

CIMA

Subject BA4

Fundamentals of Ethics,  
Corporate Governance  
and Business Law

Study Text

CIMA Certificate in  
Business Accounting



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# Introduction

## How to Use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your CIMA Cert BA Objective Test Examination.

The product range contains a number of features to help you in the study process. They include:

- a detailed explanation of all syllabus areas
- extensive 'practical' materials
- generous question practice, together with full solutions.

This Study Text has been designed with the needs of home-study and distance-learning candidates in mind. Such students require very full coverage of the syllabus topics, and also the facility to undertake extensive question practice. However, the Study Text is also ideal for fully taught courses.

The main body of the text is divided into a number of chapters, each of which is organised on the following pattern:

- **Detailed learning outcomes.** These describe the knowledge expected after your studies of the chapter are complete. You should assimilate these before beginning detailed work on the chapter, so that you can appreciate where your studies are leading.
- **Step-by-step topic coverage.** This is the heart of each chapter, containing detailed explanatory text supported where appropriate by worked examples and exercises. You should work carefully through this section, ensuring that you understand the material being explained and can tackle the examples and exercises successfully. Remember that in many cases knowledge is cumulative: if you fail to digest earlier material thoroughly, you may struggle to understand later chapters.
- **Activities.** Some chapters are illustrated by more practical elements, such as comments and questions designed to stimulate discussion.
- **Question practice.** The text contains exam-style objective test questions (OTQs).
- **Solutions.** Avoid the temptation merely to 'audit' the solutions provided. It is an illusion to think that this provides the same benefits as you would gain from a serious attempt of your own. However, if you are struggling to get started on a question you should read the introductory guidance provided at the beginning of the solution, where provided, and then make your own attempt before referring back to the full solution.

If you work conscientiously through this Official CIMA Study Text according to the guidelines above you will be giving yourself an excellent chance of success in your Objective Text Examination. Good luck with your studies!

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

## Icon explanations



**Definition** – These sections explain important areas of knowledge which must be understood and reproduced in an assessment environment.



**Key point** – Identifies topics which are key to success and are often examined.



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an assessment question. **Reference to this text is vital when self-studying.**



**Test your understanding** – Following key points and definitions are exercises which give the opportunity to assess the understanding of these core areas.



**Illustration** – To help develop an understanding of particular topics. The illustrative examples are useful in preparing for the Test your understanding exercises.



**Exclamation mark** – This symbol signifies a topic which can be more difficult to understand. When reviewing these areas, care should be taken.

## Study technique

In this section we briefly outline some tips for effective study during the earlier stages of your approach to the Objective Test Examination. We also mention some techniques that you will find useful at the revision stage. Use of effective study and revision techniques can improve your chances of success in the CIMA Cert BA and CIMA Professional Qualification examinations.

### Planning

To begin with, formal planning is essential to get the best return from the time you spend studying. Estimate how much time in total you are going to need for each subject you are studying. Remember that you need to allow time for revision as well as for initial study of the material.

With your study material before you, decide which chapters you are going to study in each week, and which weeks you will devote to revision and final question practice.

Prepare a written schedule summarising the above and stick to it!

It is essential to know your syllabus. As your studies progress you will become more familiar with how long it takes to cover topics in sufficient depth. Your timetable may need to be adapted to allocate enough time for the whole syllabus.

Students are advised to refer to the CIMA website, [www.cimaglobal.com](http://www.cimaglobal.com), to ensure they are up-to-date.

Students are advised to consult the syllabus when allocating their study time. The percentage weighting shown against each syllabus topic is intended as a guide to the proportion of study time each topic requires.

### Tips for effective studying

- (1) Aim to find a quiet and undisturbed location for your study and plan as far as possible to use the same period of time each day. Getting into a routine helps to avoid wasting time. Make sure that you have all the materials you need before you begin so as to minimise interruptions.
- (2) Store all your materials in one place, so that you do not waste time searching for items every time you want to begin studying. If you have to pack everything away after each study period, keep your study materials in a box, or even a suitcase, which will not be disturbed until the next time.
- (3) Limit distractions. To make the most effective use of your study periods you should be able to apply total concentration, so turn off all entertainment equipment, set your phones to silent mode, and put up your 'do not disturb' sign.
- (4) Your timetable will tell you which topic to study. However, before diving in and becoming engrossed in the finer points, make sure you have an overall picture of all the areas that need to be covered by the end of that session. After an hour, allow yourself a short break and move away from your Study Text. With experience, you will learn to assess the pace you need to work at. Each study session should focus on component learning outcomes – the basis for all questions.

- (5) Work carefully through a chapter, making notes as you go. When you have covered a suitable amount of material, vary the pattern by attempting a practice question. When you have finished your attempt, make notes of any mistakes you made, or any areas that you failed to cover or covered more briefly. Be aware that all component learning outcomes are examinable.
- (6) Make notes as you study, and discover the techniques that work best for you. Your notes may be in the form of lists, bullet points, diagrams, summaries, 'mind maps' or the written word, but remember that you will need to refer back to them at a later date, so they must be intelligible. If you are on a taught course, make sure you highlight any issues you would like to follow up with your lecturer.
- (7) Organise your notes. Make sure that all your notes, calculations etc. can be effectively filed and easily retrieved later.

## Progression

There are two elements of progression that we can measure: how quickly students move through individual topics within a subject; and how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. For example, E1 *Managing finance in a digital world* builds on your knowledge of the finance function from certificate level and lays the foundations for E2 *Managing performance* and all strategic papers particularly E3 *Strategic management* and P3 *Risk management*.

We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.



You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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## Objective Test

Objective Test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of Objective Test question you will see are:

- multiple choice, where you have to choose the correct answer(s) from a list of possible answers – this could either be numbers or text
- multiple response with more choices and answers, for example, choosing two correct answers from a list of five available answers – this could be either numbers or text
- number entry, where you give your numeric answer to one or more parts of a question, for example, gross profit is \$25,000 and the accrual for heat and light charges is \$750.
- drag and drop, where you match one or more items with others from the list available, for example, matching several accounting terms with the appropriate definition
- drop down, where you choose the correct answer from those available in a drop down menu, for example, choosing the correct calculation of an accounting ratio, or stating whether an individual statement is true or false
- hot spot, where, for example, you use your computer cursor or mouse to identify the point of profit maximisation on a graph
- other types could be matching text with graphs and labelling/indicating areas on graphs or diagrams.

CIMA has provided the following guidance relating to the format of questions and their marking:

- questions which require narrative responses to be typed will not be used
- for number entry questions, a small range of answers will be accepted. Clear guidance will usually be given about the format in which the answer is required e.g. 'to the nearest \$' or 'to two decimal places'
- item set questions provide a scenario which then forms the basis of more than one question (usually 2–4 questions). These sets of questions would appear together in the test and are most likely to appear in BA2 and BA3
- all questions are independent so that, where questions are based on a common item set scenario, each question will be distinct and the answer to a later question will not be dependent upon answering an earlier question correctly
- all items are equally weighted and, where a question consists of more than one element, all elements must be answered correctly for the question to be marked correct.

Throughout this Study Text we have introduced these types of questions, but obviously we have had to label answers A, B, C etc. rather than using click boxes. For convenience we have retained quite a few questions where an initial scenario leads to a number of sub-questions. There will be questions of this type in the Objective Test Examination but they will rarely have more than three sub-questions.

### **Guidance re CIMA on-screen calculator**

As part of the CIMA Objective Test software, candidates are provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in Objective Test Examinations for BA1, BA2 and BA3 (it is not required for BA4).

Guidance regarding calculator use in the Objective Test Examinations is available online at: <https://connect.cimaglobal.com/>

### **CIMA Cert BA Objective Tests**

The Objective Tests are a two-hour assessment comprising compulsory questions, each with one or more parts. There will be no choice and all questions should be attempted. The numbers of questions in each assessment are as follows:

**BA1** Fundamentals of Business Economics – 60 questions

**BA2** Fundamentals of Management Accounting – 60 questions

**BA3** Fundamentals of Financial Accounting – 60 questions

**BA4** Fundamentals of Ethics, Corporate Governance and Business Law  
– 85 questions

All questions are equally weighted. All parts of a question must be answered correctly for the question to be marked correct. Where questions are based upon a common scenario, each question will be independent, and answers to later questions will not be dependent upon answering earlier questions correctly.

### **Structure of subjects and learning outcomes**

Each subject within the syllabus is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative syllabus content.

A learning outcome has two main purposes:

- (a) to define the skill or ability that a well prepared candidate should be able to exhibit in the examination
- (b) to demonstrate the approach likely to be taken in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective e.g.

**Calculate** the break-even point, profit target, margin of safety and profit/volume ratio for a single product or service.

The verb '**calculate**' indicates a level three learning objective. The following table lists the learning objectives and the verbs that appear in the CIMA Cert BA syllabus learning outcomes.

## CIMA VERB HIERARCHY

CIMA place great importance on the definition of verbs in structuring objective tests. It is therefore crucial that you understand the verbs in order to appreciate the depth and breadth of a topic and the level of skill required. The objective tests will focus on levels one, two and three of the CIMA hierarchy of verbs. However, they will also test levels four and five, especially at the management and strategic levels.

Skill level	Verbs used	Definition
<b>Level 3</b> <b>Application</b> How you are expected to apply your knowledge	Apply Calculate Conduct Demonstrate Prepare Reconcile	Put to practical use Ascertain or reckon mathematically Organise and carry out Prove with certainty or exhibit by practical means Make or get ready for use Make or prove consistent/compatible
<b>Level 2</b> <b>Comprehension</b> What you are expected to understand	Describe Distinguish Explain Identify Illustrate	Communicate the key features of Highlight the differences between Make clear or intelligible/state the meaning or purpose of Recognise, establish or select after consideration Use an example to describe or explain something
<b>Level 1</b> <b>Knowledge</b> What you are expected to know	List State Define Outline	Make a list of Express, fully or clearly, the details/facts of Give the exact meaning of Give a summary of

### CIMA Cert BA resources

Access to CIMA Cert BA resources including syllabus information is available online at [www.cimaglobal.com](http://www.cimaglobal.com).

### Additional resources

This Study Text is designed to be comprehensive and therefore sufficient to meet the needs of students studying this subject. However, CIMA recognises that many students also want to read around particular topic(s), either to extend their knowledge and understanding, or because it is particularly relevant to their work environment.

CIMA has therefore produced a related reading list for those students who wish to extend their knowledge and understanding, whether for personal interest or to help support work activities as follows:

### **BA1 – Fundamentals of Business Economics**

Principles of Economics 3rd ed.	McDowell & Thom
Applied Economics 12th ed.	Griffiths & Wall
Mathematics for Economists: An Introductory Textbook 4th ed.	Pemberton & Rau

### **BA2 – Fundamentals of Management Accounting**

Management and Cost Accounting	Colin Drury
Management Accounting	Catherine Gowthorpe

### **BA3 – Fundamentals of Financial Accounting**

Financial Accounting – An Introduction	Pauline Weetman
Frank Wood's Business Accounting 1 & 2	Frank Wood & Alan Sangster

### **BA4 – Fundamentals of Ethics, Corporate Governance and Business Law**

Students can find out about the specific law and regulation in their jurisdiction by referring to appropriate texts and publications for their country.

Managing Responsible Business	CGMA Report 2015
Global Management Accounting Principles	CIMA 2015
Embedded Ethical Values: A guide for CIMA Partners	CIMA Report 2014
Business Ethics for SMEs: A Guide for CIMA Partners	CIMA Report 2014
Ethics: Ethical Checklist	CIMA 2014
Ethics Support Guide	CIMA 2014
Acting under Pressure: How management accountants manage ethical issues	CIMA 2012

# SYLLABUS GRIDS

## BA4: Fundamentals of Ethics, Corporate Governance and Business Law

### Syllabus overview

The learning outcomes in this subject reflect the professional standards to be demonstrated for the benefit of all stakeholders. With this in mind, the place of ethics and ethical conflict is an essential underpinning for commercial activity. Ethics is more than just knowing the rules around confidentiality, integrity and objectivity. It's about identifying ethical dilemmas, understanding the implications and behaving appropriately. It includes the role of corporate governance, corporate social responsibility and audit; and their increasing impact in the management of organisations.

Wherever business is conducted the legal and administrative framework underpins commercial activity. With this in mind the areas of contract law, employment law, administration and management of companies is considered.

### Assessment strategy

There will be a two hour computer based assessment, comprising 85 compulsory objective test questions.

### Syllabus structure

The syllabus comprises the following topics and weightings:

Content area		Weighting
A	Business ethics and ethical conflict	30%
B	Corporate governance, controls and corporate social responsibility	45%
C	General principles of the legal system, contract and employment law	15%
D	Company administration	10%
		<b>100%</b>



## BA4A: Business ethics and ethical conflict (30%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Demonstrate an understanding of the importance of ethics to society, business and the professional accountant.	a. Explain the nature of ethics and its application to society, business and the accountancy profession.	2	<ul style="list-style-type: none"> <li>• The importance of ethics.</li> <li>• The nature of ethics and its relevance to society, business and the accountancy profession.</li> <li>• Values and attitudes for professional accountants.</li> <li>• Legal frameworks, regulations and standards for business.</li> <li>• The role of national 'Professional Oversight Boards for Accountancy' and 'Auditing Practices Boards'.</li> <li>• The role of international accounting bodies e.g. IFAC.</li> <li>• Rules-based and framework approaches to ethics.</li> <li>• Managing responsible businesses.</li> <li>• Organisational and personal values.</li> </ul>
	b. Apply the values and attitudes that provide professional accountants with a commitment to act in the public interest and with social responsibility.	3	
	c. Explain the need for a framework of laws, regulations and standards in business and their application and why CIMA and IFAC each have ethical codes.	2	
	d. Distinguish between detailed rules-based and framework/principles approaches to ethics.	2	
	e. Identify the ethical issues significant to organisations and how CIMA partners with strategic bodies to assist its members with ethical tensions/synergies.	2	
	f. Describe how personal and organisational policies and values promote behaviour.	2	
2. Explain the need and requirements for CIMA students and members in adopting the highest standards of ethical behaviour.	a. Explain the need to develop the virtues of reliability, responsibility, timeliness, courtesy and respect.	2	<ul style="list-style-type: none"> <li>• The personal qualities of reliability, responsibility, timeliness, courtesy and respect.</li> <li>• The fundamental ethical principles, and examples of their use for professional accountants in practice and professional accountants in business.</li> <li>• Continual Professional Development (CPD), personal development and lifelong learning.</li> <li>• Disclosure required by law (confidentiality).</li> <li>• The concepts of independence, scepticism, accountability and social responsibility.</li> <li>• The threats and safeguards approach to resolving ethical issues, including whistle-blowing, grievance, regulations and laws.</li> </ul>
	b. Explain the fundamental ethical principles.	2	
	c. Identify concepts of independence, scepticism, accountability and social responsibility.	2	
	d. Illustrate the threats and safeguards to the fundamental ethical principles.	2	

Lead	Component	Level	Indicative syllabus content
3. Explain the various means of regulating ethical behaviour, recognising different parties' perspectives towards ethical dilemmas.	a. Explain the relationship between the CIMA Code of Ethics and the law.	2	<ul style="list-style-type: none"> <li>• The relationship between the CIMA Code of Ethics and the law.</li> <li>• The distinction between CIMA's Code of Ethics, contracts, and the responsibilities of students and members when they conflict.</li> <li>• The consequences of unethical behaviour: reputation, financial, legal and regulatory; and the benefits of good ethical behaviour</li> <li>• The concepts of corporate and personal ethical stances, in relation to multiple stakeholders.</li> </ul>
	b. Describe the consequences of ethical behaviour to society, business, the profession and the professional accountant.	2	
	c. Identify conflicting perspectives of interest when dealing with stakeholders in society, business and the values of professional accountants.	2	
4. Identify ethical dilemmas and how they may be resolved.	a. Identify situations where ethical dilemmas and conflicts of interest occur, based on CIMA's ethical checklist.	2	<ul style="list-style-type: none"> <li>• The nature of ethical dilemmas, tensions and synergies.</li> <li>• Conflicts of interest and how they arise.</li> <li>• Issues of corporate confidentiality.</li> <li>• CIMA's Ethical Checklist.</li> </ul>



## BA4B: Corporate governance, controls and corporate social responsibility (45%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Explain the role of corporate governance in meeting the concerns of society and investors over the management of corporations.	a. Describe corporate governance.	2	<ul style="list-style-type: none"> <li>The role and key objectives of corporate governance, agency theory.</li> <li>Objectivity and independence.</li> <li>The interaction of corporate governance, ethics and the law.</li> <li>The purpose, definition and status of the OECD Corporate Governance Code.</li> <li>IFAC's drivers for sustainable organisational success.</li> <li>CIMA's proposals for better reporting of corporate governance.</li> <li>Rules and principles based approaches to governance.</li> </ul>
	b. Explain the interaction of corporate governance with business ethics and company law.	2	
	c. Explain the purpose, definition of the Organisation for Economic Co-operation and Development (OECD) principles of Corporate Governance.	2	
	d. Describe IFAC's main drivers of sustainable corporate success.	2	
	e. Illustrate CIMA's practical proposals for better corporate governance.	2	
	f. Distinguish between detailed rules-based and principles-based approaches to governance.	2	
2. Explain the impact of corporate governance on the directors and management structures of corporations.	a. Describe the role of the board and different board structures.	2	<ul style="list-style-type: none"> <li>The role of the board in establishing corporate governance standards.</li> <li>Types of board structures and the role of the board as independent, objective, sceptical and resourceful.</li> <li>The impact of corporate governance on directors' powers and duties.</li> <li>Policies and procedures for 'best practice' in companies.</li> <li>Audit committee – controls, monitoring and relationships.</li> <li>Appointments Committee.</li> <li>Remuneration Committee.</li> </ul>
	b. Explain the effects of corporate governance on directors' powers and duties.	2	
	c. Describe the types of policies and procedures that constitute 'best practice'.	2	
	d. Describe the respective committees and their roles and responsibilities with regards monitoring and controlling the actions of the Executive.	2	
3. Explain the role of external and internal audit.	a. Identify the requirements for external audit and the basic processes undertaken.	2	<ul style="list-style-type: none"> <li>External audit.</li> <li>Fair presentation.</li> <li>Distinction between external and internal audit.</li> <li>Internal audit.</li> <li>Financial controls, audit checks and audit trails.</li> <li>The role of internal audit in providing a service to management.</li> <li>How internal audit plays an important and value added service throughout the corporation both in financial and non-financial processes.</li> </ul>
	b. Explain the meaning of fair presentation.	2	
	c. Distinguish between external and internal audit.	2	
	d. Explain the purpose and basic procedures of internal audit; the need for financial controls and the purpose of audit checks and audit trails.	2	
	e. Explain the role of internal audit in non-financial monitoring and control activities.	2	
	f. Illustrate the added value internal audit provides to both the board and management of the corporation.	2	

Lead	Component	Level	Indicative syllabus content
4. explain the nature of errors and frauds.	a. Explain the nature of errors.	2	<ul style="list-style-type: none"> <li>• Errors including those of principle, omission, and commission.</li> <li>• Types of fraud.</li> <li>• Methods for prevention of fraud including levels of authorisation, documentation and staff organisation.</li> <li>• Methods of detection of fraud including spot checks, comparison with external evidence, reconciliations and control accounts.</li> </ul>
	b. Explain the nature of fraud.	2	
	c. Describe the different methods of fraud prevention and detection.	2	
5. Explain Corporate Social Responsibility (CSR) – a political and corporate perspective.	a. Describe the OECD general policies.	2	<ul style="list-style-type: none"> <li>• The OECD general policies.</li> <li>• The role of international frameworks.</li> <li>• The demands of stakeholders, maximising shareholder return and enhancing the supply chain.</li> <li>• Issues within the supply chain.</li> </ul>
	b. Explain the role of national and international laws and regulations.	2	
	c. Describe conflicting demands of stakeholders.	2	
	d. Identify issues with CSR and the supply chain.	2	
6. Explain the role of CSR within company reporting.	a. Describe the guidelines of reporting CSR within annual reports.	2	<ul style="list-style-type: none"> <li>• Disclosure guidelines and sources of best practice.</li> <li>• The link between CSR and a company's brand.</li> </ul>
	b. Identify synergies and tensions with CSR and brand management.	2	

## BA4C: General principles of the legal system, contract and employment law (15%)

### Learning outcomes

On completion of their studies, students should be able to:

Lead	Component	Level	Indicative syllabus content
1. Explain how the law determines the point at which a contract is formed and the legal status of contractual terms.	a. Identify the essential elements of a valid contract and situations where the law requires the contract to be in a particular form.	2	<ul style="list-style-type: none"> <li>The essential elements of a valid contract.</li> <li>The legal status of statements made by negotiating parties. Offers and acceptances and the application of the rules to standard form contracts using modern forms of communication.</li> <li>The principles for establishing that the parties intend their agreement to have contractual force and how a contract is affected by a misrepresentation.</li> <li>Incorporation of express and implied terms, conditions and warranties.</li> <li>Corporate capacity to contract.</li> </ul>
	b. Explain how the law determines whether negotiating parties have reached agreement and the role of consideration in making that agreement enforceable.	2	
	c. Explain when the parties will be regarded as intending the agreement to be legally binding and how an agreement may be avoided because of misrepresentations.	2	
	d. Explain how the terms of a contract are established and their status determined.	2	
	e. Explain the ability of a company to contract.	2	
2. Explain the essential elements of an employment contract and the remedies available following termination of the contract.	a. Explain how the contents of a contract of employment are established.	2	<ul style="list-style-type: none"> <li>The express and implied terms of a contract of employment.</li> <li>The rights and duties of employers and employees.</li> <li>Diversity, discrimination, anti-bribery, gifts, conflicts of interest, whistle-blowing, money laundering, disciplinary, data protection, social media, health and safety.</li> <li>Notice and dismissal, redundancy.</li> <li>Unfair and wrongful dismissal.</li> </ul>
	b. Explain what policies and procedures may be present in the workplace.	2	
	c. Explain the distinction between unfair and wrongful dismissal and the consequences.	2	

## BA4D: Company administration (10%)

### Learning outcomes

On completion of their studies, students should be able to:

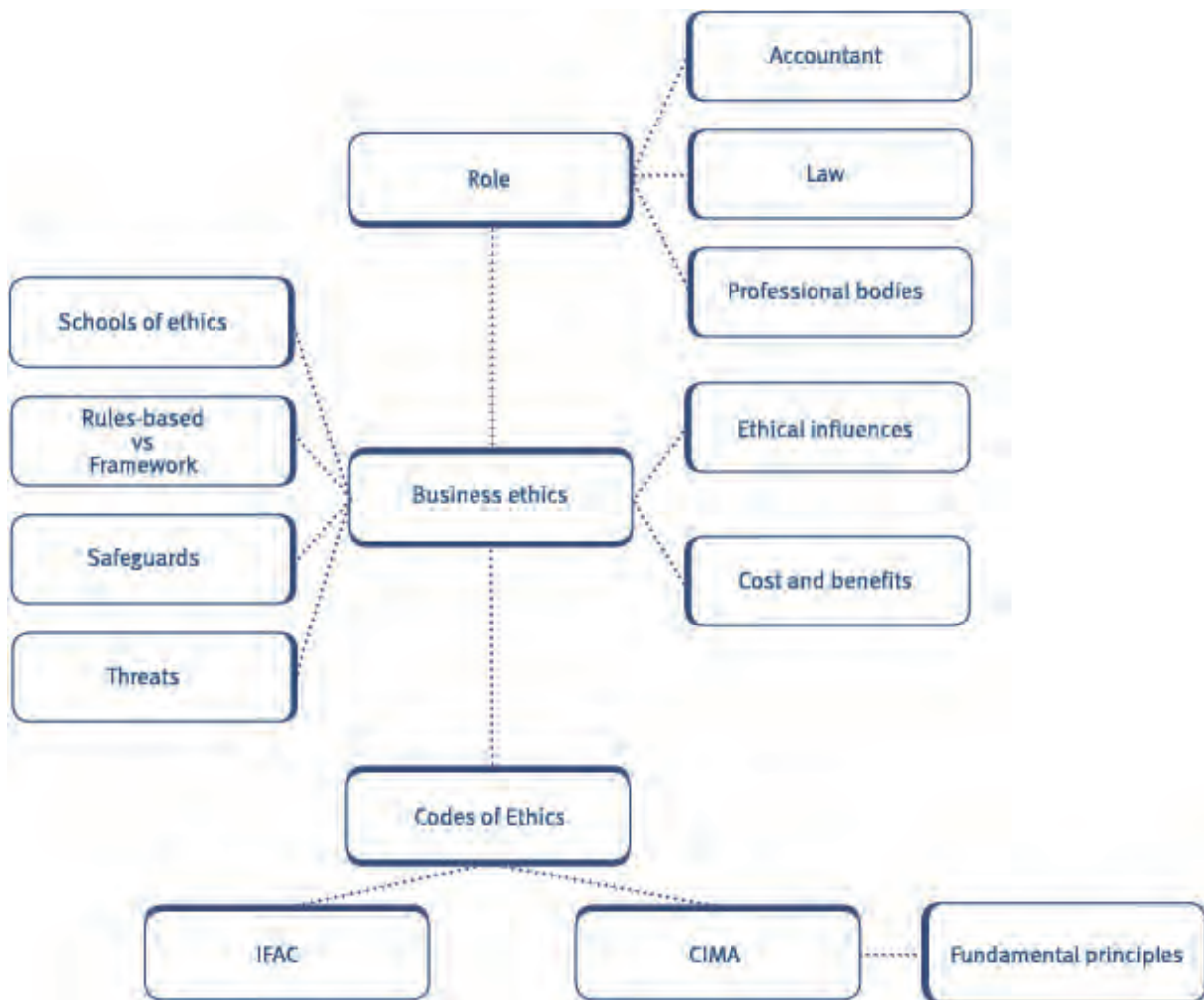
Lead	Component	Level	Indicative syllabus content
1. Explain the nature, legal status and administration of business organisations.	a. Describe the essential characteristics of the different forms of business organisations and the implications of corporate personality.	2	<ul style="list-style-type: none"><li>• The essential characteristics of sole traders, partnerships, companies limited by shares and corporate personality.</li><li>• 'Lifting the corporate veil' both at common law and by statute.</li><li>• The distinction between public and private companies.</li><li>• Company registration and the advantages of purchasing a company 'off the shelf'.</li><li>• The purpose and contents of the Articles of Association.</li><li>• The advantages and disadvantages of a company limited by shares.</li></ul>
	b. Explain the differences between public and private companies.	2	
	c. Explain the purpose and legal status of the Articles of Association.	2	
	d. Explain the main advantages and disadvantages of carrying on business through the medium of a company limited by shares.	2	

# Business Ethics

## Chapter learning objectives

Upon completion of this chapter you will be able to:

- explain the nature of ethics and its application to society, business and the accountancy profession
- apply the values and attitudes that provide professional accountants with a commitment to act in the public interest and with social responsibility
- explain the need for a framework of laws, regulations and standards in business and their application and why CIMA and IFAC each have ethical codes
- distinguish between detailed rules-based and framework/principles approaches to ethics
- identify the ethical issues significant to organisations and how CIMA partners with strategic bodies to assist its members with ethical tensions/synergies
- describe how personal and organisational policies and values promote behaviour
- explain the need to develop the virtues of reliability, responsibility, timeliness, courtesy and respect
- explain the fundamental ethical principles
- identify concepts of independence, scepticism, accountability and social responsibility
- illustrate the threats and safeguards to the fundamental ethical principles.



## 1 Introduction to business ethics

### Definition of Ethics

The Oxford English Dictionary defines ethics as the "moral principles that govern a person's behaviour of the conducting of an activity".

Ethics is thus concerned with how one should act in a certain situation, about 'doing the right thing' and is ultimately about morality – the difference between right and wrong.



### Illustration 1

#### Ethical choices

Consider the following ethical dilemmas:

- You buy something in a shop and later discover that they have undercharged you for an item. Do you go back and tell them?
- You want a new designer label item of clothing but think it is too expensive. Would you buy a cheap fake copy if you saw one for sale while on holiday?
- Would you stop buying a particular product if you found out that the working conditions in the factories where they are made were far below 'acceptable' standards (such as low pay rates, excessive hours worked, use of child labour)?

Does the fact that you are a (student) member of a professional body affect your answers?

### Schools of ethics

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Virtue ethics, drawing on the work of Aristotle, holds that the virtues (such as justice, charity, and generosity) are dispositions to act in ways that benefit both the person possessing them and that person's society. This is the ethical school of the accountancy profession.

The second, deontological, defended particularly by Kant, makes the concept of duty central to morality: humans are bound, from a knowledge of their duty as rational beings, to obey the categorical imperative to respect other rational beings.

Thirdly, utilitarianism asserts that the guiding principle of conduct should be the greatest happiness or benefit of the greatest number.

## 2 Business ethics

Business ethics is the application of ethical principles to the problems typically encountered in a business setting.

Whether an action is considered to be right or wrong normally depends on a number of different factors, including:

- the consequences – does the end justify the means?
- the motivation behind the action
- guiding principles – e.g. 'treat others as you would be treated'
- key values – such as the importance of human rights.



**Illustration 2**

**Typical issues in business ethics**

Some typical issues addressed in business ethics include:

- ‘creative accounting’ to misrepresent financial performance
- misleading advertising
- aggressive personal selling (e.g. insurance or double glazing)
- data protection and privacy
- the difference between corporate hospitality and bribery
- the difference between business intelligence and industrial espionage
- political contributions to gain influence
- corporate crime, including insider trading and price fixing
- employee issues, such as discrimination or unfair dismissal
- environmental issues and related social concerns
- marketing, sales and negotiation techniques
- product issues such as patent and copyright infringement, planned obsolescence, product liability and product defects
- using legal loopholes to avoid paying tax.

**3 The role of the accountant in promoting ethical behaviour**

A management accountant’s role is to provide the crucial information that forms the basis of decision-making within an organisation. If work is undertaken badly or in bad faith there can be wide-ranging consequences. Unethical behaviour can affect not only the accountant (perhaps resulting in disciplinary action against the employee or by CIMA), but may also affect the jobs, financial viability and business efficacy of an organisation in which the accountant works. Management accountants in the public sector are also dealing with tax-payers’ money which, if poorly stewarded, might be wasted or misused.

At many business meetings, or on many Boards of Directors, it is only the professional accountant who belongs to a profession and therefore has a duty to act in the public interest.

**Public interest** refers to the common well-being or general welfare of society. Professional accountants must consider this, as they have a wider duty to act in the best interests of the public at large, as well as to the business and its owners.

The professional accountant therefore has a special role in promoting ethical behaviour throughout the business.



## 4 Ethical influences

Each of us has our own set of values and beliefs that we have evolved over the course of our lives through our education, experiences and upbringing. We all have our own ideas of what is right and what is wrong and these ideas can vary between individuals and cultures.

There are a number of factors that affect ethical obligations.

### (i) The law

For example, deceptive advertising is illegal and violators of this law are liable to large fines, court action and/or loss of goodwill. Legislation hopefully makes it very clear what is acceptable as a minimum standard. However, ethics is more than just obeying the law. For example, using legal loopholes to minimise a global firm's tax bill may not be illegal but is increasingly viewed as unethical.

### (ii) Government regulations

For example, regulations set standards on issues such as unfair competition, unsafe products, etc. Failure to comply with these regulations could lead to criminal charges, or fines etc. Unfortunately, some firms will still find ways to get round such regulations.



### Artificial sweeteners

In 1970 cyclamates (a type of artificial sweetener) were banned in the USA following evidence that they were carcinogenic.

Following the ban a major US food manufacturer still sold 300,000 cases of cyclamate sweetened food overseas instead.

### (iii) Ethical codes

Many organisations have codes that clearly state the ethical standards and principles an employee or member should follow.

Generally, written codes clarify the ethical issues and principles but leave the resolution to the individual conscience.

Ethical codes are usually followed if written down and enforced – say by disciplinary procedures. However, many companies have 'unwritten' codes of practice and/or have no method of enforcement.

### (iv) Social pressure

Many people draw their values from what they see other people doing, whether on the news or people they know. However, social pressure can change, just as society changes.

Many protest groups and activists hope to change public values with the long term hope that new values become reflected in law. A good example of this is the change in discrimination laws over the last hundred years.

(v) Corporate culture

Corporate culture is defined as “the sum total of all the beliefs, attitudes, norms and customs that prevail within an organisation” or “the way we do things around here”.

Ideally we want a culture that supports and encourages ethical behaviour.

For example, if everyone else is exaggerating expense claims or covering up mistakes, then this can quickly become a norm of behaviour that new employees soon adopt.

Of particular importance is the example set by senior management – sometimes referred to as the ‘tone at the top’.

(vi) Personal policies and values

An individual's personal characteristics such as gender, age and religious beliefs can also play a part in their approach to ethics.

## 5 The costs and benefits of business ethics

It can be argued that the primary purpose of a business is to try and earn a profit. In a company, for instance, the directors have been employed in order to earn the owners of the business a return on their investment.

Some have concluded from this that going beyond the legal minimum standard of behaviour is contrary to the directors’ duty to make money and that behaving ethically increases costs and reduces profits.

For example:

- Increased cost of sourcing materials from ethical sources (e.g. Fairtrade products or free range eggs).
- Having to turn away business from customers considered to be unethical (e.g. an ‘ethical’ bank may choose not to invest in a company that manufactures weapons).
- The management time that can be taken up by planning and implementation of ethical practices.

However, as well as the moral argument to act ethically, there can be commercial benefits to firms from acting ethically:

- Having good ethics can attract customers.  
This can be because good ethics tend to enhance a company’s reputation and therefore its brand. Given the choice, many customers will prefer to trade with a company they feel is ethical.
- Good ethics can result in a more effective workforce.

A reputation for good business ethics is likely to involve good working conditions for employees, allowing the business to attract a higher calibre of staff.

Avoiding discrimination against workers is likely to give the company access to a wider human resource base.

Ethics programmes can cultivate strong teamwork and improve productivity.

- Ethics can give cost savings.

Avoiding pollution will tend to save companies in the long run – many governments are now fining or increasing taxes of more polluting businesses.

- Ethics can reduce risk.

Many firms have failed due to unethical practices within them.



### Approaches to ethics in practice

Imagine you are a company that runs a large chain of supermarkets. You have identified an opportunity to expand into country G. This expansion will create large numbers of local jobs and is expected to earn you significant profits.

Local officials in country G have made it clear that, in order to gain the appropriate planning permissions, you will need to pay them money as inducements (bribes). This is common practice for officials in country G, though it is illegal in your home country. What should you do?

The answer depends on your approach to ethics.

**Consequentialists** would argue that your decision depends on the consequences of paying the bribes.

If you were **egoist** (looking at your own needs), you would probably pay the bribes as you would still stand to earn a significant profit from the venture.

If you are a **utilitarian** company, you may also consider paying the bribe as doing so will not only mean that you can earn large profits, but will provide jobs for many locals. Paying the bribe will therefore be for the greater good. (However, it is worth noting that whatever the organisation may think about bribery, under UK law it is an illegal act.)

**Pluralists** would look at ensuring that the needs of none of the stakeholders are seriously compromised by paying the bribe. In this case, while the payment will involve some loss to our shareholders, paying the bribe will still allow us to expand into country G, benefiting everyone.

**Relativists** would look at the context of the decision to pay the bribe. In this case, bribery is a commonly accepted part of doing business in country G. Therefore, we can be flexible with our approach and may consider paying the bribe.

**Absolutists** would look at whether paying the bribe was fundamentally incorrect. In this case, bribery is illegal in our home country. An absolutist would therefore be likely to conclude that paying bribes to officials in country G would also be inappropriate, as doing so is always wrong.

## 6 The role of law in ethics

Legal and disciplinary frameworks do provide an effective means of challenging serious wrong-doing. They can provide deterrents to bad practice, through punishment and censure and remedies for some of the damage that results, for example by means of compensation. However, these means of controlling behaviour set the threshold for what amounts to unacceptable accounting practice at a fairly high level.

Thus, relying solely on the law and disciplinary frameworks to 'police' accounting ethics is not the most desirable way of preventing and detecting undesirable practices. Law by nature can be inflexible, therefore causing difficulty when trying to apply it to cases of ethical misconduct.

## 7 The role of professional bodies

There are a number of professional bodies, both international and national, that are relevant to the professional accountant's work.

### **The International Federation of Accountants (IFAC)**

The International Federation of Accountants (IFAC) is an international body representing all major accountancy bodies across the world.

The role of the IFAC is to protect the public interest by developing high quality international standards, promoting strong ethical values and encouraging quality practice.

### **IFAC's International Ethics Standards Board for Accountants (IESBA)**

IFAC's International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting board that develops and issues, in the public interest, high-quality ethical standards and other pronouncements for professional accountants worldwide.

Through its activities, the IESBA develops the Code of Ethics for Professional Accountants, which establishes ethical requirements for professional accountants.

The board also provides adoption and implementation support, promotes good ethical practices globally, and fosters international debate on ethical issues faced by accountants.

## The Financial Reporting Council (FRC)

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

The main areas where most accountants experience the work of the FRC are in terms of accounting and auditing standards:

- The Board of the FRC issues UK versions of International Standards on Auditing where appropriate, taking advice from the Audit & Assurance Council (part of the FRC)
- The Board of the FRC also issues UK versions of International Financial Reporting Standards where appropriate, taking advice from the Accounting Council (part of the FRC).

**Note:** The Accounting Council replaced the Accounting Standards Board.

## The Conduct Committee

The Conduct Committee is part of the FRC and provides independent oversight of professional disciplinary issues, together with oversight of the regulation of accountants and actuaries in the UK and Republic of Ireland.

**Note:** The Conduct Committee replaced the Professional Oversight Board.



### The Conduct Committee

The Conduct Committee's responsibilities include overseeing:

- Monitoring of Recognised Supervisory and Recognised Qualifying bodies
- Audit Quality Reviews
- Corporate Reporting Reviews
- Professional discipline
- Oversight of the regulation of accountants and actuaries.

## 8 Codes of Ethics

Each profession has its own specific code of ethics which form part of the identity of the profession i.e. the medical profession – sanctity of life.

Accountants have the ethical responsibility to be objective, independent in their representation of the accounts. These ethical principles create solidarity of the profession that society accepts within its universalistic morality. Therefore, to maintain the benefit which accrue from the profession (status and financial benefits) it is the responsibility of the professional to ensure it acts within the ethical principles of the profession and ensuring the Public Interest is paramount within the ethical dimension of decision making both personally and within the organisation the professional is working. However, it is not the role of the individual accountant to work outside the law, therefore, in discerning the correct decision or action to take the rule of law should always take precedence.

### Corporate codes of ethics

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Most companies (especially if they are large) have approached the concept of business ethics by creating a set of internal policies and instructing employees to follow them. These policies can either be broad generalisations (a corporate ethics statement) or can contain specific rules (a corporate ethics code).

There is no standard list of content – it will vary between different organisations. Typically, however, it may contain guidelines on issues such as honesty, integrity and customer focus.

Many organisations appoint Ethics Officers (also known as Compliance Officers) to monitor the application of the policies and to be available to discuss ethical dilemmas with employees where needed.

### The International Federation of Accountants (IFAC)

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In June 2005, IFAC published their Code of Ethics for Professional Accountants which was prepared by the International Ethics Standards Board of the International Federation of Accountants. That Committee was charged with developing and issuing **high-quality ethical standards and other pronouncements for professional accountants around the world**. This reflected what has been seen as a growing crisis of confidence in accounting ethics internationally, following financial scandals with global implications. The Code has been revised over the years with the most recent version being issued in 2018.

IFAC is an umbrella organisation for accounting standards worldwide, the Code and its principles are shared by accounting bodies globally.

## CIMA

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In 2006, the CIMA Code of Ethics for Professional Accountants' was launched. Revised codes were issued in 2010 and 2015. In the revised 2015 Code, Part C was developed in co-operation with the American Institute of Certified Public Accountants (AICPA); and, like Parts A and B, the elements of the updated Part C which apply to CIMA members and students continue to reflect IFAC's fundamental principles and conceptual framework approach.

At the time of going to print CIMA are in consultation over their Code of Ethics and are proposing to publish an updated Code in 2019 to take effect from 1 January 2020. The purpose of the update is reflect the new structure, format and content adopted in the 2018 IFAC Code. Please refer to the CIMA website for progress on the updated Co

The CIMA Code reflects the standards CIMA expects of its members and students. It is aligned with global standards across the profession.

The CIMA Code reflects its status as a Chartered Institute and as a basis for any complaints or cases under CIMA's disciplinary procedures.

The CIMA Code of Ethics aims to:

- (i) identify the nature of the personal responsibility that the management accountant takes on as part of the price for getting a reasonable salary and status
- (ii) provide guidance on how to identify the practical situations where particular care might need to be taken because of the ethical pitfalls involved
- (iii) provide general guidance on how to address those difficult questions.

The CIMA Code itself is split into three parts with a list of definitions at the end:

### **Part A – General Application of the Code**

This covers an introduction and the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

### **Part B – Professional Accountants in Public Practice**

This covers particular issues identified as being of relevance to accountants in public practice such as professional appointment, conflicts of interest, second opinions, fees and other types of remuneration, marketing professional services, gifts and hospitality, custody of client assets, objectivity in all services and independence in assurance engagements.

### **Part C – Professional Accountants in Business**

This covers issues such as potential conflicts, preparation and reporting of information, acting with sufficient expertise, financial interests and inducements.

The Code establishes ethical requirements for professional accountants and applies to all member firms or bodies of IFAC. Any such firm or **body may not apply less stringent standards than those stated in this Code.**

There is an override, should any firm or body be prohibited by law or regulation in complying with any parts of the Code. The expectation is that all parts of IFAC Code will be complied with otherwise. Professional accountants need to familiarise themselves with any differences if there are any, but to comply with the more stringent requirements and guidance unless prohibited.

### **Fundamental principles**

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CIMA's code lists five fundamental principles with which its members are expected to comply.

The fundamental principles are presented in Section 100.5.

#### **Fundamental principles**

**100.5** A professional accountant shall comply with the following fundamental principles:

- 1 **Integrity** – to be straightforward and honest in all professional and business relationships.
- 2 **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- 3 **Professional Competence and Due Care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- 4 **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- 5 **Professional Behaviour** – to comply with relevant laws and regulations and avoid any action that discredits the profession.



By 'fundamental' it is meant that these form the very foundations of reasoning and professional practice. The accountant should therefore not only know them, but use them as tools of reasoning and decision-making when judging their own work and that of fellow-professionals. Alongside checking the technical competence of a piece of work, the management accountant should ask, for example 'am I being objective and impartial in the way I am presenting these figures?'

Because they are fundamental, they merit further, deeper explanation, which you will find later on in this chapter. However, to sum up: CIMA has produced a Code of Ethics that states the fundamental values that accountants should work by, and a framework by which they can put these into practice in challenging practical situations, where there may be more than one course of action which may have undesirable consequences. For the time being, we need to understand the different tools available for regulating ethical behaviour.

## 9 Fundamental principles

CIMA's code lists five fundamental principles with which its members are expected to comply.



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### More on fundamentals ethical principles

#### **Integrity**

Integrity implies fair dealing and truthfulness.

Members are also required not to be associated with any form of communication or report where the information is considered to be:

- materially false or to contain misleading statements
- provided recklessly
- incomplete such that the report or communication becomes misleading by this omission.

#### **Objectivity**

Accountants need to ensure that their business/professional judgement is not compromised because of bias or conflict of interest.

However, there are many situations where objectivity can be compromised, so a full list cannot be provided. Accountants are warned to always ensure that their objectivity is intact in any business/professional relationship.

#### **Professional competence and due care**

There are two main considerations under this heading:

- 1 Accountants are required to have the necessary professional knowledge and skill to carry out work for clients.
- 2 Accountants must follow applicable technical and professional standards when providing professional services.

Appropriate levels of professional competence must first be attained and then maintained. Maintenance implies keeping up to date with business and professional developments, and in many institutes completion of an annual return confirming that continuing professional development (CPD) requirements have been met.

Where provision of a professional service has inherent limitations (e.g. reliance on client information) then the client must be made aware of this.

**Confidentiality**

The principle of confidentiality implies two key considerations for accountants:

- 1 Information obtained in a business relationship is not disclosed outside the firm unless there is a proper and specific authority or unless there is a professional right or duty to disclose.
- 2 Confidential information acquired during the provision of professional services is not used to personal advantage.

The need to maintain confidentiality is normally extended to cover the accountant's social environment, information about prospective clients and employers and also where business relationships have terminated. Basically there must always be a reason for disclosure before confidential information is provided to a third party.

The main reasons for disclosure are when it is:

- 1 permitted by law and authorised by the client
- 2 required by law, e.g. during legal proceedings or disclosing information regarding infringements of law
- 3 there is professional duty or right to disclose (when not barred by law), e.g. provision of information to the professional institute or compliance with ethical requirements.

**Professional behaviour**

Accountants must comply with all relevant laws and regulations.

There is also a test whereby actions suggested by a third party which would bring discredit to the profession should also be avoided.

An accountant is required to treat all people contacted in a professional capacity with courtesy and consideration. Similarly, any marketing activities should not bring the profession into disrepute.

**10 Threats and safeguards****Conceptual framework approach**

- The circumstances in which management accountants operate may give rise to specific threats to compliance with the fundamental principles.
- It is impossible to define every situation that creates such threats and specify the appropriate mitigating action.
- A conceptual framework that requires a management accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

### Threats

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To apply the fundamental principles of the code (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour), you first need to be able to identify and evaluate existing or potential threats to them. If a threat exists that is anything other than trivial, you will need to take action to remove the threat or reduce it to an acceptable level.

Although it is impossible to define all the situations that could create a threat to the fundamental principles, the code does identify five categories of common threat:

- **Self-interest threats** can occur as a result of your own or your close family's interests – financial or otherwise. These threats often result in what is commonly called a 'conflict of interest' situation. Working in business, a self-interest threat could result from concern over job security, or from incentive remuneration arrangements. For those in practice it might be the possibility of losing a client or holding a financial interest in a client.
- **Self-review threats** occur when you are required to re-evaluate your own previous judgement, for example if you have been asked to review and justify a business decision you made, or if you are reporting on the operation of financial systems that you were involved in designing or implementing.
- **Familiarity threats** can be present when you become so sympathetic to the interests of others as a result of a close relationship that your professional judgement becomes compromised. Sometimes this can result from long association with business contacts who influence business decisions, long association with colleagues, or from accepting gifts or preferential treatment from a client.
- **Intimidation threats** occur when you are deterred from acting objectively by actual or perceived threats. It could be the threat of dismissal over a disagreement about applying an accounting principle or reporting financial information, or it could be a dominant personality attempting to influence the decision making process.
- **Advocacy threats** can be a problem when you are promoting a position or opinion to the point that your subsequent objectivity is compromised. It could include acting as an advocate on behalf of an assurance client in litigation or disputes with third parties. In general, promoting the legitimate goals of your employer does not create an advocacy threat, provided that any statements you make are not misleading.

## Safeguards

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So what should you do if there is a threat (or potential threat), to the principles of the code?

CIMA's code of ethics has a 'threats and safeguards' approach to resolving ethical issues. This means that if you are in a situation where there might be a threat to any of the code's fundamental principles you should first assess whether the threat is significant. If it is, you should take action to remove or mitigate it.

The CIMA code does not describe all the safeguards that could be implemented, but instead gives general guidance for handling ethical issues, both for accountants working in business and for those in practice.

Safeguards created by the profession, legislation or regulation include, but are not restricted to:

- educational, training and experience requirements for entry into the profession
- continuing professional development requirements
- corporate governance regulations
- professional standards
- professional or regulatory monitoring and disciplinary procedures
- external review of the reports, returns, communications or information produced by a member and carried out by a legally empowered third party.

Safeguards in the work environment include, but are not restricted to:

- the employing organisation's systems of corporate oversight or other oversight structures
- the employing organisation's ethics and conduct programmes
- recruitment procedures in the employing organisation emphasising the importance of employing high calibre competent staff
- the employing organisation's grievance procedures
- strong internal controls
- appropriate disciplinary processes
- leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner
- policies and procedures to implement and monitor the quality of employee performance
- timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures

- policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution
- consultation with another appropriate professional. The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgement, a member should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.



**Ethical threats and safeguards**

Ethical threat	Safeguard
<p><b>Conflict between requirements of the employer and the fundamental principles</b></p> <p>For example, acting contrary to laws or regulations or against professional or technical standards.</p>	<ul style="list-style-type: none"> <li>• Obtaining advice from the employer, professional organisation or professional advisor</li> <li>• The employer providing a formal dispute resolution process</li> <li>• Legal advice</li> </ul>
<p><b>Preparation and reporting on information</b></p> <p>Accountants need to prepare/report on information fairly, objectively and honestly.</p> <p>However, the accountant may be pressurised to provide misleading information.</p>	<ul style="list-style-type: none"> <li>• Consultation with superiors in the employing company</li> <li>• Consultation with those charged with governance</li> <li>• Consultation with the relevant professional body</li> </ul>
<p><b>Having sufficient expertise</b></p> <p>Accountants need to be honest in stating their level of expertise – and not mislead employers by implying they have more expertise than they actually possess.</p> <p>Threats that may result in lack of expertise include time pressure to carry out duties, being provided with inadequate information or having insufficient experience.</p>	<ul style="list-style-type: none"> <li>• Obtaining additional advice/training</li> <li>• Negotiating more time for duties</li> <li>• Obtaining assistance from someone with relevant expertise</li> </ul>

<p><b>Financial interests</b></p> <p>Situations where an accountant or close family member has financial interests in the employing company.</p> <p>Examples include the accountant being paid a bonus based on the financial statement results which he is preparing, or holding share options in the company.</p>	<ul style="list-style-type: none"> <li>• Remuneration being determined by other members of management</li> <li>• Disclosure of relevant interests to those charged with governance</li> <li>• Consultation with superiors or relevant professional body</li> </ul>
<p><b>Inducements – receiving offers</b></p> <p>Refers to incentives being offered to encourage unethical behaviour. Inducements may include gifts, hospitality, preferential treatment or inappropriate appeals to loyalty.</p> <p>Objectivity and/or confidentiality may be threatened by such inducements.</p>	<ul style="list-style-type: none"> <li>• Do not accept the inducement!</li> <li>• Inform relevant third parties such as senior management and professional association (normally after taking legal advice)</li> </ul>
<p><b>Inducements – giving offers</b></p> <p>Refers to accountants being pressurised to provide inducements to junior members of staff to influence a decision or obtain confidential information.</p>	<ul style="list-style-type: none"> <li>• Do not offer the inducement! If necessary, follow the conflict resolution process outlined in the next section</li> </ul>
<p><b>Confidential information</b></p> <p>Accountants should keep information about their employing company confidential unless there is a right or obligation to disclose, or they have received authorisation from the client.</p> <p>However, the accountant may be under pressure to disclose this information as a result of compliance with legal processes such as anti-money laundering/terrorism – in this situation there is a conflict between confidentiality and the need for disclosure.</p>	<ul style="list-style-type: none"> <li>• Disclose information in compliance with relevant statutory requirements, e.g. money laundering regulations</li> </ul>



<p><b>Whistleblowing</b></p> <p>Situations where the accountant needs to consider disclosing information, where ethical rules have been broken by the client.</p>	<p>Follow the disclosure provisions of the employer. Otherwise disclosure should be based on assessment of: legal obligations, whether members of the public will be adversely affected, gravity of the matter, likelihood of repetition, reliability of the information, reasons why employer does not want to disclose</p>
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## 11 Rules-based and framework approaches to ethics

There are two different approaches to formulating a code of ethics:

- a rules-based approach
- a framework approach.

### Rules-based ethics

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A rules-based approach to ethics is sometimes referred to as a compliance approach. It explicitly sets out what individuals can and cannot do, and specifies the sanctions that will be imposed for non-compliance.

A rules-based approach works because it instils a sense of fear. Individuals comply because they are required to and because they fear the consequences. However, the main disadvantage of this approach is the fact that the rules cannot cover every particular situation and rules may become out of date as circumstances change.



#### Rules based approach

Rules tend to be characterised by three things:

- 1 In theory, you are either inside a rule (compliant) or have broken it. This sometimes provides a harsh divide which is often more about the precise interpretation of the rule than the human activity it regulates.
- 2 Because of these attempts to make sharp distinctions in rules (so people know where the boundaries of self-preservation lie), there is always argument about the precise meaning of rules.
- 3 Rules require enforcement by an objective party to decide on things like interpretation and to ensure that breach of the rule has a consequence.

These factors make rules expensive, the source of contention and inflexible. Moreover, in ethics, rules seldom are capable of encompassing the rather difficult questions about behaviour that are involved, without becoming incredibly complicated. The Code-based approach blends the mandatory requirement to take account of the Code with a principles or values-based approach.



## Framework approach

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A framework approach to ethics provides a set of principles to help individuals arrive at the correct decision. It attempts to instil the idea of the 'correct' thing to do.

Its main advantage is that it can be applied more easily to new developments in business practice or to unique cases. However, its disadvantage is that it is left to the member to decide how best to deal with an ethical question within the framework laid down.

It is also much more difficult to monitor compliance than in a rules-based approach.



### Framework approach

There has been a change in public and private attitudes to the performance of duties over the last five years that has moved against the idea of just doing what you can get away with towards continually striving to do the right thing. It is mirrored in the changes in management accounting trends from variance accounting, through activity-based to lean accounting. In management, it is reflected in the idea of performance management, rather than the management of labour. In public life, it is reflected in the change from a culture of trust and deference to those with authority, to a requirement for standards in public life and accountability.

The management accountant finds him or herself pushed by all three strands. Trends in management accounting look towards a more transparent approach to representing the life cycle of accounts. As an employee, the accountant is not there just to do a job and go home, but to do it well and continually improve. Ultimately, whether or not the accountant is employed in the public sector, the role of the accountant is to perform a public function in providing the truthful and independent account of finances that will be the basis of judgements by owners, shareholders, regulators, the government and so on.



### The Seven Principles of Public Life

The publicly employed accountant is explicitly subject to the 'The Seven Principles of Public Life' issued by the Committee of Standards in Public Life, which arose out of the perceived crisis in public ethics of the 1990s in the United Kingdom. The Committee of Standards in Public Life is a body that was set up by the UK Government. The principles are reflected to a great extent in the professional standards for all accountants.

#### Selflessness

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

**Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

**Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

**Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

**Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

**Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

**Leadership**

Holders of public office should promote and support these principles by leadership and example.

Given the trends towards less trust and more desire for accountability, it is therefore of little surprise that management accountants are now expected to do more than merely follow the rules.

**12 Contrasting compliance driven and principles based codes**

The following table, contrasting the characteristics of a compliance-driven framework versus one primarily driven by values, principles and ethics.

<b>Feature</b>	<b>Ethics</b>	<b>Compliance (Rules)</b>
Objective	Prevention	Detection
Approach	Principles	Law based
Motivation	Values driven	Fear driven
Standards	Implicit	Explicit
Measure	Principles (values)	Rules
Choices	Judgement	Obedience/disobedience
Enforceability	Discretionary	Mandatory

An example of applying the different approaches above would be a company which has a strong rules-based culture, where individuals clearly have a sense of what they can and cannot do (letter of the law, black and white, mandatory, explicit) and what will happen if they do not (fear-driven, requires obedience, mandatory). However, if an employee is faced with a situation not covered by the 'rule book' they will be required to use their own judgement as to what to do. In most instances, the decision they take will be the right one but any potential for the wrong decision being made will be reduced if the employee has guiding values and principles which will underpin that difficult decision-making. So, an ethical framework of guidance is likely to be more wide-ranging in its applicability than a fully rules-based one.

A key aspect of compliance is measurement in addition to 'ticking boxes' that all is well. This, of course, is difficult with ethical issues which tend not to be conveniently black and white. There is therefore a need to develop and use proxy indicators by those assuring themselves that individuals are acting in a proper fashion.

In a wider context, the same is true in the public and private sectors, where organisations equally, as though they were individuals, seek to build trust with their employees, customers, suppliers, shareholders and all others who have a legitimate interest in how they perform.

But the essential question remains: Is trust better engendered by principled behaviour based on 'doing it because it is the right thing to do' or because the individual, the company or the public body has to?

### **13 Personal development and life-long learning**

Every professional person has a duty in maintaining their role of acting in public interest by keeping themselves up to date professionally, that is technically as well developing their competencies to be better informed. It is also essential in a dynamic area of practice, where failure to keep oneself aware of developments may fundamentally undermine basic professional competence and leave the accountant open to accusations of negligence.

This has grown in importance as the pace of change develops and the role of the professional accountant grows more complex. It is now regarded as one of the fundamental principles in the CIMA 'Code of Ethics' (see Appendix for the complete code), where the professional accountant has the duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques.

The concept of competent professional service is thus based not only on attaining professional competence but also in maintaining it. This requires a continuing awareness of up-to-date developments in the profession. This can be met through continuing professional development. CIMA has developed the CIMA Professional Development framework which addresses both the requirements on members and the institute regarding CPD, and the ways in which CIMA is supporting members in their professional development.

### Personal qualities

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Members of the profession need, or need to develop, certain qualities and virtues in order to meet the expectations of CIMA and the public, served in the wider context. In upholding the highest standards of ethical behaviour, members are contributing to the promotion of the integrity of CIMA's qualification and supporting CIMA's purpose.

The underlying reason has been explained earlier, in the context of 'virtue ethics'. The professional attitude being encouraged provides the ethical compass and personal motivation to act in accordance with the values of the profession and to make ethically sound decisions in everyday practice.

The particular qualities and virtues sought are reliability, responsibility, timeliness, courtesy and respect. These are taken from 'Approaches to the Development and Maintenance of Professional Values, Ethics and Attitudes in Accounting Education Programs,' published by the International Accounting Education Standards Board.

#### Reliability

This is the concept of being able to be trusted by others and to be dependable through the ability to deliver what and when it has been agreed with another. It is linked to the idea of providing a consistent approach to work, both in quality and in dependability. It is fairly clear that an unreliable accountant would almost certainly also be falling short of other basic standards of professional competence.

#### Responsibility

This is the concept of being accountable for one's actions and decisions. This also entails an individual's assumption of authority for making decisions. A responsible accountant addresses the decision-making processes that he needs to engage with and is willing and able to personally answer for those decisions. A management accountant is in a position of responsibility because he is being employed for his expertise in making professional judgements and will need to be able to explain and answer for their exercise to colleagues who may or may not share that expertise.

#### Timeliness

This is the concept of delivering in a timely manner without delay and meeting the expectations of others. The practical implications of poor timekeeping are self-evident, however there is a further reflection of the ethics of diligence in addressing tasks and responsibility in prioritising and managing work.

#### Courtesy

This is the virtue of demonstrating politeness and good manners towards others. While respect for clients and others is regarded as appropriate and professional, the increasing seriousness with which unacceptable forms of address (racist, sexist, homophobic and the like) are being tackled by law mean that it underpins a more fundamental set of societal values.

## Respect

This is the virtue demonstrating an attitude of esteem, deference, regard or admiration of others in dealing with them, especially where their attitudes might differ. It is not to be mistaken for undue deference, merely that the accountant should listen to others, take account of their views and ideas, and if for no other reason than these may provide a broader base for making informed judgements.

Like a number of these qualities, it is easy to see reasons why respect might be practically useful and help avoid problems that might lead to sanction or censure, but the utility of respecting people is not the reason why you should respect them; it is not simply a case of respecting those who you think might have something useful to say, like each of these qualities they are aspects of professionalism to be cultivated for their own sake.

## 14 Independence

It is in the public interest, and required in CIMA's Code of Ethics that members of assurance engagement teams and their firms (and when applicable extended network firms too) be independent of the assurance clients. An audit should be performed with an attitude of professional scepticism which includes a questioning mind and being alert to conditions which may indicate fraud or error.

There are two key attributes to independence used in connection with the assurance engagement:

### 1 Of mind

It is required that the professional accountant has a state of mind that permits a conclusion to be expressed without being affected by influences that would compromise their professional judgement.

This allows the individual to act with integrity and exercise objectivity and professional scepticism. Bias is an insidious thing, and sometimes we are not fully aware of the influencing factors on our mind. Second opinions of close judgement calls can often help, but the accountant is ultimately responsible for his or her decisions. Keeping a clear, professional attitude and focusing on objective information, rather than over-relying on intuitions is a useful means of maintaining some independence of mind.

### 2 In appearance

This is a test reliant on the view that a reasonable and informed third party would conclude that a member of the assurance team's integrity, objectivity or professional scepticism was compromised if significant facts and circumstances were avoided or overlooked. The accountant often exercises judgements that have impacts on people's jobs, pay and progression. It is therefore of paramount importance that the exercise of professional judgement not only be just, but manifestly and undoubtedly be seen to be so.

It is impossible to define all situations where independence might be compromised, so it is in the public interest to prepare a conceptual framework requiring firms and member of assurance teams to identify, evaluate and address threats to independence. This can be based on identifying relationships between all the parties. For any threats so identified, safeguards can be introduced to eliminate or significantly reduce them to an acceptable level.

## 15 Accountability, social responsibility and professional scepticism

### Accountability

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The concept of accountability is that of the professional accountant being responsible to someone and for something or an action, and being able to explain those actions. It is an important aspect of the profession and of leadership in the wider business environment.

It is acknowledged that the professional accountant through CIMA, as a Chartered Institute, is accountable to the public in performing a public interest duty. That accountability is monitored by the FRC in the United Kingdom through the Conduct Committee and the Accounting Council.

Accountability is also to every client and employer too for whom the professional accountant is providing services. If that accountability fails then the client or employer can seek redress through complaint or disciplinary procedures.

### Social responsibility

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The professional accountant has a wider role in fulfilling their public duty, which is to be aware of their social or corporate responsibility. This is their role within the community, be it defined as their profession, their firm or place of work, where their place of work or home is located or howsoever the individual cares to define community.

Corporate Social Responsibility (CSR) is the outward manifestation of an ethical policy. CSR policies state the nature of the interaction between the company and its stakeholder base, employees, customers, suppliers and so forth (covered in more detail in Chapter 5). These CR policies need to be factored into risk management, which the better companies will report on in their reporting, internally and externally.

Typically, this is in relation to stakeholders listed as shareholders, employees, customers, suppliers and the wider community, to whom the company pays taxes and with whom it has a relationship as part of society. In upholding the principles of CIMA's 'Code of Ethics', the individual has a social responsibility to behave with integrity, courtesy, respect and with due care.

## Professional scepticism

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The application of an appropriate degree of professional scepticism is an essential skill for accountants, especially for those working in assurance and audit. Professional scepticism is an attitude of mind that ensures auditors are prepared to challenge management's assertions, and be alert to possible misstatements in the financial statements due to error or fraud. Auditors initially approach an audit without a strong belief that either the financial information is misstated or that management are other than honest and truthful. But if an auditor obtains information suggesting that the financial information could be misstated, they will step up their enquiries and look for more audit evidence to resolve issues, especially if they are concerned about the accuracy of the evidence or the integrity of those providing it.

A sceptical mind-set will be influenced by an individual's personality, their experience, their education and training, and by the culture of the firm where they work. It is through professional development and experience that an auditor learns the 'right' level of scepticism to be applied in different circumstances.

Professional accountants must recognise that scepticism is an integral part of their work and is closely interrelated to the fundamental concepts of independence and objectivity. Ethical Standards address the issue of auditors placing too much trust in their clients through requirements such as rotation of audit firms and partners and staff, and the prohibition of certain non-audit services, but ultimately it is the responsibility of individuals to perform their work with an appropriate degree of scepticism and challenge.

## 16 Ethical conflict: confidentiality

The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) **Disclosure is permitted by law and is authorised by the client or the employer:**

An example of this might be personal data. Personal data held by an accountant (for example, bank details of an individual) is covered by data protection legislation. This gives rise to particular responsibility on the accountant to maintain that data accurately and not to disclose it, except for the purposes it was disclosed. There are, however, some exceptions. One important one is that the person to whom that data pertains may have been given an authorisation for disclosure to third parties for marketing purposes. This would still need authorisation by the employer, but falls within the category of permissible disclosure.



(b) **Disclosure is required by law, for example:**

- (i) Production of documents or other provision of evidence in the course of legal proceedings – numerous pieces of legislation allow investigative bodies, ranging from the national taxation authorities through to the police, the power to gain access to documents in the process of investigation. Strictly speaking, such access is limited to circumstances where the investigating agency has specific authorisation by a court, normally in the form of a warrant. In such circumstances, there is a duty to disclose that overrides any others.
- (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light – accountants are under some professional and ethical responsibility to disclose information which they believe tend to show illegal activity. This is a problematic area because such disclosures frequently run in the face of what an employer considers to be a duty of trust and confidence. A misplaced belief that an employer is doing wrong, which leads to an unauthorised disclosure will often end up as an acrimonious employment dispute.

Public interest disclosure legislation in the United Kingdom provides a means by which these two issues can be balanced. The accountant should first draw their manager's attention to the wrongdoing, or if it is inappropriate in the circumstances, a senior manager's attention may be drawn to it. If there is no adequate response or there is serious malfeasance which the accountant believes may be 'covered up', they may alert a professional body or an agency such as the police. Going to press is a risky and inadvisable course of action and carries with it few of the protections that are offered to those disclosing to professional bodies. In such circumstances, it is advisable to contact CIMA's Ethics Helpline. Members and students of CIMA can contact the Ethics Helpline for advice on whether and how to make a public interest disclosure. CIMA's Ethics Helpline can help any member or student facing an ethical conflict.

(c) **There is a professional duty or right to disclose, when not prohibited by law:**

- (i) To comply with the quality review of a member body or professional body
- (ii) To respond to an inquiry or investigation by a member body or regulatory body
- (iii) To protect the professional interests of a professional accountant in legal proceedings; or
- (iv) To comply with technical standards and ethics requirements.



All these examples in (c), above, relate to the regulation and disciplinary functions of CIMA and the profession more generally. It is important that disclosures are not only those necessary for the achievement of purpose of the inquiry but that they also cover all relevant aspects of the subject matter being inquired into. Partial disclosure is tantamount to deception and may give rise to disciplinary or legal penalties or consequences.

Disclosure is generally a question of professional discretion, as much as the application of rules. In identifying whether confidential information can be disclosed, it is necessary to consider whether any parties would be harmed by such disclosure, whether all relevant information is known and substantiated, and the type of disclosure and to whom it is to be made.

## 17 CGMA Report on Managing Responsible Business

Two of the world's most prestigious accounting bodies, AICPA and CIMA, have formed a joint venture to establish the Chartered Global Management Accountant (CGMA®) designation to elevate and build recognition of the profession of management accounting. This international designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance. CGMA designation holders are either CPAs with qualifying management accounting experience or associate or fellow members of the Chartered Institute of Management Accountants.

Definitions (as used in the survey by CGMA)

### **Responsible business:**

- is about an organisation's commitment to operating in a way that is economically, socially and environmentally sustainable
- means ensuring this commitment prevails while still upholding the interests of various stakeholder groups.

### **Business ethics:**

- is the application of values such as integrity, fairness, respect and openness to organisational behaviour
- apply to all strategic and operational aspects of business conduct, including sales and marketing techniques, accounting practices and the treatment of suppliers, employees and customers
- may also be termed "business principles", and are usually set out in a code of ethics or similar policy document.

### **Ethical performance**

- is the extent to which an organisation's behaviour aligns with its stated ethical values and commitments.

### **Ethical management information**

- allows an assessment of the organisation's ethical performance, such as the efficacy of relevant policies and procedures, occurrence of breaches of relevant policies or codes, stakeholder opinion and other metrics
- may include specific ethics information, such as the number of employees attending ethics training or calls to an ethics helpline, as well as routine management and risk information
- will often originate from multiple sources within the business, and can be either quantitative or qualitative.

### **Integrated reporting**

- describes an approach to corporate reporting. It is based on both financial and nonfinancial information that demonstrates the linkages between an organisation's strategy, governance and financial performance as well as the social, environmental and economic context within which it operates.

### **Ethical issues within organisations**

- Security of information
- Safety and security in the workplace
- Discrimination
- Conflicts of interest
- Bribery
- Environmental
- Supply chain
- Responsible marketing
- Human rights
- Whistleblowing
- Fairness of remuneration.

## 18 Embedding ethical values: A guide for CIMA partners

CIMA and the Institute of Business Ethics have jointly produced two new guidance documents, the first of which is 'Embedding ethical values – a guide for CIMA partners'. The purpose of this guide is twofold: for organisations that don't yet have an ethical policy or equivalent, it provides the right resources and support to draw up a code or policy document. For organisations that already have a code in place, this guide directs to resources which helps address what else can be done to embed ethical values and make the code effective.

Below are extracts from the guide.

### **How does a company start to ensure that business behaviour reflects ethical values?**

If an organisation wants to take ethics seriously, it first needs to identify the core values to which it is committed and wishes to be held accountable.

Core ethical values are those regarded by a company as non-negotiable – they form the foundation for a set of corporate ethical standards and commitments and the organisation's approach to corporate responsibility.

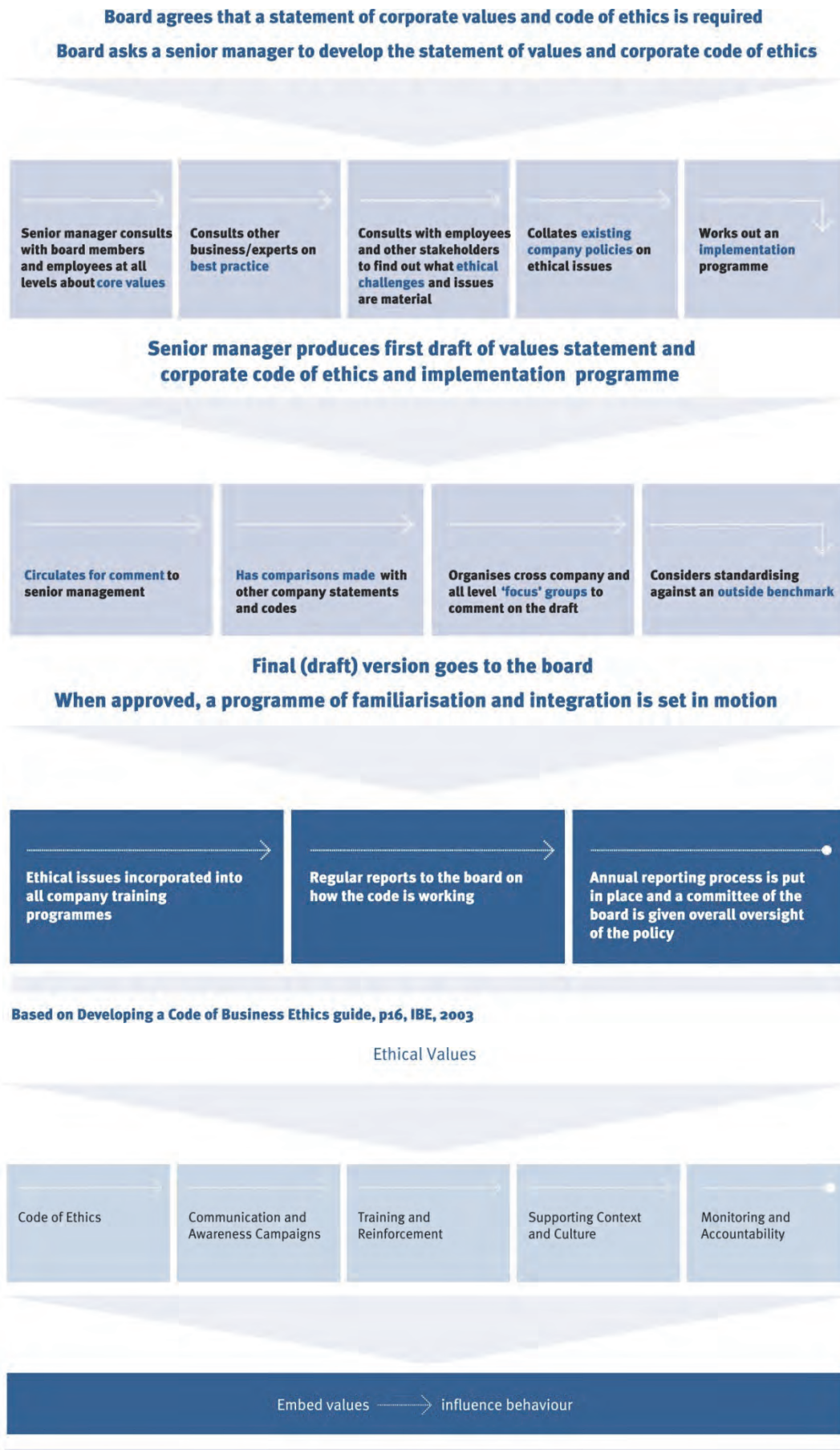
Commonly used value words found in introductions/preambles to codes of ethics include: responsibility, integrity, honesty, respect, trust, openness, fairness and transparency. Organisations may also articulate a set of business values, such as quality, profitability, efficiency, reliability and customer service.

### **Why produce a code?**

Codes of ethics are critical to preventing misconduct and should not be developed merely as a reaction to a reputation crisis. They provide guidance for all employees on what is expected of them and how to act responsibly in different circumstances. Critically codes should be live documents that are referred to regularly by management to promote and support an ethical culture.

### **Is having a code enough?**

Simply drawing up and publishing a code is never enough to influence behaviour and decision-making. Ethical values must be strongly embedded in an organisation's culture. To be effective the code should be supported by a programme of communication and training as well as leadership example. Ethical commitments need to be reflected through core business activities and policies and processes e.g. recruitment, appraisal, tendering, marketing, speak up etc. The organisation also needs to establish a monitoring programme which will assure its governing body that it is living up to its values.



Senior manager consults with board members and employees at all levels about core values

Consults other business/experts on best practice

Consults with employees and other stakeholders to find out what ethical challenges and issues are material

Collates existing company policies on ethical issues

Works out an implementation programme

Circulates for comment to senior management

Has comparisons made with other company statements and codes

Organises cross company and all level 'focus' groups to comment on the draft

Considers standardising against an outside benchmark

Ethical issues incorporated into all company training programmes

Regular reports to the board on how the code is working

Annual reporting process is put in place and a committee of the board is given overall oversight of the policy

Based on Developing a Code of Business Ethics guide, p16, IBE, 2003

Ethical Values

Code of Ethics

Communication and Awareness Campaigns

Training and Reinforcement

Supporting Context and Culture

Monitoring and Accountability

Embed values → influence behaviour

**Good practice:**

- Root the code in core values e.g. trust, integrity
- Give a copy to all staff
- Provide a way to report breaches in a confidential manner
- Include ethical issues in corporate training programmes
- Set up a board committee to monitor the effectiveness of the code
- Report on the code's use in the annual report
- Make conformity to the code part of a contract of employment
- Make the code available in the language of those staff located overseas
- Make copies of the code available to business partners, including suppliers
- Make a named individual responsible for code implementation
- Review code in light of changing business challenges
- Make sure senior staff 'walk the talk'.

**Poor practice:**

- Just pinning the code to the notice board
- Failing to obtain board commitment to the code
- Leaving responsibility for the code's effectiveness to HR or any other department
- Failing to find out concerns of staff at different levels
- Failing to feature the code in induction training and management development activities
- Having no procedure for revising the code regularly
- Making exceptions to the code's application
- Failing to follow up on breaches of the code's standards
- Unhelpful example by corporate leaders
- Neglecting to have a strategy to integrate corporate values and standards into the running of the business
- Treating the code as confidential or a purely internal document
- Making it difficult for staff to have direct access to the code or the person who is responsible for it.

## 19 Test your understanding questions



### Test your understanding 1

#### Are these statements true or false?

- A Professional accountants are expected to have regard to the public interest in performing their duties
- B Professional accountants are not expected to have regard to the public interest in performing their duties
- C Ethical values describe what an entity does, not how it does business
- D Ethical values describe how entity does its business, not what it does



### Test your understanding 2

#### Are these statements true or false?

- A A rules based approach provides a set of principles
- B A framework approach explicitly sets out what individuals can or cannot do
- C 'The Seven Principles of Public Life' govern only professional accountants
- D The CIMA 'Code of Ethics' includes reference to how a professional accountant can raise a concern about unprofessional or unethical behaviour



### Test your understanding 3

#### Are these statements true or false?

- A An ethically based code is based on principles
- B A compliance based code is a rules-based framework
- C A characteristic of a compliance based code is that it takes a tick box approach
- D Compliance with legislation is mandatory

**Test your understanding 4****Are these statements true or false?**

- A The five qualities and virtues sought by CIMA are reliability, accountability, fairness, responsibility and timeliness
- B The five qualities and virtues sought by CIMA are reliability, responsibility, timeliness, courtesy and respect
- C The professional accountant is not bound by the principles of confidentiality after the end of the relationship with a client or employer
- D The professional accountant is bound by the principles of confidentiality after the end of the relationship with a client or employer

**Test your understanding 5****Are these statements true or false?**

- A Professional accountants are expected to exercise professional scepticism
- B Professional accountants are not expected to exercise professional scepticism
- C The IFAC code is mandatory for all member firms or bodies of IFAC
- D The IFAC code is a guide for all member firms or bodies of IFAC

**Test your understanding 6****Which of the following is incorrect?**

- A The IFAC Code of Ethics takes a rules-based approach
- B The CIMA Code of Ethics takes a framework-based approach
- C Company codes of ethics can take a framework-based or a rules-based approach
- D Code of ethics are often based on core values or principles

Test your understanding questions 7–9 are reflective questions and should be discussed or thought over. Answers to these have not been provided.



**Test your understanding 7**

**Consider your work and, separately, everyday life. In what circumstances do you find the following compromised?**

- A Objectivity
- B Courtesy
- C Confidentiality
- D The Appearance of Independence



**Test your understanding 8**

**In relation to 7, above, consider whether each is because of:**

- A Something you have done
- B Something you have failed to do
- C Something you believe in
- D Something outside your control



**Test your understanding 9**

**Drawing on the discussions above, consider how and whether application of the ethical principles outlined might help you identify problems, and whether they might help you avoid them if you put them into practice.**



## Test your understanding answers

**Test your understanding 1**

- A **True.** Professional accountants, whether practicing in public or private practice have a leadership role and are expected to behave and act in the public interest. This is laid down in the Royal Charter which governs CIMA – *the Chartered Institute of Management Accountants*.
- B **False.**
- C **False.**
- D **True.**

**Test your understanding 2**

- A **False.** This applies to a framework approach.
- B **False.**
- C **False.** The Seven Principles of Public Life apply to all holders of public office.
- D **True.**

**Test your understanding 3**

- A **True.**
- B **True.**
- C **False.** A characteristic of compliance is detection.
- D **True.** Compliance with the law is mandatory.

**Test your understanding 4**

- A **False.**
- B **True.**
- C **False.**
- D **True.**



**Test your understanding 5**

- A True.
- B False.
- C True.
- D False.



**Test your understanding 6**

**A**  
The CIMA and IFAC Codes both take a framework-based approach.



**Test your understanding 7**

There is no suggested solution.



**Test your understanding 8**

There is no suggested solution.



**Test your understanding 9**

There is no suggested solution.