PROFESSIONAL ETHICS AND GOVERNANCE

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FOUNDATION LEVEL

PROFESSIONAL ETHICS AND GOVERNANCE

STUDY NOTES

JULY 2021 SYLLABUS

PAPER NO. 2 PROFESSIONAL ETHICS AND GOVERNANCE

UNIT DESCRIPTION

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her demonstrate adherence to good governance and ethical practices in practice.

LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Identify ethical issues and determine when ethical principles apply
- Analyse alternative courses of action and apply the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality andprofessional behaviour to ethical dilemmas and determine an appropriate approach.
- Adhere to laws, professional standards and policies and the rules of professional conduct when exercising professional judgement
- Practice the tenets and principles of good governance
- Identify violations of the code and standards, and recommend the best measure for correction
- Develop and maintain knowledge of emerging local and global codes of ethics and practices

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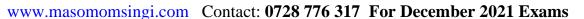
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CHAPTER ONE

OVERVIEW OF PROFESSIONAL ETHICS

Simple Meaning of Ethics-
1. Ethics is just a set of rules, all members of society agree upon. If they all agree to do it, it's good. If not, bad.
2. Set of standards By Society/Group
3. Ethics is defined as *set of standard/rules/regulation/moral principles* that guides human behavior and his actions.
4. The word ethics is derived from Greek word **ethos** meaning customs, traditions, habit etc

Norms, morals and ethics are all related to each other but have distinct definitions and meanings. This exercise will help make sense of these terms.

Norms may be defined as standardized ways of conduct and behavior (e.g., treating everyone fairly) in a society, company, or other organization.
Norms deal with standards of appropriate behavior. There is no value judgment by the individual as there is with morals. Instead society dictates what is acceptable.
Morals involve value judgments and principles about right and wrong in behavior.
They can be decided by individuals or society.
Ethics are based upon rules of what is morally good or bad behavior. Since ethics are rules, they are generally determined by society. The terms are all similar in that they deal with right and wrong in behavior. They are different in that norms deal with societal standards, morals involve value judgments by individuals or society, and ethics are based upon rules (usually dictated by society).Morals are the basis for the definitions of ethics (rules based upon morally good or bad behavior) and norms (appropriate behavior is arguably, generally moral).

The **ethical culture** in an organization can be thought of as a slice of the overall organizational culture. So, if the organizational culture represents "how we do things around here," the ethical culture represents "how we do things around here *in relation to ethics and ethical behavior in the organization*." The ethical culture represents the organization's "ethics personality."

From an ethical systems perspective, creating and sustaining a strong ethical culture is the key to creating an organization that supports people making good ethical decisions and behaving ethically every day. There are so many forces and factors that lead people to take ethical shortcuts. But when all relevant organizational systems are pushing people in the same ethical direction, ethical failure is much less likely.

According to Treviño and Nelson, ethical culture should be thought of in terms of a multi-system framework that includes formal and informal systems that must be aligned to support ethical judgment and action. Leadership is essential to driving the ethical culture from a formal and informal perspective. Formally, leaders provide the resources to implement structures and programs that support ethics. More informally, through their own behavior, leaders are role models whose actions speak louder than their words, conveying "how we do things around here." Other formal systems include selection systems, policies and codes, orientation and training programs, performance management systems, authority structures, and formal decision processes. On the informal side are the organization's role models and heroes, the norms of daily behavior, organizational rituals that support or do not support ethical conduct, the stories people tell about the organization and their implications for conduct, and the language people use (i.e., is it okay to talk about ethics? Or is ethical fading the norm?).

Four fundamental ethical principles

- **The Principle of Respect for autonomy**

  Autonomy is Latin for "self-rule" We have an obligation to respect the autonomy of other persons, which is to respect the decisions made by other people concerning their own lives. This is also called the principle of human dignity. It gives us a negative duty not to interfere with the decisions of competent adults, and a positive duty to empower others for whom we're responsible.

  Corollary principles: honesty in our dealings with others & obligation to keep promises.

- **The Principle of Beneficence**

  We have an obligation to bring about good in all our actions.

  Corollary principle? We must take positive steps to prevent harm. However, adopting this corollary principle frequently places us in direct conflict with respecting the autonomy of other persons.

- **The Principle of nonmaleficence**

  (It is not "non-malfeasance," which is a technical legal term, & it is not "nonmalevolence," which means that one did not intend to harm.)

  We have an obligation not to harm others: "First, do no harm."

  Corollary principle: Where harm cannot be avoided, we are obligated to minimize the harm we do.

  Corollary principle: Don't increase the risk of harm to others.

  Corollary principle: It is wrong to waste resources that could be used for good.

  Combining beneficence and nonaleficence: Each action must produce more good than harm.

- ### The Principle of justice
    We have an obligation to provide others with whatever they are owed or deserve.
    In public life, we have an obligation to treat all people equally, fairly, and impartially.
    Corollary principle: Impose no unfair burdens.
    Combining beneficence and justice: We are obligated to work for the benefit of those who are unfairly treated.

WAYS TO PROMOTE ETHICAL CONDUCT

It is important for staffers to focus on accomplishing key company goals and developing good working relationships in the office, but it is equally important to ensure ethical conduct among employees. Ethical conduct ensures that your business maintains a reputation for sound professional principles and values that are directly in line with the company mission. There are a few different ways that you can promote ethical conduct among your staff.

Train Employees so They Know Your Code of Conduct

You can't expect your staff to act ethically in accordance with your company's code of ethics if they don't know what that code is or why it's important. Hold regular workshops on ethics and how to solve problems ethically. Use examples and role playing to give everyone a chance to choose between tough decisions and explain why one is more ethical than another. The more training and resources you provide, and the greater emphasis you place on being ethical and acting accordingly, the more your staff understands exactly what you expect in the office.

Reward Ethical Behavior

Far too often, companies simply expect ethical behavior; however, if you want to promote this as a prominent behavior among staff, then you need to show and prove, so to speak. Provide rewards for solid ethical behavior; for example, if you have an employee that goes above and beyond to put her personal interests aside to always do what is best for her clients, that is considered ethical behavior and she should be rewarded and held up as an example for others to strive to do the same. The more you reward employees for sound ethical decisions, the more likely the masses will follow suit.

Similarly, don't reward unethical behavior, writes Thomas G. Plante, Ph.D., AABPP, in Psychology Today (July 1, 2015). When staff sees management recognizing and rewarding ethical actions, whether they increased profits in the process or customer relationships, and ignoring or playing down accomplishments gained unethically, they'll get the message that ethical behavior is important to the company.

Lead by Example

Expect more of your management team; employees generally follow company examples set forth for them by management employees. Hold your managers to a higher ethical standard so that they are credible when they communicate expectations to their staffers to do the same. Challenge management staff to hold regular discussions with employees to work through potential ethical issues that may come up and find ways to brainstorm through them as a team. If everyone is on the same page, it is more likely that the team as a whole will adopt the same types of ethical behaviors.

Consider How Employees are Treated

Think honestly about the current operating methods in your company. If management is talking about the importance of ethics at work but doesn't treat its own employees fairly, you're just giving ethics lip service. A trusting relationship between management and employees helps to encourage ethical behavior all around. Consider how the company makes decisions to hire, train, promote and pay employees. If these important actions aren't done objectively and fairly, take steps to correct the situation.

Consider, too, if what you're asking of employees is reasonable. If their goals or quotas are set too high for the time they're given to accomplish them, they may feel they have to take drastic measures to meet them, which may cross into unethical territory. Expecting employees to work unreasonable hours to meet their goals, tipping their work-life balance so much that they have little free time to enjoy family and friends, can be viewed as unethical, too. Show them the company wants to do the right thing by them, and by your customers, and they'll begin to understand that the company is setting an ethical standard for them to follow.

PROFESSIONAL JUDGMENT

Professional judgment is defined as the application of the accumulated knowledge and experience gained through a relevant accounting or auditing training, by making use of the ethical standards, resulting in making informed decisions about the courses of action that are appropriate in specific circumstances, such as an audit mission and/or the accounting of economic transactions, by observing accounting principles.
Professional judgment is a skill that a professional acquires overtime and only after acquiring such skill he can apply professional judgment. Auditor acquires this skill by obtaining relevant:

- Training
- Skill; and
- Experience

That is why application of professional judgment also means application of the training, skill and experience. And only such Person is expected to have acquired professional judgment whose training, knowledge and experience has enabled him to gain such competency level that allows him to achieve reasonable judgments in a given circumstances.

There are several factors that frame and inform professional judgment for client-centered dietetic practice:

Four Professional Judgment Building Blocks
1. Knowledge
2. Professional Obligations
3. Client Input
4. Experience including practical wisdom and reflective practice

Exercising professional judgment means being accountable for good or adverse client outcomes. Be prepared to provide evidence-based rationale to support professional decision-making in your workplace.

Professional judgment means being diligent in maintaining appropriate professional boundaries: be adept at avoiding conflicts of interest and boundary crossings. Always make decisions that put the client first.

"related party transaction" means a business deal or arrangement between two or more parties who are joined by a special relationship prior to the deal and includes, a business transaction between a major shareholder, or any company in which he holds shareholding, and the company;

CODE OF ETHICS

A code of ethics is a guide of principles designed to help professionals conduct business honestly and with integrity. A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values, and the standards to which the professional is held.

A code of ethics also referred to as an "ethical code," may encompass areas such as business ethics, a code of professional practice and an employee code of conduct.

Fundamental principles

Code of ethics is made up of five fundamental principles:

- **Integrity.** Being straightforward, honest and truthful in all professional and business relationships. You should not be associated with any information that you believe contains a materially false or misleading statement, or which is misleading by omission.

- **Objectivity.** Not allowing bias, conflict of interest or the influence of other people to override your professional judgement.

- **Professional competence and due care.** An ongoing commitment to your level of professional knowledge and skill. Base this on current developments in practice, legislation and techniques. Those working under your authority must also have the appropriate training and supervision.

- **Confidentiality.** You should not disclose professional information unless you have specific permission or a legal or professional duty to do so.

- **Professional behaviour.** To comply with relevant laws and regulations. You must also avoid any action that could negatively affect the reputation of the profession.

The code explains these principles, and gives examples of their use for professional accountants in practice (Part B) and professional accountants in business (Part C). The code establishes a conceptual framework that requires a professional accountant to identify, evaluate, and address threats to compliance with the fundamental principles.
Threats

The code identifies five categories of common threat to the five principles:

- **Self interest threat.** Commonly called a 'conflict of interest' which may inappropriately influence judgement or behaviour.

- **Self review threat**. When you are required to evaluate the results of a previous judgement or service.

- **Advocacy threat.** Arising if promoting a position or opinion to the point that your subsequent objectivity is compromised.

- **Familiarity threat.** When you become so sympathetic to the interests of others as a result of a close relationship that your professional judgement becomes compromised.

- **Intimidation threat.** When you are deterred from acting objectively by actual or perceived pressure or influence.

STANDARDS OF CONDUCT AND PERSONAL INTEGRITY

Standards of conduct are expected behavior developed as guiding principles to direct and assist in making business decisions. They expand on the code of ethics by providing statements on specific behavior in support of the elements of the code.

Personal integrity is the consistency in actions, values methods, principles, expectations and outcomes. It is the quality of having sense of honesty and truthfulness with regard to motivations for ones actions.

ETHICAL DILEMMA

An ethical dilemma is a moral situation in which a choice has to be made between two equally undesirable alternatives. Dilemmas may arise out of various sources of behaviour or attitude, as for instance, it may arise out of failure of personal character, conflict of personal values and organizational goals, organizational goals versus social values, etc. A business dilemma exists when an organizational decision maker faces a choice between two or more options that will have various impacts on

   i.   The organization's profitability and competitiveness; and

  ii.   Its stakeholders. 'In situations of this kind, one must act out of prudence to take a better decision.

As we can see, many of these ethical choices involve conflicts

Resolving an Ethical Dilemma

In a business setting mangers are put to test when they face the challenge of resolving an ethical dilemma. Often certain situations do not fall in the ambit of procedures or the official code of conduct and this is when the managers feel the heat.

The problem with ethical decision making is that a decision in itself cannot be taken in a vacuum; one single decision affects lots of other decisions and the key is to strike a balance to ensure a win-win situation is arrived upon.

Though there are no golden rules to resolve ethical issues but managers can take a number of initiatives to resolve ethical issues. A brief description is given below.

- **Know the Principles**

    In ethical decision making there are three basic principles that can be used for resolution of problem. These three principles are that of intuitionism, moral idealism and utilitarianism.

    The principle of intuition works on the assumption that the HR person or the manager is competent enough to understand the seriousness of the situation and act accordingly, such that the final decision does not bring any harm to any person involved directly or indirectly.

    The principle of moral idealism on the other hand states that there is a clear distinction between good and bad, between what is acceptable and what is not and that the same is true for all situations. It therefore asks to abide by the rule of law without any exception.

Utilitarianism concerns itself with the results or the implications. There is no clear distinction between what is good and what is bad; the focus is on the situation and the outcome. What may be acceptable in a certain situation can be unacceptable at some other place. It underlines that if the net result of the decision is an increase in the happiness of the organization, the decision is the right one.

- **Debate Moral Choices**

  Before taking a decision, moral decisions need to be thought upon and not just accepted blindly. It is a good idea to make hypothetical situations, develop case studies and then engage others in brainstorming upon the same. This throws some light into the unknown aspects and widens the horizon of understanding and rational decision making.

- **Balance Sheet Approach**

  In balance sheet approach, the manager writes down the pros and cons of the decision. This helps arrive at a clear picture of things and by organizing things in a better way.

- **Engage People Up and Down the Hierarchy**

  One good practice is to announce ones stand on various ethical issues loudly such that a clear message to every member of the organization and to those who are at the greater risk of falling prey to unethical practices. This will prevent the employees from resorting to unethical means.

- **Integrating Ethical Decision Making into Strategic Management**

  Morality and ethical make up for a perennial debate and ethical perfection is almost impossible. A better way to deal with this is to integrate ethical decision making into strategic management of the organization. The way the HR manager gains an alternate perspective rather than the traditional employee oriented or stakeholder oriented view.

All these steps can bring better clarity into resolving ethical dilemmas. The choice lies with the manager and his own and the organization value clarity.

ETHICS COMMITTEE
This is a committee responsible for overseeing the effectiveness of the business ethics policy. It ensures that the ethical temperature of the organisation is monitored. This is part of good governance being conducted by the board of directors.