

THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS IS THE BASIS FOR THE QUALITY OF AUDIT SERVICES

Liudmila LAPITKAIA

*ASEM, str. Banulescu-Bodoni 61, MD-2005,
Chișinău, R. Moldova, tel. 022 402757, liudmila@ase.md*

Abstract: *The provision of high-quality services by audit firms is the basis for investors' decision-making on the acquisition of securities. Auditors and audit firms are required to comply with the Code of ethics for professional accountants. This article discusses issues related to the requirements set by the Code of Ethics and the procedure for their implementation.*

Key-words: *Code of Ethics, integrity, quality of audit services.*

Jel: *M42*

INTRODUCTION

In June 2019 the International Ethics Standards Board for Accountants has launched the "Electronic Code" of Professional Ethics ("eCode"), an online tool that provides professional accountants and auditors with access to standards of ethics in a digital version. "Traditional", characteristic for a variety of electronic applications, functionality is interspersed with specific features - for example, a clear demonstration of the constituent blocks of the entire architecture of the Code of Ethics.

For IESBA, this is a very significant investment, designed to modernize, by modern standards, the access of world accountants to one of the main sets of guidelines.

MATERIAL AND METHOD

The International Ethics Standards Board for Accountants establishes International Independence Standards set for the application of the conceptual framework to threats to independence in relation to the audits, reviews and other assurance engagements.

A very important point is the fact that the IESBA has developed the Guide to the Code of ethics for professional accountants which consists of glossary and 4 parts:

- *Part 1 "Complying with the Code, Fundamental Principles and Conceptual Framework"*,
- *Part 2 "Professional Accountants in Business"*,
- *Part 3 "Professional Accountants in Public Practice"*,
- *Part 4A "Independence for Audit and Review Engagements"*,
- *Part 4B "Independence for Assurance Engagements Other than Audit and Review Engagements"*.

Part 1 includes the fundamental principles and the conceptual framework and is applicable to all professional accountants.

Part 2 applies to professional accountants in business when performing professional activities. This category includes professional accountants employed, engaged or contracted in an executive capacity in: commerce, industry or service, the public sector, the not-for-profit sector, education, regulatory or professional bodies.

Part 2 "Professional Accountants in Business", may also apply the individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.

In Part 3 "Professional Accountants in Public Practice", are predetermined additional materials that applies to professional accountants in public practice when providing professional services.

The following parts are provided directly to the auditors:

- ✓ Part 4A "Independence for Audit and Review Engagements",
- ✓ Part 4B "Independence for Assurance Engagements Other than Audit and Review Engagements".

Herewith Part 4A applies when performing audit or review engagements but Part 4B –when performing assurance engagements that are not audit or review engagements.

Definitions of terms (together with additional explanations where appropriate) and described terms which have a specific meaning are presented in Glossary. For example, as noted in the Glossary, in Part 4A, the term "audit engagement" applies equally to both audit and review engagements. The Glossary also includes lists of abbreviations that are used in the Code and other standards to which the Code refers.

The structure of the various sections of the code is the following: introduction, requirements, application material. In the introduction as in one of the components are presented the subject and introduces the requirements and application material in the context of the conceptual framework. Introduction contains information, including an explanation of terms used, which is important to the understanding and application of each Part of Code and its sections.

General and specific obligations with respect to the subject matter are disclosed in Requirements.

Application material is intended for clarification context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

RESULTS AND DISCUSSIONS

The International Code of Ethics for Professional Accountants requires auditors to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Conceptual framework prescribes necessity of professional auditor's judgment, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test. Profession, legislation, regulation established the conditions, policies and procedures which might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the professional accountant's evaluation of whether a threat is at an acceptable level. There are times when threats are not at an acceptable level, in this case Code requires the accountant to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the accountant takes that effectively reduce threats to an acceptable level.

Part 1 "Complying with the Code, Fundamental Principles and Conceptual Framework" contains such sections as:

- ✓ Section 100 Complying with the code,
- ✓ Section 110 The fundamental principles,
 - 111 Integrity,
 - 112 Objectivity,
 - 113 Professional Competence and Due Care,
 - 114 Confidentiality,
 - 115 Professional Behavior,
- ✓ Section 120 The conceptual framework.

It is very important that the auditors comply with the provisions of section 110 "The fundamental principles".

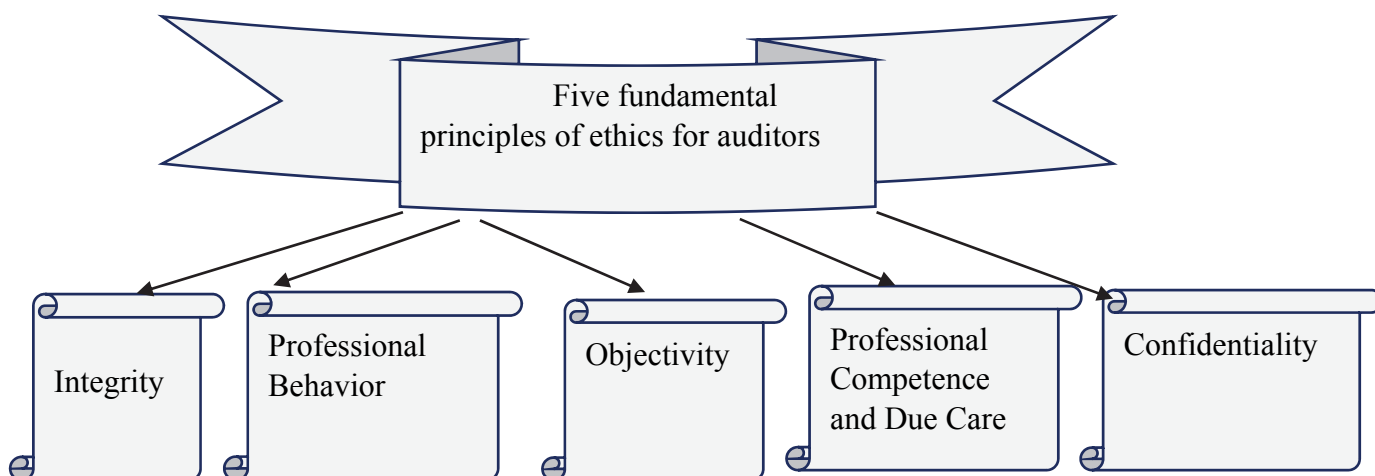


Figure 1. Five fundamental principles of ethics for auditors

Source: developed by the author on the materials of the International Code of Ethics for professional accountants.

A auditor must comply with all principles established by the Code of Ethics. The conceptual framework establishes the approach which an auditor is required to apply to assist in complying with them. A auditor may face a situation in which complying with one fundamental principle conflicts with one or more other fundamental principles. in such situation it is necessary to have someone's objective opinion for example: a professional body, regulatory body or l legal counsel. However, such an opinion does not release the auditor from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict. The auditor must document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

Integrity prescribes that the auditor should be straightforward and honest in all professional and business relationships. An auditor don't have to sign reports, communications or other information where he believes that the information: contains a materially false or misleading statement or statements or information provided recklessly and omits or obscures required information where such omission or obscurity would be misleading. The auditor may modify his report to fulfill such principle as integrity.

Objectivity means not to distort professional or business judgments because of bias, conflict of interest or illegitimate influence of others. An auditor shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Such fundamental principle as Professional Competence and Due Care obliges the auditor to:

- ✓ maintain professional level to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation;
- ✓ conduct an audit in accordance with applicable technical and professional standards.

Providing services to individuals and legal entities an auditor must do it with professional competence which requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

Maintaining professional competence impossible without a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a auditor to develop and maintain the capabilities to perform competently within the professional environment. Auditor must act responsible in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. In complying with the principle of professional competence and due care, an auditor must take reasonable steps to ensure that those working in a professional capacity under the auditor's authority have appropriate training and supervision.

The auditor must respect the confidentiality of information acquired as a result of professional and business relationships. Fulfilling the principle of confidentiality, the auditor should:

- ✓ not make a inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- ✓ maintain confidentiality of information within the audit firm;
- ✓ maintain confidentiality of information disclosed by the client;
- ✓ not disclose confidential information obtained during professional and business relationships outside the audit firm or without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- ✓ not utilize confidential information obtained as a result of professional and business relationships for the personal advantage or for the advantage of a third party;
- ✓ not utilize any confidential information, received as a result of a professional or business relationship, after that relationship has ended

It should be noted that confidentiality facilitates the free flow of information from the audit firm to client and back in the knowledge that the information will not be disclosed to a third party.

However, there are situations when the auditor is obliged to disclose confidential information, for example, when disclosure is:

- *required by law,*
- *permitted by law and is authorized by the client or the audit firm;*
- *a professional duty or right, when not prohibited by law.*

When disclosure is required by law, for example: when the auditor submits documents or other provision of evidence in the course of legal proceedings or disclosure to the appropriate public authorities of infringements of the law that come to light.

The auditor is obliged to disclose confidential information in cases not prohibited by law:

- when checking the quality of the audit by the supervisory authority,
- as a respond to investigation by a professional or regulatory body,
- in legal proceedings to protect the professional interests of an auditors,
- during compliance with technical and professional standards.

Each case of disclosure of confidential information should be considered separately. When deciding on the disclosure of confidential information, the following factors should be considered, depending on the circumstances:

- unsubstantiated facts,
- completeness of the information obtained,
- unreasonable conclusions,
- the proposed type of communication and to whom it is addressed,

- if the parties to whom the information is addressed are appropriate recipients.

A professional accountant shall continue to comply with the principle of confidentiality even

After the end of the relationship between the auditor and a client or audit firm, the auditor is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

The auditor must adhere to professional conduct, must comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

CONCLUSIONS

The principle of professional behavior prescribes to the auditor to comply with relevant laws and regulations and avoid any conduct that the auditor knows or should know might discredit the profession. An auditor shall not knowingly engage in any business, occupation or activity that impairs the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

Under the behavior that may discredit the profession is understood that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

When it comes to promoting their activities, the auditor shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- *Excessive requirements for the services offered by an auditor, or his qualifications or experience; or*
- *Negligible references or unreasonable comparisons with the work of others.*

If a professional accountant doubts the appropriateness of a particular form of advertising or marketing, he must consult with the appropriate professional body.

REFERENCES

1. International Code of Ethics for Professional Accountants <https://www.iesbaecode.org/guide-to-the-code.html>
2. Guide to the International Code of Ethics for Professional Accountants
<https://www.ifac.org/publications-resources/2018-handbook-international-code-ethics-professional-accountants>