

ACCOUNTANTS:

Held to Higher Moral and Ethical Standards



BY
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Imagine you are having lunch and across the table, two colleagues of yours are talking about your organisation's potential violation of workplace safety regulations at a construction site. Their conversation is within your earshot. You are the company's accountant and understand the grave consequences the potential violation may bring.

What do you do? Is walking away an option?

Besides relying on your moral compass, global ethics standards can provide guiding principles to aid you in resolving such a dilemma.

Currently, the International Ethics Standards Board for Accountants (International Ethics Board) is engaging regulators, the profession, company directors and other stakeholders around the world on controversial proposed revisions to the International Code of Ethics for Professional Accountants (International Ethics Code) which mandates that accountants should not turn a blind eye to a suspected non-compliance with laws or regulations (NOCLAR) that comes to their attention. This is regardless of whether the suspected NOCLAR has an impact on the financial statements of the company where the illegal act was committed.

Singapore seeks to mirror closely its code of ethics for professional accountants to the International Ethics Code. It is likely any revisions

to it will be adopted in Singapore, thus impacting professional accountants here. Therefore, the global developments underway are worth paying heed to.

Under the proposal, it does not mean that professional accountants will end up whistleblowing all NOCLARs. The current thinking of the International Ethics Board is that if a suspected NOCLAR comes to the attention of a professional accountant, he should first seek to understand the nature of the potential breach and the gravity of the potential consequences to his organisation (or his client if the professional accountant is providing service to a client) or others.

The professional accountant should then confirm his understanding and pursue the matter with the management of his organisation or his client. If the response is not appropriate, he should escalate the matter to higher management levels and also involve those charged with governance (TCWG) if the response is still not acceptable. TCWG would be the board of directors and in the case of a listed company, would also include the audit committee.

However, the professional accountant's responsibility does not end there. According to the proposal by the International Ethics Board, should he decide that the matter could have significant consequences for his organisation or his client or others, he has to evaluate whether TCWG have taken appropriate actions to address the issue, including whether the matter has been adequately reported to a relevant authority (for example, a law enforcement agency).



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TECHNICAL EXCELLENCE

MORAL AND ETHICAL STANDARDS

On this note, the International Ethics Board has also recently organised a series of regional roundtables to seek feedback on whether the accountant should breach confidentiality and be expected to whistleblow the matter directly to the relevant authority if he finds that it has not been adequately addressed.

ACTIONS AND DILEMMAS

Accountants generally want to do the right thing, including escalating significant issues to TCWG and to an authority. However, in the real world, whistleblowing often creates a dilemma not just for an accountant but for any persons, and their concerns are understandable. Firstly, any whistleblower has to grapple with the dilemma of wanting to do the right thing while fearing personal reprisal and potentially implicating his loved ones. Such fears include risk of physical harm, unfair dismissal and being sued for reporting a matter that turns out not to be true.

Secondly, there is the concern about whether there exists an effective legal framework for the protection of whistleblowers. Lastly, there may also be the question of whether management or even the relevant law enforcement agency can be trusted.

Cynics will describe the professional accountant's proposed new responsibility as, for lack of a better word, intrusive. Why should he be made responsible for checking on whether or not TCWG reports NOCLAR?

Nonetheless, proponents of the proposed revised code think that professional accountants should be made responsible because they belong to a profession that serves the public interest.

James M. Sylph, Executive Director of Professional Standards and External Relations at the International Federation of Accountants (IFAC), led one of the International Ethics Board's roundtables in Hong Kong in May to

further deliberate the proposals.

At the roundtable, which was attended by a wide range of stakeholders including the Accounting and Corporate Regulatory Authority and Institute of Singapore Chartered Accountants (ISCA), he posed a difficult challenge to participants.

"Would wilfully ignoring suspected NOCLARs, particularly those that are of significance to the public interest, be tantamount to not living up to the public's high expectation of the profession to act in the public interest? Is there a growing belief among regulators that retaining the *status quo* is eroding public trust in the profession?"

As a result of significant concerns raised by various stakeholders globally, the International Ethics Board has introduced, for debate, a new "watered-down" alternative approach to the original proposal in 2012. The original proposal actually made it mandatory for professional accountants to whistleblow suspected and actual illegal acts that are of the public interest (for example, serious crimes endangering public safety) if TCWG did not adequately address the matters.

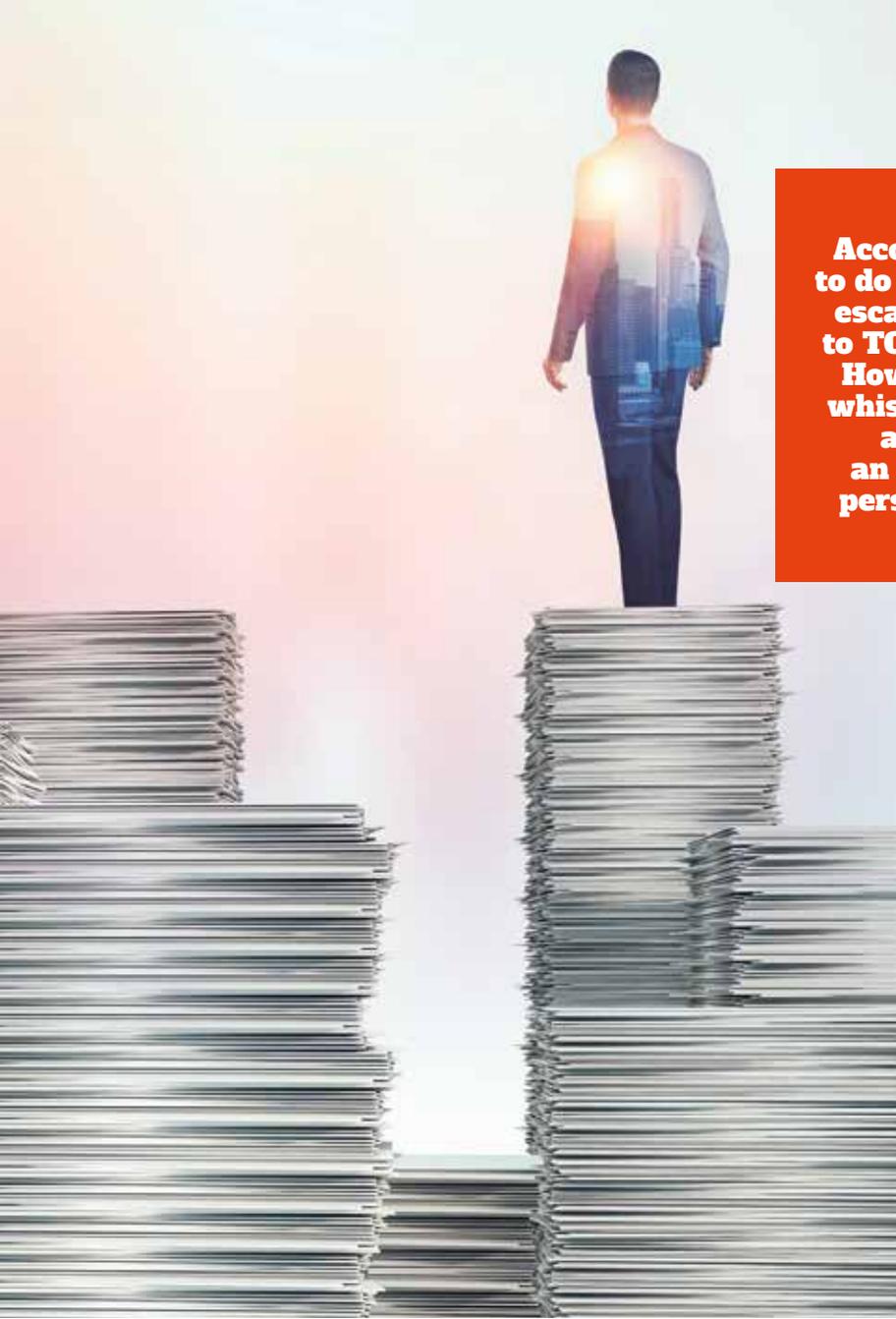
The alternative approach may be more palatable compared to the original proposal in that it gives professional accountants the right but do not require or expect them to report NOCLAR to an external authority. Provided that the professional accountant reports in good faith and as long as such disclosure is not prohibited by laws or regulations, he is permitted to override confidentiality.

One thing is for sure. The International Ethics Board believes that public expectations of the role of professional accountants are changing, and the profession must be cognisant of not eroding the trust of the public. If a professional accountant suspects that a NOCLAR has been committed or is about to be committed such as in the case

of a major financial fraud, it is becoming harder to convince the public (for example, investors) of any justification for turning a blind eye.

Under this alternative approach, the International Ethics Board is suggesting that whistleblowing to an external authority should perhaps not be the focus. The focus should be on the process in which a professional accountant has to go through in understanding the potential NOCLAR, confirming his understanding with the management, escalating it to TCWG if need be and evaluating the adequacy of the TCWG's remedial action.

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This is because it is expected that the great majority of TCWG will want to know about any NOCLAR, and will want to do the right thing to remediate the matter. The internal escalation process would, arguably, bring the most significant NOCLARs to light and be properly dealt with at the TCWG level, without needing escalation to an authority. This is certainly true in Singapore. Given our strong corporate governance environment, those NOCLARs that come to light have a very high chance of being investigated and addressed by TCWG, especially those with grave consequences. It would therefore be

reasonable to expect this alternative approach to receive less opposition by professional accountants in Singapore.

OTHER ISSUES OF CONCERN

Some participants at the Hong Kong roundtable have raised some concerns even with this “watered-down” alternative approach. These concerns include the risk of professional accountants being perceived as “informants” and may result in employers preferring to hire accountants who are not members of professional bodies. Other participants have raised concerns about potentially impeding the free

flow of information which auditors and auditees currently enjoy.

Participants have also asked the International Ethics Board to review certain concepts in the proposal that are not easy to apply in practice. There is the need to exercise significant professional judgement in determining what “significant consequences” are, what the matters considered to be of the public interest are, and what if the matters are not in the professional accountants’ areas of expertise.

At the Hong Kong roundtable, the Interim Chair of the International Ethics Board and Chair of ISCA’s Ethics Committee, Kwok Wui San, empathised with the participants’ concerns – both for and against – and assured them that their comments, along with those at the roundtables in Brussels and Washington DC, will be considered carefully when redrafting the exposure draft. He revealed that there will be revisions to the upcoming exposure draft on this topic. He also added that “the International Ethics Board commits to working towards a balanced approach. It will, however, be totally unacceptable for a re-exposed draft to be rejected on grounds of wanting the *status quo*”.

The message is very clear. The revisions are here to stay, it is the extent of the revisions that is uncertain for now. ISCA

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