



**SEMESTER 1, 2024**

# **ETHICS & GOVERNANCE**

# Module 2: Ethics

---

## Key topics

Concept of professional and business ethics

Understanding the philosophical approaches to ethical theories – normative, teleological, deontological and virtue ethics

Compiled APES 110 Code of Ethics for Professional Accountants

How to make ethical decisions using ethical decision-making models

## Table of contents

<b>PART A: Professional Ethics</b>	<b>48</b>
Impact of ethical or unethical decisions	48
Ethics – an overview	49
Ethical challenges within the accounting profession	51
Ethical challenges faced by members in public practice & in business	52
<b>PART B: Ethical theories</b>	<b>57</b>
Normative theories (ethics of character, ethics of conduct)	57-58
Teleological (egoism, utilitarianism)	59-60
Deontological theories (motive, rights, justice)	62-63
Virtue ethics	64
<b>PART C: Compiled APES 110 Code of Ethics for Professional Accountants</b>	<b>67</b>
Public interest – ethics in practice	68
The APESB Code of Ethics (APES 110)	69
Part 1 of the Code – fundamental principles and conceptual framework	69
Parts 2 & 3 of the Code – applying the Code to members in business / public practice	81
Part 4 of the Code – applying the conceptual framework in the context of audit, review and assurance engagements	95
Examples of ethical failures by accountants	103
<b>PART D: Ethical decision making</b>	<b>106</b>
Factors influencing decision-making	107
Individual factors	107
Organisational factors	108
Professional factors	111
Societal factors	111
Ethical decision-making models	113
APES GN 40 Ethical Conflicts in the Workplace	113
Philosophical model of ethical decision-making	114
American Accounting Association	115

## PART A: Professional ethics

**Ethics:** what is 'right' and 'wrong' and how people should act when faced with a particular situation.

**Professional ethics:** the application of ethical principles or frameworks by professionals who have an obligation to act in the interests of those who rely on their services and the public.

**Ethical principles:** include integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. By acting ethically, professionals maintain the credibility of the profession.

	Ethical behaviour	Ethical decisions
Ethics	A code of behaviour considered correct	All individuals must decide: <ul style="list-style-type: none"> <li>• What is wrong?</li> <li>• What is right?</li> <li>• How to act?</li> </ul>
Professional ethics	Behaviour that is: <ul style="list-style-type: none"> <li>• legal, objective, competent, responsible, in the public interest</li> </ul>	Professionals must decide: <ul style="list-style-type: none"> <li>• By applying ethical principles and frameworks</li> <li>• In light of their obligations to those who rely on their service</li> </ul>

Compiled APES110 *Code of Ethics for Professional Accountants*:

Ethical responsibilities include the following:

- Exercise of reasonable skill and diligence
- Adherence to a professional code of ethics and standards
- The cautious application of relevant knowledge and experience
- Professional scepticism to ensure that any observed discrepancies are investigated

### Impact of ethical or unethical decisions

p48

Compiled APES 110 (para. 200.2) outlines the role of members in business as:

*Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of Members in Business*

Decisions have an effect on others and ourselves – can be beneficial or cause significant harm.

In business, impact can be on all stakeholders – shareholders, employees, creditors and suppliers.

Examples of ethical failures / misalignments:

- Incentive payments for advisers: encouraged advisers to sell more products to clients – even if unsuitable – to obtain commissions
- Failure to report in accordance with accounting standards: may mislead users of the statements (stakeholder or investor) and lead to incorrect decisions.

The impact of unethical decisions can be considered in relation to the whole profession and at the individual level as well.

Impact of unethical decisions by accountants:

- Individual level: personal consequences
- Professional level: reduced credibility and increased restrictions on its ability to act autonomously and to self-regulate

### Ethics – an overview

p49

Note that one person's ethics may differ from another's. It is helpful to adopt a framework in order to understand ethical obligations.

There is a difference between acting ethically and legally (see James Hardy – asbestos).

Kidder's philosophy – identifies four types of ethical dilemmas:

1. Truth vs loyalty
2. Individual vs the group
3. Short term vs long-term
4. Justice vs mercy

## Ethical challenges within the accounting profession p51

Accounting work often involves decisions about money and other resources, which means that people will often have strong motivations to act in their own self-interest. This can lead to pressure on the accountant and may make it difficult to act in an objective manner.

### Ethical challenges faced by members in public practice & business (p52)

**Key ethical issues faced** (order based on most frequent occurring according to IFAC survey):

1. Misleading reporting
2. Fraud / tax evasion
3. Lack of transparency in accounting decisions
4. Breach of confidentiality
5. Misrepresentation of expertise / cheating
6. Bribery
7. Favouritism or bias
8. Cover up of accounting errors
9. Misuse of funds
10. Insider trading

### Contemporary ethical challenges (p53)

New ways of doing business bring fresh circumstances in which the application of ethics must be considered.

Artificial intelligence – think about how reliant should we be on AI, how can we be sure AI has complied with relevant laws and regulations. Also think about the impact of AI on auditing into the future.

Sustainability – compliance with standards relating to sustainability is necessary for modern businesses. However, there can be poor disclosures or **'greenwashing'** – where businesses make false claims about their environmental credentials to attract investment.

## PART B: Ethical Theories

Ethical theory is a type of moral philosophy.

Eastern and Western cultures take different views of ethics:

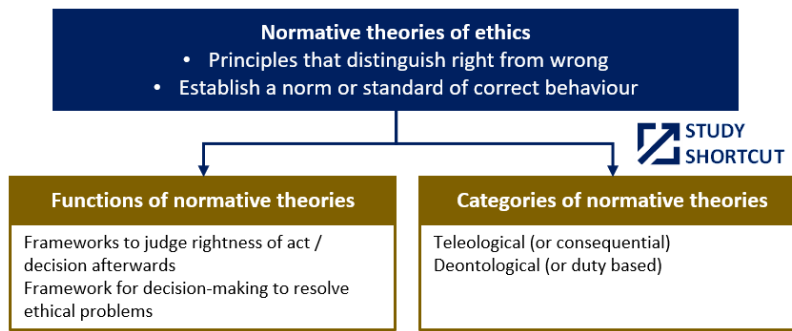
		Western tradition	Eastern tradition
Moral philosophy	Ancient	Plato, Aristotle	Confucianism
	Modern	Kant, Rawls, Jonas	Tagore
World religions		Christianity, Judaism, Islam	Buddhism, Hinduism, Sikhism, Shinto, Daoism and Jainism

## Normative theories

p57

**Normative theories** seek to identify principles that identify right behaviour from wrong behaviour, and therefore to establish standards of correct behaviour that should be followed.

The outcomes of normative theories are frameworks which allow the user to judge, in retrospect, whether an action was right or wrong. They can also be used to derive a framework to help an individual make the right decision to begin with.



**Ethics of character:** virtue ethics – examine the traits of the individual to determine whether they have behaved in a manner that is wrong.

**Ethics of conduct:** can be split into teleological and deontological (see below)

Teleological theories	Deontological theories
<p>Teleological theories centre around the need for individuals and groups to consider the consequences of actions.</p> <p>The ends justify the means.</p>	<p>Deontological theories centre round the need for individuals and groups to consider the intent of actions.</p> <p>Some actions will never be justified despite potentially positive consequences and conversely some actions may be justified despite the potentially negative consequences.</p>
<p>Two major theories in this category take alternative perspectives on the object of the consequences/benefits.</p> <ul style="list-style-type: none"> <li>• <b>Egoism:</b> focuses on taking actions that result in the best consequences for the individual taking the action/making the decision.</li> <li>• <b>Utilitarianism:</b> focuses on taking actions/making decisions that will result in the greatest good for the greatest number of people, including possibly, but not necessarily, the person making the decision.</li> </ul>	<p>Two major theories in this category take alternative perspectives on what constitutes appropriate intentions.</p> <ul style="list-style-type: none"> <li>• <b>Rights:</b> focuses on taking actions that intend to recognise the rights of the parties involved</li> <li>• <b>Justice:</b> focuses on taking actions that intend to be fair and equitable to the parties involved.</li> </ul>

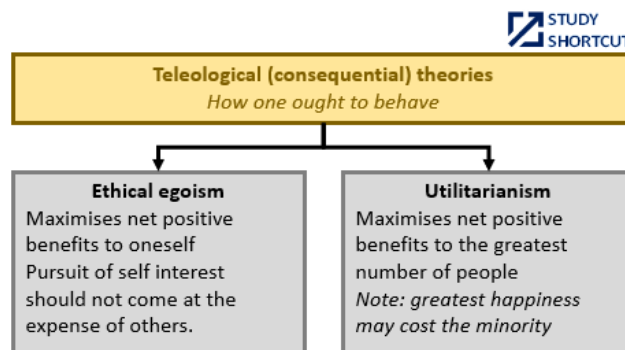
## Teleological (consequential) theories

p59

**Teleological theories** of ethical behaviour take the view that whether an action is 'good' or 'bad' ('right' or 'wrong') depends on the consequences of the action, not the nature of the action itself.

Determine right from wrong based solely on the result or consequences

Both egoism and utilitarianism are based on consequential analysis; the key distinction is the perspective from which the consequences are analysed. Egoism considers the consequences as they apply to advancing one's own interest whereas utilitarianism considers the consequences to all parties involved.



## Egoism (p59)

Evaluate the rightness of a proposed action by choosing a course of action that maximises the net positive benefits to themselves. Can be accused of selfishness but this theory can still consider the well-being of others (it's just not the primary motivation) – this is *enlightened self-interest*.

### Ethical egoism

May be a more ethical form of egotism. It sanctions corporate self-interest and encourages competition to the extent that it leads to the maximum utility and is in the interests of society as a whole. Restricted egoists accept they should not act at the expense of others, or in contravention of laws etc.

## Utilitarianism (p60)

The right decision is one that achieves the greatest benefit for the greatest number of people

Steps:

1. Identify and articulate the ethical problem
2. Identify all available course of action that will resolve the situation
3. Determine the foreseeable costs and benefits (short and long term) associated with each option
4. Compare and weigh the ratio of good and bad outcomes associated with each option
5. Select the option that will produce the greatest benefit for the greatest number of people.

Challenges:

1. Assigning numerical value to consequences. How do non-economic outcomes be measured?
2. Identifying all stakeholders and ability to predict all future outcomes
3. Focuses on results rather than motivation, intention or character of the action itself
4. Often used practice to justify decisions that have a harmful effect on a minority

	Ethical egotism	Utilitarianism
Type of theory	<b>Normative</b> How one ought to behave	<b>Normative</b> How one ought to behave
Guiding principle	Maximises the net positive benefit to oneself	Maximises the net positive benefits to the greatest number of people
Stakeholders	Pursuit of self-interest should not come at the expense of others. Pursuit of happiness is constrained by the law and the conventions of fair play (restricted egotism)	Produces the best overall consequences for everyone concerned ( <i>ascribes value to non-economic consequences</i> ) Greatest happiness rule may come at the cost of a minority.

### Copyright 2023

Copyright in the materials is owned by Study Shortcut unless otherwise indicated, and you agree not to infringe any intellectual property rights owned by Study Shortcut.

All materials are subject to Australian copyright laws. Should you wish to use, reproduce or distribute these materials in a manner outside these laws, prior written consent from Study Shortcut is mandatory.

Please contact [contact@study-shortcut.com](mailto:contact@study-shortcut.com) for further information.