

# LEARNING UNIT 1 THE CODE OF PROFESSIONAL CONDUCT, BY-LAWS AND RULES REGARDING IMPROPER CONDUCT

**Duration:** 93 minutes



## LEARNING OUTCOME AND ASSESSMENT CRITERIA

The content of this sub learning unit is based on the following learning outcome and assessment criteria:

Learning outcome	Assessment criteria
<ul style="list-style-type: none"> <li>Exercise ethical judgement and integrate ethical principles in any practical situation based on the principles contained in the South African Institute of Chartered Accountants (SAICA) Code of Professional Conduct (CPC) and By-laws, as well as the Independent Regulatory Board for Auditors (IRBA) CPC, Disciplinary Rules and the Rules Regarding Improper Conduct.</li> </ul>	<ul style="list-style-type: none"> <li>Assess an entity's ethical environment and evaluate compliance with all the related ethical principles for that specific scenario.</li> <li>Evaluate the auditor's ethical position by identifying possible threats to any of the fundamental principles, and if there are any safeguards that can be implemented to address the threats.</li> <li>Assess all types of ethics (personal ethics, business ethics, and professional ethics) in any practical scenario together with the compliance thereof within the context of all the related ethical principles.</li> </ul>

## ASSUMED PRIOR LEARNING



If you wish to refresh your knowledge, you may refer to your undergraduate material, prescribed textbook and the SAICA Handbooks as per the table below. For your convenience, we provide textbook references, **but it is your responsibility to revise and work through (if needed) the content of this learning unit as it will not be repeated in this learning unit.**

Learning outcomes assumed to have been attained during prior learning	Auditing Notes for South African Students (Auditing Notes) (12th edition)	SAICA Handbook 2023/24
<p>Application of the conceptual framework to identify, evaluate and address threats to be in compliance with the fundamental principles.</p> <p>Exercising professional judgement when applying the conceptual framework in any scenario.</p>	Chapter 2, section 2.1 to 2.5	<p>SAICA student handbook 2023/2024, SAICA and IRBA Pronouncements, volume 2B,</p> <ul style="list-style-type: none"> <li>•section 1: ET</li> <li>•section 2: IRBA Rules Regarding Improper Conduct (BN105/2019 and IRBA Rules)</li> <li>•section 6: By-laws – only available on SAICA’s website: <a href="http://www.saica.co.za">www.saica.co.za</a></li> </ul>



The table above provided you with the learning outcomes for this learning unit as well as references to your undergraduate material should you need to refer to it.

However, the table below provides a breakdown relating to the of the content mentioned above relating to the SAICA Student Handbook 2023/2024. The table below provides the sub-content for the references mentioned above which will assist you when working through questions. You should then flag and underline all the important sections and/or information in the SAICA Student Handbook 2023/2024, so that you can easily refer to the related sections and pages. The SAICA Student Handbooks 2023/2024 are also the only book that you can take into the exam venue, so it will just be to your benefit to use these books during your studies and when working through the questions. This can also assist you when formulating your answers for all your formative(tests)- and summative assessments (examinations) in future.

SAICA Student Handbook, 2023/2024	Sections/pages
<b>Volume 2B-Section 1 (ET)</b>	
Part 1: Complying with the code, fundamental principles and conceptual framework (All professional Accountants)	100 to 199
Part 2: Professional Accountants in Business	200 to 299
Part 3: Professional Accountants in Public Practice	300 to 399
Part 4: Internal Independence Standards <ul style="list-style-type: none"> <li>• Part 4A - In dependence from audit and review engagements</li> <li>• Part 4B – Independence for assurance engagements other than audit and review engagements</li> </ul>	400 to 899 900 to 990
By-laws _ Appendix 4: ‘Disciplinary Code of procedures’, paragraphs 4 and 5	APP 4 pg. 1 to 4
<b>Volume 2B-Section _ Section 2</b>	
IRBA Rules regarding Improper conduct	BN 105/2019 IRBA RULES

SAICA Student Handbook, 2023/2024	Sections/pages
Volume 2B-Section _Section 6	
By-laws – only available on SAICA's website: <a href="http://www.saica.co.za">www.saica.co.za</a>	



## 1.1 INTRODUCTION

The CPC is important since it addresses the professional conduct required by professional accountants to be in compliance with the fundamental principles. The content of South African Institute of Chartered Accountants (SAICA) Code of Professional Conduct (CPC) and By-laws, as well as the Independent Regulatory Board for Auditors (IRBA) CPC, Disciplinary Rules and the Rules Regarding Improper Conduct covers the fundamental principles and will assist you to identify any ethical issues within a scenario.

Ethics can be divided into three basic categories: personal ethics, business ethics, and professional ethics. To guarantee the moral and ethical behaviour in the business context and to safeguard public interest, there needs to be reliance on personal and professional values and their ability to act with honesty, integrity, accountability and trustworthiness.

### Personal ethics

Personal ethics refer to one's individual values i.e., their belief of what is right and wrong. A person's core values will inform their decision-making process.

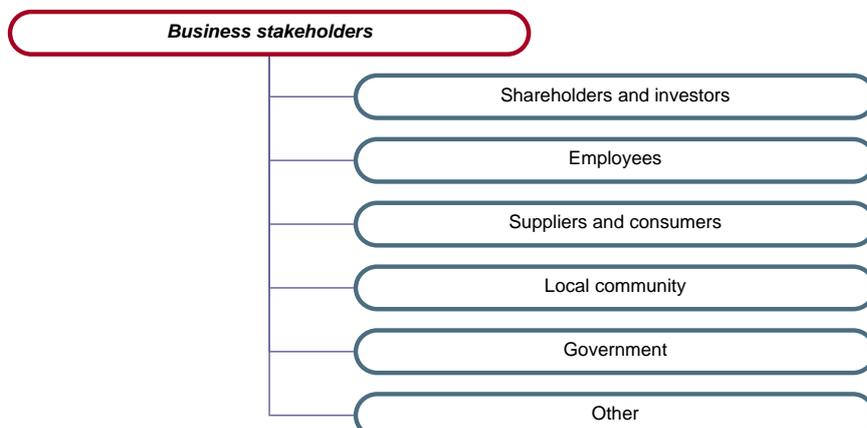
***What do you think one's personal ethics are determined by?***



### Business ethics

Business ethics refers to policies or practices that guides all decisions of the organisation with internal and external stakeholders. Business ethics when applied correctly assists the organisation to meet operational goals but can also assist safeguard the reputation of the organisation.

Below is a diagram that lists different stakeholders for a business/organisation:



***Why do you think it is important for organisations to identify their stakeholders?***



### **The apples and the barrels**

The apples and the barrels theory look at the ability of the employees to influence the employer and the ability of the employer to influence the employee.

It can be argued that a good organisational ethical culture or “barrel” should be able to keep the bad apples out and should a few apples get in, the organisation should be able to root out the “bad apple”.

It can further be argued that a company that has weak organisational ethical culture would not be able to keep the bad apples out and any bad apples in the barrel would corrupt the barrel.



#### **ADDITIONAL RESOURCES**

Let us have a look an online article that looks at the misbehaviour in the workplace.

There are two competing explanations for misbehaviour in the workplace: bad apples or bad barrels. The "bad apples" theory ties misbehaviour to the individuals who engage in harassment, bullying, or dishonesty and looks for character flaws or distorted attitudes and beliefs as explanations for this behaviour.

The "bad barrels" theory looks to the organisation to explain misbehaviour in the workplace. Many Silicon Valley start-ups are

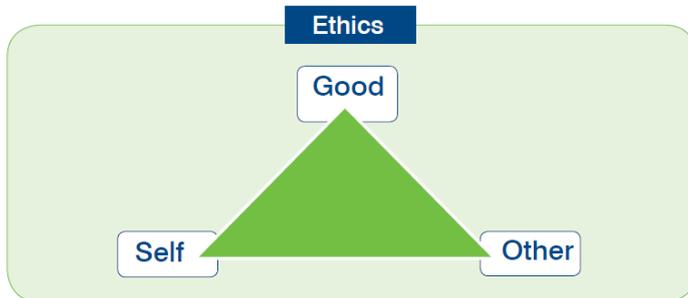
#### **Link to the article:**

<https://www.rte.ie/brainstorm/2017/1103/917118-misbehaviour-in-the-workplace-bad-apples-or-bad-barrels/#:~:text=The%20%22bad%20apples%22%20theory%20ties,explain%20misbehaviour%20in%20the%20workplace>

### **Good for self, good for others**

There is a well-known golden rule that subscribes that one should do to others as they would like them to do unto them. The ‘good for self, good for others’ theory can be explained as that

one should not only do what is good for themselves but should always consider what is good for others.



Core concepts in the definition of ethics  
(Rossouw & Van Vuuren, 2017:5)



### EXAMPLE

You are the Chief Executive Officer of the Social African Social Security Agency (SASSA) and you have been approached by one of the leaders in parliament to consider reducing the COVID relief grant from R350 to R200 per month. The saving in pay-outs will be used to give all management level employees of government a small increase. This reason will however not be disclosed to the public.

You are a registered CA(SA).

#### Required

Using only the information provided above the example, discuss your considerations with regards to the reduction of the grant.

### SELF DEVELOPMENT

Research the following ethical theories:

- Virtue ethics
- Utilitarian ethics
- Stakeholder theory

A thorough understanding of the theories is needed for assessments. Let's use the discussion forum to discuss what you have found out about the above ethical theories.



### Ethical dilemmas

Ethical dilemmas, which are also referred to as moral dilemmas, are challenges in the decision-making process between two or more conflicting options which are not entirely acceptable from an ethical perspective.

Examples of ethical dilemmas:

1. Garry finds a R100 note on the cafeteria floor during lunch at work.  
Should he:
  - a. Take the R100

	<p>b. Ask if it belongs to anyone</p> <p>c. Give the R100 note to one of the cleaners at work</p> <p>d. Give the money to the cash till workers</p> <p>2. You witness a bank robbery and follow the perpetrator down an alleyway. He stops at an orphanage and gives them all the money. (Taken from Global Citizen- Critical Thinking Workbook)</p> <p>Would you:</p> <p>a. Report the man to the police</p> <p>b. Mind your business and drink your water</p> <p>3. One of Thabani's friends recently lost their father and mother and could not study for the upcoming test 1. This is the last test before exam entrance is calculated. The friend asked Thabani to share the answers with him, what should Thabani do?</p> <p>Should he:</p> <p>c. Send the friend the answers</p> <p>d. Reject the idea of sending the answers</p> <p>e. Report the friend to the lecturers</p> <p>Use the discussion forum to discuss the above dilemmas. Use the ethical theories covered above to motivate your point.</p>
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### Practice example:

Practice example_1.1	Estimated time			Total
	Reading	Writing	Marking and review	
10 marks	3 minutes	15 minutes	8 minutes	26 minutes

Tshepo Tenza is a young entrepreneur who started his own jeans manufacturing and retail business, Rainbow Threads, in 2017. He began operations from his house and steadily grew the business over time as the popularity of his jeans increased. The jeans are unique because they have vibrant prints along the hems and on the pockets. These prints are inspired by the colourful patterns seen in Ndebele artworks. Tshepo has kept his costs as low as possible, with the result that his unique style of clothing remains affordable. Rainbow Threads aims to keep on growing the number of customers who are loyal to the brand.

In early 2018, Tshepo managed to secure equity funding from Flash Venture Capitalists ('FVC') through its early-stage investment programme, which enabled him to expand Rainbow Threads faster. To obtain the funding, he had to incorporate Rainbow Threads as a private company, Rainbow Threads (Pty) Ltd ('RainbowT') in which he holds 80% of the shares, with FVC owning the balance. As part of the shareholders' agreement, FVC also required that RainbowT adopt full International Financial Reporting Standards (IFRS) and provide audited annual financial statements. The audit for the financial year ended 30 June 2021 (FY2021) is currently in progress. Tshepo used part of the funds obtained from FVC to enter into a lease agreement for premises in the Mall of Africa, located in Gauteng, effective from 1 July 2018.

Tshepo is worried about the current financial position of the business. Because he only has basic accounting knowledge, he approached his life-long friend, Lebogang Tshabala CA(SA), for advice. Lebogang is the managing partner at a consultancy firm, TT Consultants. Tshepo asked Lebogang if TT Consultants could help him to ensure that his accounting records and financial statements continue to meet the requirements of IFRS.

Lebogang discussed the proposed engagement with her partners at TT Consultants, and they agreed to provide these services to RainbowT. However, before Lebogang could share the news with Tshepo, another partner at the firm informed Lebogang that he had reached out to some of his friends and obtained possible funding to assist Tshepo. He proposed the following:

- TT Consultants should accept RainbowT as a consulting client, and RainbowT will pay an agreed-upon rate per hour for accounting services provided.
- TT Consultants would then refer RainbowT to MSM Bank ('MSM'), a privately-owned financial institution. MSM provides competitive rates on revolving credit facilities and transactional products and has agreed to purchase some of the trade receivables of RainbowT in a factoring agreement and to provide additional funding.
- TT Consultants will receive a substantial fee for referring RainbowT to MSM as well as 5% commission on all future revenue generated by MSM on the RainbowT contract.

Lebogang is concerned about the proposal, as she is aware that the chief executive officer of MSM has been implicated in corrupt practices. In fact, he is due to testify before a commission of enquiry regarding these allegations. MSM has been accused of bribing regulators, cabinet ministers and other government officials.

*SAICA ITC January 2022 Adjusted*

REQUIRED	Marks
Discuss, with reference to ethical considerations, whether or not Lebogang should advise RainbowT to accept assistance from MSM.	10
Do not discuss any aspect of the SAICA and IRBA codes of professional conduct.	

### **SUGGESTED SOLUTION**

Since the commission amount is based on the revenue earned, which is based on the amount of financing that is granted, TT Consultants may be incentivised to advise RainbowT to request and/ or accept more financing than is actually necessary.	1
Since the CEO of MSM Bank has been implicated in corrupt practices, it is possible that the financing that they are able to provide are the proceeds from illegal transactions. Such illegal transactions may involve taxpayers' money, including the current corruption issues plaguing the country, which may cause great reputational harm as it relates to the public interest.	1
Lebogang should consider the potential reputational damage which may arise from being associated with the CEO of MSM may bring	1
in addition to the above conflict of interest, Lebogang is also a life-long friend of Tshepo and needs to decide between the best interests of her firm and that of a client (and also a friend).	1
As a managing partner / Director, Lebogang has a responsibility to the firm in terms of S 76 of the companies act (act honestly, in good faith and in a manner they reasonably believe to be in the best interests of, and for the benefit of, their companies), to ensure that the firm's interests and reputation are protected and that clients will not endanger the firm.	1
In order for Lebogang to meet her fiduciary duty to the firm, she has to discuss the offer from MSM Bank with RainbowT, but she can bring to the company's attention the potential consequences of entering into the transaction.	1
In addition Lebogang should also ensure that the advice that she gives to her new client, RainbowT is sound and steers them in the correct direction from both an ethical and business perspective.	1
The consequence would be that RainbowT can also be negatively affected by the affiliation with MSM Bank.	1

	<b>Marks</b>
Furthermore, RainbowT runs the risk that FVC might withdraw support or funding from RainbowT given an affiliation with MSM Bank.	1
As this is a small company, the application of King is recommended but not prescribed. King principles should be applied by the company as suggested including the ethical requirements, effective leadership etc.	1
Lebogang should apply one of the ethical theories such as good for self and good for others. In making this decision, the following approaches / ethical theories may be relevant in deciding what is “good”:	1
Lebogang will need to evaluate her goals and principles (virtue theory) and determine whether advising RainbowT to potentially implicate itself in a potentially adverse scenario is aligned with her virtues.	1
Given that she is a CA(SA) and upholds a high standard of ethics, this would not be aligned to her professional virtues (which should correlate to her personal virtues) and therefore she should advise RainbowT to not to take the offer.	1
In line with King and the Companies Act, Lebogang should be forthcoming, transparent and honest with Tshepo regarding the transaction and related risks.	1
Going into business with the CEO is not good for “self” in the sense that it is not sound business practice as the factoring agreement will give rise to discounted receivables which could hamper profitability and cash flows, although this is good for the “other”, namely the CEO and MSM Bank (sound business ethic principles).	1 1
When considering the impact on all stakeholders, even though TT Consultants may benefit from this agreement via the referral fee, this may negatively impact RainbowT through association with MSM Bank and thus Lebogang should not advise on this offer as it may be to the company’s detriment.	1
The standard for good behaviour through pure rational reflection lends itself to the fact that Lebogang, as a CA(SA), with an understanding of the current negative impact around the CA(SA) profession and the need to uphold objective standards of good behaviour should strive to avoid being implicated in situations that will further tarnish the profession i.e. MSM Bank’s allegations of bribery.	1
Lebogang should encapsulate the concept of “Ubuntu” and respect and understand that she needs to help RainbowT to achieve the best outcome that is aligned with prioritising all parties above just her own business. Effectively, if RainbowT fails because of the agreement with MSM Bank, this will also reflect poorly on Lebogang within the community as she is the one who advised him on this course of action.	1
Lebogang to consider the appropriateness of being remunerated twice for the same service: hourly rate for advising Rainbow T but also getting a referral fee on securing the funding. This may not be considered fair business practice.	1
Conclusion Therefore, Lebogang should discuss the MSM Bank offer made but should explain clearly to RainbowT what the risks are and advise accordingly that it should not accept the offer from MSM Bank. Valid conclusion.	1
<b>Available</b>	21
<b>Maximum</b>	10

## 1.2 LEARNING ACTIVITIES

After you have read the sections set out above, complete the following two comprehensive activities:



### Activity 1.2.1

Activity 1.1.2.1	Estimated time			Total
	Reading	Writing	Marking and review	
26 marks	8 minutes	39 minutes	20 minutes	67 minutes

### Background

You are an audit manager at Green and Davis Incorporated (G&S), an audit firm with offices across Southern Africa. You are currently busy with the finalisation phase of the statutory audit of Silk Bake Limited (Silk Bake) for the financial year ended 31 August 2022.

Silk Bake is a renowned producer of baked goods in the South African consumer goods and services industry. They provide a wide range of healthy tea biscuits and treats. Silk Bake's purpose is to encourage consumers to snack more healthily. Leading the future of healthy snacking in South Africa means offering a broad range of delicious, high-quality snacks. Silk Bake's products are made with sustainable ingredients and packaging which consumers can feel good about. Even though Silk Bake is a young company, having been founded in 2014, it was built on the foundation of several predecessor companies that date back over 80 years. Silk Bake has been listed on the Johannesburg Stock Exchange (JSE Ltd) since 2018.

A variety of products have made Silk Bake who they are today, but its most popular brand and long-time best-seller, is a sandwich-like biscuit consisting of two chocolate wafers with a sweet crème filling called Oo's.

### Working papers

The following working paper have been prepared for your review:

WP reference number	Description
D100	Audit risks

<b>Entity name:</b>	Silk Bake Ltd	<b>Year end:</b>	31 August 2022	<b>W/P D100</b> Page 1 of 1
<b>Prepared by:</b>	Ms Norway	<b>Date:</b>	3 October 2022	
<b>Reviewed by:</b>	Mr Kop	<b>Date:</b>	4 October 2022	
<b>Audit section:</b>	<b>Extract from the strategy meeting</b>			

### Welcome Mr Leihlo

Mr Leihlo just registered as a chartered accountant (CA). Mr Leihlo was immediately appointed as the Chief Executive Officer (CEO) of Silk Bake. He just completed his articles at an audit firm and has no experience in financial management. Mr Liehlo is excited to start his new role as none of his peers have such a great opportunity as it would take them 5 years to reach this milestone. The previous CEO resigned to focus on personal matters.

### Turn around strategies

Mr Leihlo` discussed possible turn around strategies to assist Silk Bake in turning around their financial position. The following were the top strategies under consideration.

1. One of Silk Bake's directors suggested that they use a different supplier, from another country, to supplement their coconut oil needs until their supplier from Indonesia can supply them again with the coconut oil. The only issue with the new supplier is that their factory uses children, aged 10 to 17 years, in their production process. The new supplier promises that the factory is safe and there is always an adult supervisor. There is also transport from the factory to the homes for all employees when they work overtime.
2. Silk Bake could expand their product lines to include Cannabidiol (CBD) products. CBD is legal in South Africa and has attracted a lot of interest from consumers in South Africa. One of the directors suggested that Silk Bake use one of his son's companies to supply Silk Bake and ensure they get a good price for the CBD oil. The director will execute all paperwork and will negotiate a good deal for Silk Bake.
3. A new marketing campaign is proposed focusing on the rebranding of Silk Bake's current products. Instagram influencers/models will be used to market the goods on social media platforms such as Instagram, facebook etc. Silk Bake does not have funds available to change any of the current recipes, so they will just add a pinch of sodium chloride(salt) to the recipes. Silk Bake will then market their products as a new and healthier product on social media platforms.

<b>REQUIRED</b>	<b>Marks</b>
<p>(a) <b>With reference to working paper D100:</b></p> <p>(i) Discuss any ethical concerns in terms of the SAICA Code of Professional Conduct and other ethical theories. Include any actions that Silk Bake Limited should take to mitigate any concerns identified for the financial year ending 31 August 2022.</p>	26

## SUGGESTED SOLUTION

(a) With reference to working paper D100:

(i) Discuss any ethical concerns in terms of the SAICA Code of Professional Conduct and other ethical theories. Include any actions that Silk Bake Limited should take to mitigate any concerns identified for the financial year ending 31 August 2022.

	SAICA Code of Professional Conduct	Marks
1.	Mr Leihlo is a registered chartered accountant (CA) and needs to comply with the SAICA Code of Professional Conduct.	1
1.1	As Mr Leihlo recently qualified as a CA and is taking on the role of chief executive director for a listed company, there is a potential self-interest threat to professional competence and due care.	1
1.2	Although Mr Leihlo is a qualified CA; it is doubtful that Mr Leihlo has the necessary experience and competence to discharge the duties of chief executive director as a newly qualified CA for a listed entity.	1
1.3	The role of chief executive director is a complex and senior role that needs experience and competence to ensure that the role is discharged with the necessary competence and due care.	1
1.4	The threat is therefore significant and would need to be eliminated	1
1.5	Mr Leihlo needs to take an additional training course.	1
1.6	Silk Bake could allocate Mr Leihlo a mentor in a similar or was in a similar role to ensure that he gets sufficient guidance.	1
2.1	By being involved, as an executive director, with the deal of using a supplier who uses child labour at their factory there is a possible <b>self-interest threat to professional behaviour</b> .	1
2.2	Although the operations of the supplier are in Indonesia, child labour is illegal in South Africa, and it can bring the profession into disrepute if Mr Leihlo is associated with these practices at a company found to be using a supplier that uses child labour.	1
2.3	The threat is significant and might need to be eliminated	1
2.4	Mr Leihlo should look for another supplier that does not use child labour at their factories.	1
3.1	One of the directors will be involved with a contract with his son's company. This is in contravention to section 75 of the Companies Act as the director has a financial interest in the contract.	1
3.2	The director is further involved with the execution of the paperwork and negotiating the deal which is against Companies Act provisions	1
3.3	This would constitute non-compliance with laws and regulations (NOCLAR)	1
3.4	The threat is significant due to the nature of it being a NOCLAR	1

		Marks
3.5	<p>Mr Leihlo also appears to be the senior professional accountant as they are the only CA(SA) mentioned in the scenario and hold the position of CEO. and therefore would need to:</p> <ul style="list-style-type: none"> <li>• Obtain an understanding of the matter</li> <li>• Address the matter</li> <li>• Determine whether further action is needed</li> <li>• Seek advice</li> <li>• Determine whether to disclose the matter to an appropriate authority</li> <li>• Document the matter sufficiently</li> </ul> <p>Marks will also be given even if student did not make the assessment that Mr Leihlo is the senior professional accountant at Silk Bake. Max 4 marks.</p>	<p>1 1 1 1 1 1</p>
4.1	Authorising the proposed media campaign may result in a self-interest threat to integrity and professional behaviour	1
4.2	Mr Leihlo is proposing that the media campaign advertise a new healthier recipe. This is misleading as only salt was added to the recipe. This is not being straight forward and honest for the business campaign. Should Mr Leihlo as a CA authorise this turnaround strategy, they could be disrepute caused to Mr Leihlo.	2
4.3	The threat is moderate to significant as there is a great reputational risk for the company Mr Leihlo as he is the CEO and was involved in the decision making process.	1
4.4	Mr Leihlo should therefore consider revising the recipe to a higher degree or revising their marketing campaign	1
4.5	Silk Bake should also consider other ethical theories/strategies such as:	
4.5.1	<p>Strategy 1</p> <p>Good for self, good for others</p> <p>One of the directors suggested a new supplier for coconut oil that uses child labour in their factory</p> <p>The use of the new supplier will be good for Silk Bake as they will find a new coconut oil supplier and possibly return to higher production levels.</p> <p>Should the fact that Silk Bake is using a supplier uses child labour could result in a loss of reputation for the company.</p> <p>The supplier that uses child labour will get the support and keep using child labourers which might not be good for the community</p>	<p>1 1 1 1 1</p>
4.5.2	<p>Strategy 2</p> <p>The director suggesting that they should use one of his son's companies is not acting in the best interest of the company as this is in non-compliance with Companies Act requirements. State the section numbers</p> <p>KING principles further recommends that directors avoid conflict of interests. Executing the contract owned by his son would not be avoiding conflict of interest.</p>	<p>1 1</p>

		Marks
4.5.3	<p>Strategy 3 Good for self, good for others</p> <p>Proposing that the media campaign advertise a new healthier recipe. This is misleading as only salt was added to the recipe. This is not being transparent and being ethical.</p> <p>It will be good for Silk Bake as they will save costs in the short-term by just adding salt</p> <p>However, in the long term it might result in the reputational damage for Silk Bake.</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
4.6	Mitigating factors;	
4.6.1	<ul style="list-style-type: none"> <li>A new supplier that does not use child labour should be sourced to supply coconut oil</li> </ul>	1
4.6.2	<ul style="list-style-type: none"> <li>A new supplier for the CBD oil should be found who is not related to any of the directors. Should it be decided that the contract with the director's son is what is best for the company (highly competitive prices), another director should execute the contract.</li> </ul>	1
4.6.3	<ul style="list-style-type: none"> <li>Silk Bake should revise the recipe to a considerable extent or inform the customers clearly that more salt added for taste (be more transparent and not exaggerate)</li> </ul>	1
	Available	41
	Communication skills: logical argument	1
	Total available	38
	<b>Maximum</b>	<b>27</b>