SEMESTER 1: Preparation of Financial Statements

Code of Ethics & Corporate Governance

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Corporate Governance & Code of Ethics has become a vital element/concept within the overall business environment and accounting profession in today’s context.

Corporate Governance basically discusses how to govern/manage the entity’s overall activities with best practices while code of ethics essentially guide professional accountants to work in an ethical manner.

Ultimately, CE & CG leads to the phenomena of Corporate Social Responsibility (CSR) which in turn has become the area that most of the entities are being awarded in recent past.
Professional Code of Ethics

Institute of Chartered Accountants of Sri Lanka introduced following fundamental principles for its members.

1. The Public Interest
   - Safeguard the interests of your clients and employers
   - Accept your responsibility to the public at large

2. Independence
   - Be, and be seen to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity (who are in public practice)

3. Integrity
   - Be straightforward, honest and sincere in your approach to professional work

4. Objectivity
   - Be fair and do not allow prejudice, conflict of interest or bias to override your objectivity
   - Maintain an impartial attitude and protect the integrity of your professional services
5. Confidentiality
- Respect the confidentiality of information acquired in the course of your work and do not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose it

6. Technical and Professional Standards
- Carry out your professional work in accordance with the technical and professional standards relevant to that work

7. Competence and Due Care
- Perform professional service with due care, competence and diligence
- Maintain professional knowledge and skills at required level
- Refrain from performing any services that you are not competent-to carry out unless assistance is obtained

8. Ethical Behaviour
- Conduct yourself in a manner consistent with the good reputation of the profession and refrain from any conduct that might bring discredit to the entire profession
Ethical Decision Making Methods

Langenderfer and Rockness (1990)
- Determine the facts of the case
- Determine the ethical issues in the case
- Determine the norms, principles and values related to the case
- Determine the alternative courses of action
- Determine the best course of action consistent with 3 above
- Determine the consequences of each possible course of action identified in 4
- Decide the course of action

St James Ethics Center
- What are the relevant facts?
- Which of my values make these facts significant?
- What assumptions am I making?
- What are the weaknesses in my own position?
- Would I be happy for my actions to be open to public scrutiny?
- Would I be happy if my family knew what I’d done?
- What will doing this do to my character or the character of my organization?
- What would happen if everybody took this course of action?
- How would I feel if my actions were to impact upon a child or parent?
- Have I really thought through the issues?
- Have I considered the possibility that the ends may not justify the means?
Carryout Business in an Ethical Manner

In recent past, numerous business ethical issues have arisen in both profession of accounting & business world which were discussed through public media. Most of these includes insider dealing, price skimming, selling of harmful products and pollute the environment.

Following are some of the emergent topics due to unethical business practices.

- Whistle blowing
  Whistle blowing is the term used to describe the act of an employee exposing an entity’s unethical practices.

- Insider dealing/Trading
  Simply, Insider dealing is the buying and/or selling of entity’s stock (shares) based on inside knowledge. This occurs a responsible officer within the organization disclose the confidential information which are not yet officially published by the entity.

Some argue that insider dealing is not an unethical act since information suppose to disclose to the public. But some argue it is an unethical due to the fact that information not yet officially published.
Ethical Investment
Ethical investment means investors buying only the selected entities’ shares which have value systems similar to their own.

Bribery
Bribery is a payment for a favor which results in someone acting in a way that is contrary to that demanded by the situation. Bribery basically different from receiving gifts, tipping or facilitation payments. But under certain circumstances, those also tend to define as a Bribe.

Fraud
Fraud is an acting deceptively and dishonestly usually with the financial motive in mind.

Forensic Accounting
Forensic Accounting is a new dimension of accounting profession in which investigation of money trails for the purpose of reporting to the law courts will be a main task/duty.
Corporate Governance

Corporate Governance is all about good governance. This means directions/control and management of the entity with good motive by the members of the Director Board.

Generally, Directors owe the following duties/tasks (legal) to their company.

- To act in good faith, in the best interest of the company.
- To act with care and diligence.
- To avoid improper use of information or position.
- To avoid complex between their role as a director and any of their personal interests.

The chief executive officer and the chief financial officer should state in writing to the board that the company’s financial reports present a true and fair view, in all material respects, of the company’s financial condition and operational results and are in accordance with relevant accounting standards.
The board should establish an audit committee and such audit committee should consist of:
1. only non-executive directors
2. a majority of independent directors
3. an independent chairperson, who is not chairperson of the board
4. at least three members

The audit committee should have a formal charter.

An entity should provide the following information: details of those on the audit committee, the number of meetings and attendees of the audit committee, and explanations of any departures from the recommendations as stated above should be included in the corporate governance section of the annual report. It is also recommended that the committee charter and the procedures for selection and appointment of external auditors are made publicly available.
Though the corporate governance basically deals with the rights and obligations of companies’ key management (Directors). It also considers the duties & rights of shareholders and other various stakeholders.

The practice of corporate governance vary from one country to another. Commonly, following structure could be seen in corporate governance.

Note: Every entity must develop the application of corporate social responsibility along with the corporate governance.
A corporation usually has a large number of “stakeholders” who are individuals or groups that have an interest in the entity’s affairs. They include shareholders (the owners), employees, creditors, suppliers, governments and other interested parties (such as unions and environmental groups).

It is the shareholders who vote at the annual general meeting, and the shareholders who choose the directors. In fact, it is commonly accepted that a central part of corporate governance is to ensure the maximization of shareholders’ wealth.
Stakeholder theory holds that the purpose of the entity is to work for the good of all stakeholder groups, not just to maximize shareholders’ wealth. Employees, governments, customers and communities all have an interest in the affairs of the entity.

Corporate Social Responsibility (CSR) refers the responsibility of an entity towards all stakeholders, including society in general and the physical environment within which it operates.
Role of Accountant

Accountants – with their information systems, performance appraisal expertise, and qualities such as integrity, objectivity and independence can help entities discharge their social and environmental obligations through the following types of activities:

- Modifying existing systems to incorporate environmental and social revenues and expenditures.
- Rethinking the use of some accounting techniques (such as investment and performance appraisal) because they ignore the environmental and social elements.
- Having a greater awareness of the future by bringing to account potential contingent liabilities, changing payback periods, and determining the cost of environmental and social initiatives as well as the cost of not undertaking such initiatives.
- Expanding and developing new information systems to incorporate environmental and social information (for example, by including information on incorporation on the whole lifecycle of a product and not just the production cost).
- Including environmental and social information in external reporting. The accountant’s role goes beyond providing financial information to satisfy statutory requirements. It includes the provision of information – relevant, reliable, accurate and timely – on a number of issues for various stakeholders.
- Developing systems that not only capture the environmental and social activities but also evaluate the extent to which the activities meet the objectives.
- Attempting to measure both the cost of environmental and social activities as well as the benefits.