of subjects, set out below:

- Applying the conceptual framework
- Fees
- Compensation and evaluation policies
- Actual or threatened litigation
- Financial interests
- Loans and guarantees
- Business relationships
- Family and personal relationships
- Recent service with an audit client
- Serving as a director or officer
- Employment with an audit client
- Temporary personnel assignments
- Long association /partner rotation
- Provision of non-assurance services (4A only)
- Reports on Special purpose financial statements (4B only)

Both Parts give comprehensive and detailed provisions under each of these areas. Members working in this sector are strongly encouraged to read the SOPP to familiarise themselves and ensure compliance with the standards.

If you work in an audit agency or firm, your employer will have their own provisions from the relevant recognised supervisory body (RSB) which will overlay the SOPP and International Auditing and Assurance Board (IAASB) requirements.

Public bodies also have the requirements of the Local Audit and Accountability Act 2014 and Public Sector Internal Audit Standards. The latter are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA).

Sources of help and wider reading

This short guide aims to set out the basic information required of you as a member, affiliate, associate or student of CIPFA, but it is not designed to be a substitute for the SOPP itself. As well as the SOPP, you can find other sources of help and wider reading as follows:

CIPFA ethics website

To download the Standards of Professional Practice and this guidance, view case studies and for other information on ethics provided by CIPFA, visit: www.cipfa.org/members/conduct-and-ethics/ethics

CCAB ethics group website

The CCAB Ethics Group co-ordinates activities between the CCAB member bodies (including CIPFA) relating to ethical guidance and liaison with regulators and standard setters in respect of ethical issues.

www.ccab.org.uk/ethics.php

CIPFA sounding board

The sounding board comprises CIPFA members who can listen and, on a personal basis, advise people who are experiencing ethical dilemmas. Information on contacting the sounding board can be found on the CIPFA website and ethical queries may be emailed to ethics@cipfa.org

www.cipfa.org/members/conduct-and-ethics/ethics

The Role of the Chief Financial Officer in Public Service Organisations (CIPFA, 2011)

www.cipfa.org/policy-and-guidance/reports/the-role-of-the-chief-financial-officer-in-public-service-organisations

The Role of the Chief Financial Officer in Local Government (CIPFA, February 2016)

<https://www.cipfa.org/policy-and-guidance/reports/the-role-of-the-chief-financial-officer-in-local-government>

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