

Professional Ethics in Business

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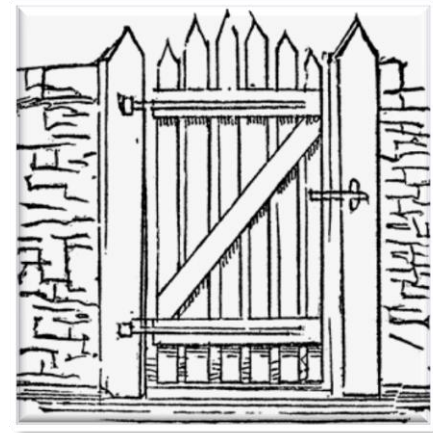
香港商業道德發展中心
Hong Kong Business Ethics Development Centre

Roles of PAIBs



Advisor

Guardian



Why Professional Ethics?

***“It takes 20 years to build a reputation
and five minutes to ruin it.
If you think about that, you'll do things
differently.”***

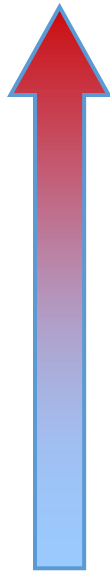
- Quote by Warren Buffett



Why Professional Ethics?

Business and professional ethics

(Higher level)



Anti-corruption legal requirement

(Minimum level)



- First line of defence against corruption



Common Ethical Risks

(1) Misrepresent financial position / Use of bogus financial documents

- for satisfying listing requirements
- in prospectus / annual report for defrauding shareholders, investors and creditors
- for deceiving bank loans or letters of credit



Common Ethical Risks

(2) Solicit/accept advantage in business transactions

- For awarding contract to supplier / service provider
- For approving / expediting project payment
- For conniving at inferior quality of goods / services



Prevention of Bribery Ordinance

Section 9

- **Agent** (employee)
- **Without** principal's (employer's) **approval**
- Solicits/accepts **advantages**
- An **act** in relation to the principal's business/affairs

Maximum Penalty:
Imprisonment of 7 years and
\$500,000 fine



Common Ethical Risks

(3) Pressure from management / colleagues to book records

- to offer advantage to corporate client for securing business
- for reimbursing expenses without sufficient supporting documents
- for concealing certain facts



Prevention of Bribery Ordinance

Section 9(3)

- An agent (employee)
- Using false / erroneous / defective accounts / documents / receipts
- Intends to deceive his principal (employer)



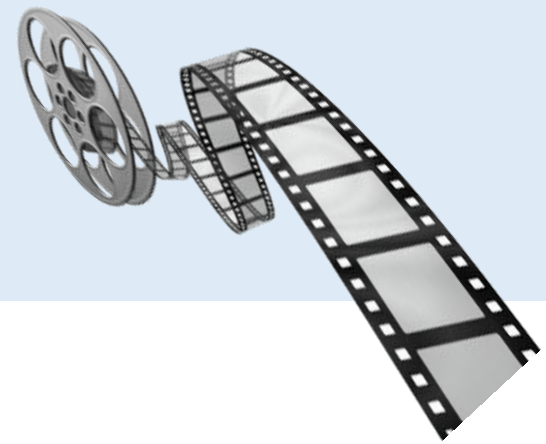
Other Relevant Laws & Guidelines



- *Conspiracy to defraud; False accounting; Use of false instrument to deceive*
- *Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO)*
 - ❖ *Amendment took effect from 1 March 2018*
- *Listing Rules Appendix 14 – Corporate Governance Code and Corporate Governance Report*
- *Guide on Disclosure of Price-Sensitive Information*
- *Professional Code (e.g. HKICPA’s Code of Ethics)*
 - ❖ *IESBA’s Revised and Restructured Code (with enhanced requirements and guidance for PAIBs)*
- *Organisation’s Code of Conduct*



Video



What would you do if you were the FC?



Issue - Legal implications

- **There was an act of bribery and may constitute criminal offences in several jurisdictions:**
 - **People's Republic of China: PRC Criminal Law**
 - **Hong Kong: S9 of Prevention of Bribery Ordinance**
 - **USA: Foreign Corrupt Practices Act**
 - **UK: UK Bribery Act 2010**



What to do to prevent bribery?

- Say **NO** to corruption and report attempted corruption and bribery to respective law enforcement agencies
- Set up effective anti-corruption programme
e.g. code of conduct, training, whistle-blowing channels



Issue - Conflict of interest

- Having undeclared financial interest in supplier or contractor

Interests of oneself, family and friends

Company's interests & your own duties



How to prevent conflict of interest?

- Proper management of conflict of interests

Avoid and Declare

- Set up a mechanism to handle and closely monitor compliance
- Strengthen internal controls



Issue - Lapses in operating procedures

- The company's accounting system was outdated and had not been updated for decades
- Approvals for expenses and payments were missing
- Large payments lacked adequate documents



How to rectify these lapses?

- **Clear policies and procedures for all business functions and operations**
- **Clear definitions of duties and responsibilities of each post**
- **Effective supervision, e.g. vet transactions, spot checks, documentation.**
- **Adequate accounting functionality for reporting purposes**



Guardian Role of Professional Accountants

- **Observe the Fundamental Principals:**
 - **Integrity**
 - **Objectivity**
 - **Professional Competence and Due Care**
 - **Confidentiality**
 - **Professional Behavior**



Code of Ethics for Professional Accountants, HKICPA

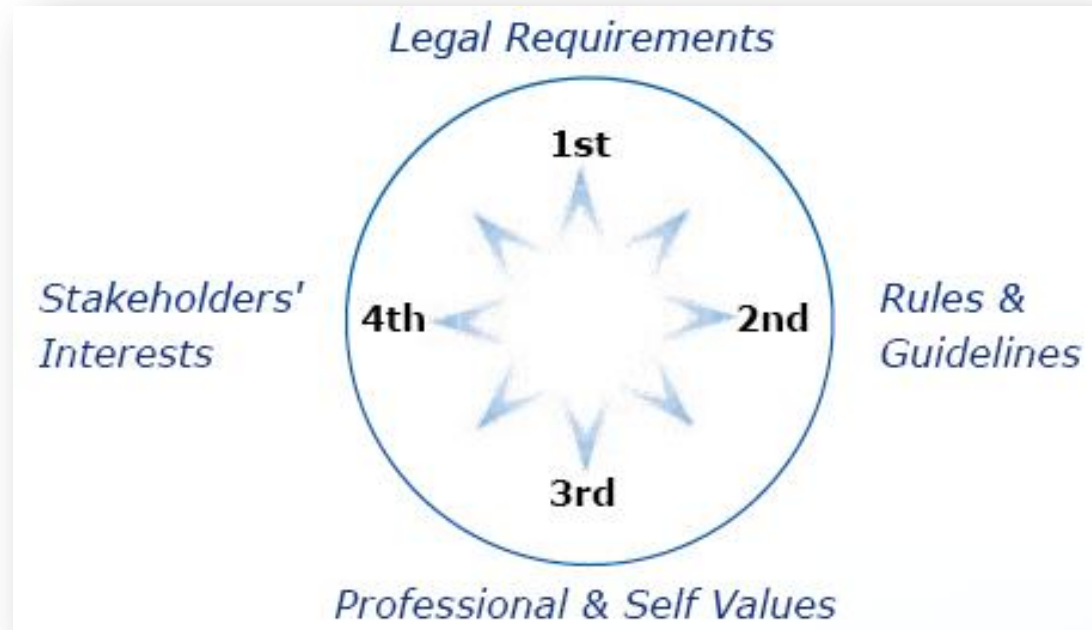
Responding to Non-Compliance with Laws and Regulations (NOCLAR)

When a CPA becomes aware of or suspects non-compliance in his company, he shall **discuss with his immediate superior or a higher authority** in the company, **take appropriate steps to rectify** or mitigate the consequence of the non-compliance, and decide **whether** it should be **disclosed to the external auditor** (*section 360.16-18*).



GPS Ethics Compass

- **G** – Guide your decision making with ethics compass



- **P** – Perform the guardian role proactively
- **S** – Sunshine test



Report Corruption



**Report Centre /
7 Regional Office**



**24-Report Hotline
25 266 366**



GPO Box 1000



Hong Kong Business Ethics Development Centre (HKBEDC)



Hotline: **2587 9812**
www.hkbedc.icac.hk



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