Chapter 9

Corporate governance and accounting ethics
ISBN: 978-9915-9851-3-8
DOI: 10.62486/978-9915-9851-3-8.ch09

Relevant Ethical Codes for Professional ACCOUNTANTS (IFAC Codes of Ethics)

Learning Objectives

At the end of this chapter, students should be able to:

1. Define the IFAC Code of Ethics and explain its importance in professional accounting practice.
2. Identify and describe the five fundamental ethical principles: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.
3. Explain various ethical threats (self-interest, self-review, advocacy, familiarity, intimidation) and corresponding safeguards.
4. Apply ethical judgment and professional skepticism to practical accounting scenarios.
5. Analyze contemporary ethical challenges in digital accounting, sustainability reporting, and global practice.
6. Evaluate case studies involving ethical dilemmas in accounting and corporate governance within Nigeria and internationally.

9.1. Introduction

Professional accountants play a pivotal role in the governance system. Their operations touch upon financial disclosure, corporate responsibility and investor trust. Accountants therefore have close ethical principles that guarantee integrity, objectivity and professionalism.

The worldwide recognised Code of Ethics to Professional Accountants is offered by the International Ethics Standards Board of Accountants (IFAC). This is the most recent updated Code, which has been in line with the international best practices and it is applied as a benchmark to accountants in the international viewpoint, including Nigeria.[1,2]

9.2. Accounting, Concept of Professional Ethics

Professional ethics refer to a code of conduct that regulates conduct in the accountancy career. It guarantees that accountants behave honestly, fairly and diligently in all their professional associations and duties.[3]

Ethics in accounting aims to:

1. Safeguard public interest.
2. Strengthen the financial information.
3. Eliminate misconduct, fraud or misrepresentation.
4. Enhance trust in the corporate governance and capital markets.

9.3. The IFAC Code of Ethics

The IFAC Code of Ethics[1] offers a systematic system of ethical standards to be used by all professional accountants in their practices in the public sector, industry, educational institutions, and government.

9.3.1 Basic Ethical Principles

The IFAC Code has five basic principles which are fundamental to professional behavior:

1. Integrity: This requires honesty, fairness and truth. The accountants should not conceal the facts with intentions to deceive the stakeholders.

Advice: When an accountant notice inflated revenue values, he/she has to report these anomalies despite the pressure exerted by management to conceal the anomaly.

2. Objectivity: Objectivity demands that accountants practice non-bias and non-conflict of interest.
Example: An auditor may not then offer consulting services to a client and at the same time audit their financial statements as this poses self-review risk.

3. Professional Competence and Due Care: Accountants should be competent, possess skills and knowledge and be diligent and abreast with regulatory and technological changes.
Examples: Competent practice can be guaranteed by means of continuous training on the changes in IFRSs, sustainability reporting, and the use of digital auditing tools.

4. Confidentiality: Accountants have access to sensitive information and they must ensure that they do not disclose it to unauthorized individuals.
Case in point: The personal investment decisions based on client financial information are purely unethical.

5. Professional Behavior: This principle entails adherence to laws and regulations and elimination of any action that can bring the profession into disrepute.
Case in point: Bribery, tax evasion, or financial misrepresentation are all actions that are against the standards of professional behavior.

These principles are interrelated and when one is not followed, the others tend to be influenced.

9.4. Risk to Ethical Compliance

According to the IFAC Code, the list of threats that can undermine the compliance with the main principles includes:

1. Self-interests Threats: In situations where the personal or financial interest may affect judgment.
2. Self-review Threats: Involves the accountant reviewing his or her work or recommendations.
3. Threats to Advocacy: A threat that occurs when advocating the position of a client or employer results in lack of objectivity.
4. Familiarity Threats: In cases where the close relationship with a client or the management affects the professional judgment.
5. Intimidation Threats: Threats of this nature refer to the situation where the independence of the accountant is affected by a threat, whether actual or perceived.

The Code offers protection to curb these threats, and they include:

1. Removal from the engagement
2. Review by other professional.
3. Communication of threats to relevant bodies of governance
4. Compliance and Safeguards (Expanded) Threats

The threats that can undermine ethical behavior mentioned by the IFAC Code are:

Table 9.1. IFAC Code are

Threat Type	Description	Mitigation/Safeguard
Self-interest threat	Financial or personal gain could bias judgment	Disclosure, recusal, or rotation of responsibilities
Self-review threat	Reviewing one's own work compromises independence	Independent review, peer review
Advocacy threat	Promoting client/employer interests	Avoid promoting client position that affects audit objectivity
Familiarity threat	Close relationships with clients or colleagues	Introduce rotation or external review
Intimidation threat	Pressure from clients or management	Escalate to audit committee or regulatory body

These safeguards ensure ethical compliance even in complex or high-pressure environments.[1]

9.5. Independence and Auditor Ethics

One of the pillars of audit quality is independence. Under the IFAC Code:

Auditors should be independent in fact as well as appearance. This should disclose or eliminate any financial or personal relationship with the audit client that may compromise independence.

The Code states that key audit partners' rotation is critical to prevent the threats of familiarity. The auditors of public interest entities are required to adhere to the full standards of independence established by IFAC, which enhances the levels of stakeholder confidence regarding financial reporting.

9.6. Ethical Codes application in Corporate Governance

Professional accountants are of key roles in governance, which includes:

1. Financial Reporting: This is where there is proper and fair reporting of financial statements.
2. Internal Control Oversight: Assessing the internal control systems and reporting the inherent weaknesses to the management or audit committees.
3. Fraud Detection and Prevention: Perceiving anomalies by applying professional skepticism.
4. Risk Management: Reporting to the management on financial, operational and compliance risks.
5. Sustainability Reporting: It is important to make sure that ESG disclosures are accurate and transparent.

Compliance with IFAC codes of ethics enhances the belief of accountants as custodians of corporate integrity.[4]

9.7. Applicability of IFAC Ethical Standards in Nigeria

The application of the IFAC Code in Nigeria is enforced by the various agencies:

1. Financial Reporting Council of Nigeria (FRCN): Regulates the accountants and auditors in terms of professional conduct and ethics.
2. Institute of Chartered Accountants of Nigeria (ICAN): Imposes ethical guidelines by use of disciplinary committees.

3. Association of National Accountants of Nigeria (ANAN): This offers control, authority and guidelines to its members.
4. Securities and Exchange Commission (SEC): Imposes ethics of the entities of the public interests and secures transparency to the investors.

Ethical code misconducts may lead to:
1. Cancellation or suspension of professional licenses.
2. Fines or monetary penalties
3. The Nigerian legal liability.
4. Injury to professional standing.

9.8. Ethical Bearing and Professional Skepticism

The code of ethics helps accountants to make challenging professional decisions. Two critical skills are:
1. Professional Skepticism: A questioning attitude and critical evaluation of audit evidence, which is necessary to identify an error or fraud.
2. Professional Judgment: Use of knowledge, experience and ethics to make good judgments.

Example: An auditor would be suspicious and examine all the facts when using odd transactions in and around the financial year-end rather than taking management explanations at face value.

9.9. Digital Accounting and Ethical Problems

New ethical issues become apparent with the emergence of digital accounting, cloud computing, and AI-based auditing:
1. Data Privacy and Security: Financial data will not be exposed to cyber-attacks.
2. Algorithmic Bias: Automated systems may bring in biases; accountants are to maintain fairness and transparency in decision-making by AI systems.
3. Remote Auditing Integrity: Virtual audits need strong compliance to the verification processes to attain independence and reliability.

Technology is implemented in a responsible manner, meeting professional standards because of adherence to IFAC ethical codes.[(5)]

9.10. Real-life Applications of Corporate Governance

Professional accountants apply the ethics of governance by:
1. Financial Reporting Integrity: The integrity of reporting to the management, investors and regulators is to be accurate, timely and transparent.
2. Internal Audit Monitoring: Fraud detection and prevention as well as protection of company property.
3. Board Advisory Role: Board advisory services on ethics, ESG and risk management.
4. Stakeholder Communication: Ethical reporting to stakeholders, such as material risk reporting, conflict reporting or abnormal reporting.

Accountants deal with practical challenges, which include:
1. Management pressures: Giving in to the executive on matters of independence.
2. Weak Enforcement: Regulatory agencies might have insufficient resources to be able to monitor compliance.
3. Cultural and Societal Norms: This may be in contradiction to social or corporate practice in emerging economies.

4. Blistering Technological Shift: AI and blockchain pose novel judgment and moral quandaries.
5. Globalization: It is not an easy task to operate in jurisdictions that have different ethical standards.

Additional Real-life Problems in ethical compliance.

1. Conflict of interest: The directors or accountants can be pressurized by the influential shareholders.
2. Management Override: The top-level management can override management or ethics.
3. Lack of awareness: There are limited awareness among accountants and auditors on the changes in ethical standards.
4. Weak Enforcement: At times the regulatory bodies do not have resources to enforce compliance.
5. Cultural Pressures: Social demands can go against professional ethics. [6]

To cope with these issues, it is necessary to provide regular ethics training, effective regulation, and corporate adherence to ethical culture. In such a way, Effective governance means continuous training, ethical leadership, and regulation help in order to reduce these difficulties.

9.11. Case Study: Accounting Ethics in the Nigerian Accounting practice

One prime example is Oando Plc where accountants had to deal with ethical conflicts concerning the difference in financial reporting.[7] The external auditing and internal whistle blowing which was directed by the IFAC ethical principles was instrumental in the detection of misconduct and the restoration of investor confidence.

The case illustrates how compliance with the IFAC codes would provide transparency, reduce the risk of fraud, and enhance corporate governance.

9.12. Corporate Sustainability and Professional Ethics

Accountants that are ethical play an important role in sustainability reporting:

1. Checking the accuracy and transparency of ESG measurements.
2. Securing corporate compliance with environment and social responsibility.
3. Incorporating corporate ethical risk assessment into corporate strategy.
4. This is in line with financial integrity and long-term sustainability objectives strengthening corporate legitimacy.

The IFAC Code of Ethics offers a global guide to professional accountants and builds on integrity, objectivity, professional competence, confidentiality, and professional behavior. To be ethically compliant is required of:

1. Enhancement of corporate governance.
2. Increasing investor confidence in accounting.
3. Enlarging accountability and transparency.
4. Promoting sustainable business activities.

Ethics within organizations are major custodians of professional accountants. Compliance to these codes, makes the corporate decisions to be made on an honest, just and responsible manner.

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