

# IMA Ethics Code Compares Favorably to Global Code

The global *IESBA Code of Ethics for Professional Accountants* sets forth guidance for all accountants and includes an informative portion specifically for accountants in business. While it contains many similarities to *The IMA Statement of Ethical Professional Practice*, some differences also exist.

The International Federation of Accountants (IFAC) is a global association of professional accountancy bodies from 127 countries. These national organizations represent accountants in public practice, education, governmental service, industry, and commerce. IFAC's mission is to contribute to the development, adoption, and implementation of high-quality international standards and guidance. Ethical guidance is provided by the International Ethics Standards Board for Accountants (IESBA). Its mission is to set high-quality ethical standards for professional accountants and facilitate the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

The latest codification of the *IESBA Code of Ethics for Profes-*

*sional Accountants* (IESBA Code) was issued in 2009 and published as a handbook in 2010. The IESBA Code is divided into three sections of guidance: (1) general applicability, (2) for professional accountants in public practice, and (3) for professional accountants in business (PAB). The fundamental principles of general applicability are:

**Integrity**—to be straightforward and honest in all professional and business relationships.

**Objectivity**—to not allow bias, conflict of interest, or undue influence of others to override professional or business judgments.

**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 to act diligently and in accordance with applicable technical and professional standards.

**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's a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

**Professional Behavior**—to comply with relevant laws and regulations and avoid any action that discredits the profession.

In comparison, *The IMA Statement of Ethical Professional Practice* (the *IMA Statement*) contains an unqualified commitment that all IMA® members shall behave ethically. IMA's commitment to ethical professional practice includes overarching principles that express our values and standards that guide our conduct. The overarching principles in the *IMA Statement* are honesty, fairness, objectivity, and responsibility.

The fundamental principles portion of the IESBA Code also provides a conceptual framework that all professional accountants shall use to:

- u “Identify threats to compliance with the fundamental principles,
- u Evaluate the significance of the identified threats, and
- u Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable

level” (Section 100.2).

Safeguards within organizations designed to protect against threats to compliance with the fundamental principles specifically applicable to PABs include:

- u “The employing organization’s systems of corporate oversight or other oversight structures.
- u The employing organization’s ethics and conduct programs.
- u Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- u Strong internal controls.
- u Appropriate disciplinary processes.
- u Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- u Policies and procedures to implement and monitor the quality of employee performance.
- u Timely communication of the employing organization’s policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- u Policies and procedures to empower and encourage

employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution” (Section 300.14).

The IESBA Code describes potential threats someone would face in attempting to comply with the fundamental principles and prescribes related safeguards. The *IMA Statement*, however, provides 13 standards that express concise and detailed requirements for ethical conduct that members of IMA must follow. They are grouped into four categories: Competence, Confidentiality, Integrity, and Credibility.

The portion of the IESBA Code that provides guidance for PABs consists of five parts: Potential Conflicts, Preparation and Reporting of Information, Acting with Sufficient Expertise, Financial Interests, and Inducements. An introduction notes that a PAB, particularly one in a senior position, is expected to encourage within his or her organization an ethics-based culture that emphasizes the importance that senior management places on ethical behavior.

According to the IESBA Code,

potential conflicts may arise for PABs when their responsibilities to their employers clash with their professional responsibilities. Conflicts also may arise because of pressure to act in ways that aren’t in accordance with the Code’s fundamental principles. Pressure may be explicit or implicit and may come from a supervisor, manager, director, or another individual within the employing organization. A PAB may face pressure to:

- u “Act contrary to law or regulation.
- u Act contrary to technical or professional standards.
- u Facilitate unethical or illegal earnings management strategies.
- u Lie to others or otherwise intentionally mislead (including misleading by remaining silent) others, in particular auditors of the employing organization or regulators.
- u Issue or otherwise be associated with a financial or nonfinancial report that materially misrepresents the facts, including statements in connection with, for example: The financial statements, tax compliance, legal compliance, or reports required by securities regulators” (Section 310.3).

The IESBA Code provides examples of safeguards to help protect against such pressures. This includes “Obtaining advice, where appropriate, from within the employing organization, an independent professional advisor or a relevant professional body, using a formal dispute resolution process within the employing organization, [and] seeking legal advice” (Section 310.3).

When discussing the preparation and reporting of information, Section 320.1 of the IESBA Code states that PABs “shall prepare or present such information fairly, honestly, and in accordance with relevant professional standards so that the information will be understood in its context.” If this isn’t possible, PABs “shall refuse to be, or remain, associated with information they determine to be misleading” (Section 320.5). If PABs discover that they were unknowingly associated with misleading information, they must take steps to be disassociated from that information. In determining whether there is a requirement to report such information, PABs may consider obtaining legal advice as well as whether to resign.

In regard to acting with sufficient expertise or performing duties with the appropriate degree of professional competence and due care, the IESBA Code indicates that potential threats could include having:

- u “Insufficient time for properly performing or completing the relevant duties.
- u Incomplete, restricted or otherwise inadequate information for performing the duties properly.

- u Insufficient experience, training and/or education.
- u Inadequate resources for the proper performance of the duties” (Section 330.3).

Concerning financial interests, Section 340.3 of the Code requires that PABs “shall neither manipulate information nor use confidential information for personal gain.” Neither shall PABs “offer an inducement to improperly influence professional judgment of a third party” (Section 350.7).

In December 2011, the IESBA proposed new language in the Code that provides more specific guidance for professional accountants to identify, evaluate, and manage conflicts of interest. The changes should help professional accountants to identify a potential conflict of interest earlier and prompt them to better evaluate their ability to be objective and meet the other fundamental principles contained in the Code. Specifically, PABs are tasked to be alert to interests and relationships that a reasonable and informed third party would be likely to conclude might compromise compliance with the fundamental principles.

The proposal also expands the section of the IESBA Code concerning financial interests to include the topics of compensation and incentives linked to financial reporting and decision making. Many of the examples of self-interest threats describe situations highlighting the link between reported earnings and triggers for bonus payments and grants of stock options.

The IMA Statement is more

clear and concise and thus likely to give more helpful guidance in that several paragraphs are devoted to detailed suggestions of the courses of action that IMA members should consider in identifying unethical behavior or resolving an ethical conflict. These are contained in the section titled “Resolution of Ethical Conflict.” The approach contained in the IESBA Code is that PABs should evaluate the significance of potential threats to unethical behavior against the safeguards designed to prevent such behavior. This requires the individual to come to a personal decision without specifying actions to achieve this goal. The *IMA Statement* is superior in that it clearly and concisely sets forth behavioral standards that management accountants should follow and action steps they should take.

Provision of specific guidance to help management accountants apply the overarching principles and behavioral standards contained in the *IMA Statement* is likely to be more effective and lead to more ethical behavior than the approach taken by the IESBA Code. **SF**

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