

ETHICS (FOR IPCC)



SUPER SUMMARY

note* credit goes to original author Bhavin Pathak

Special Features:

- * *Covered IMP questions of Ethics*
- * *Treasure of Alternatively asked question*
- * *Easy to remember Question-Answer format*
- * *Covered all aspect regarding IPCC exams*

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DEDICATED TO MY FRIENDS

CHAPTER 1:- PRINCIPLES OF BUSINESS ETHICS

Q. 1: Explain the Need for Business Ethics.

Ans.: Business ethics is that set of principles or reason which should govern the conduct of business both at the individual or collective level by the application of ethical reasoning to specific business situations & activities. Some of the factors justifying the need for business ethics are:-

- Society bestows upon businesses the authority to own and use land & natural resources. In return society has the right to expect that productive organization will enhance the general interest of consumers, employees & community. Society may also expect that organization will honour existing rights and limit their activities within the bounds of justice.
- The products and services of an organization and the actions of its members can affect its stakeholders i.e. employees, the community and society as a whole, either positively or negatively.

Business ethics provides guidance regarding the expectations of the community, principles of morality, consequences & complications of their actions, etc. Hence, business ethics are extremely needed for well-being of organization as well as community as a whole.

Q. 2: Explain the meaning of terms “ethics” and business ethics and also state the requirements of business ethics?

Ans.: The term “Ethics” has a variety of meanings. One of the meaning of “Ethics” are The Principles of Conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation. Business ethics is that set of principles or reason which should govern the conduct of business both at the individual or collective level by the application of ethical reasoning to specific business situations & activities.

Requirements: Being ethical in business requires acting with an awareness of:-

- a) The need for complying with rules. E.g.:- Laws of land, customs & expectation of community, principles of morality, policies of organization & General concerns such as the needs of others
- b) How the products, services and actions of a business enterprise can effect its stakeholders i.e. employees, the community and society as a whole, either positively or negatively.

Q. 3: Moral vs. Ethics

Ans.:

Point	Moral	Ethics
1	Derived from Latin word MOS meaning customs.	Derived from Greek word ETHIKOS or ETHOS meaning character.
2	Is accepted from an authority say culture, religion i.e. defined by group.	Are personal principles/ attribute.
3	Narrower scope	Wider scope
4	Can be expressed as General rules & statements	Cannot be expressed as General rules & statements
5	Are absorbed as a child from family, schools, friends, etc.,	Are developed over a period of time.
6	Societies have customs.	People have character

Q. 4: What is Ethical dilemma? List the guidelines one could follow to address an ethical dilemma?

Ans.: Many business issues may seem straight forward and easy to resolve by choosing the one option which appears to be the clear choice but in reality one is faced with having to make a choice

from various alternatives resulting in an ethical dilemma. Some guidelines which one can address to ease ethical dilemmas are:-

KEY – PROBLEM SOLVE

- (i) Define the **P**roblem clearly
- (ii) How it is **R**elated to other parties?
- (iii) The situations arise **O**ver which issue?
- (iv) To whom are you **B**ound to be loyal as person & as a member of organization.
- (v) What will you **L**ook at while making decisions?
- (vi) What are the **E**xpected results & how they are comparable with actual results?
- (vii) Whom could your decisions or **M**ain results of actions injure?
- (viii) Can you **S**ave the problem by discussing it with other affected parties?
- (ix) Are you confident that your position will be as valid **O**ver long period of time as it seems means?
- (x) Can you ask your boss, CEO, your family, society as a whole to **L**ook upon your decisions?
- (xi) What are the **V**arious potentials of your actions?
- (xii) Under what conditions would you allow **E**xceptions to your stand?

Q. 5; Hippocratic Oath

Ans.: It is an ancient Greek ethical code which is a basis of all medical ethics. Its emphasis on patients' dignity confidentiality & physicians' responsibility to guard against abuse of profession and corruption of their knowledge.

- It also emphasizes that the physician should honour the rules of their profession & exposes those who do not follow the high standards of conduct.

Q. 6: Importance of Business ethics in present corporate environment.

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Present corporate scenario of constant change & global competition, ethics is an important factor because it builds trust and confidence in business relationships and a positive image of the company ethical programs cultivates a strong team work & productivity, support employee recruitment, retention and growth. Ethical actions may result in negative publicity declining sales & even legal action as demonstrated by the recent corporate scandals leading to the downfall of Giant Corporation like ENRON.

Q. 7: Benefits of Business ethics.

Ans.: Definition of Business ethics. Benefits of Business ethics:-

- (i) Helps to build a strong public image.
- (ii) Cultivates strong team work & productivity among employees.
- (iii) Helps to manage values associated with quality management, strategic planning & diversity management.
- (iv) Helps in creating legal policies.
- (v) Avoids criminal acts & lower fines.
- (vi) Supports employee growth.
- (vii) Attention to be substantially improves society.

CHAPTER 2:- COMPUTER GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Q. 1: What is meant by Corporate Governance? State the major characteristics of good Corporate Governance? Benefits of good Corporate Governance

Ans.: Governance means the process of decision making and the process by which decisions are implemented in the interest of stakeholders. The term “Corporate Governance” can be defined as a formal system of accountability & control for ethical & socially responsible organisational decision & use of resources.

- Accountability relates to how well the work place decisions are co-ordinate with strategic decisions.
- Control involves process of auditing & improving organisational decisions & actions.

Good Corporate Governance has the following major characteristics:-

KEY: CPT FEAR

- C - Consensus Oriented.
- P – Participatory.
- T – Transparent.
- F – Follows the rule of the law.
- E – Equitable, Efficient, Effective.
- A – Accountable.
- R-Responsive.
- Benefits to good Corporate Governance:-
- Protection of investor interest and strong capital markets.
- Ensures commitment of the board in managing the company in a transparent manner.
- Studies show clear evidence that the good Corporate Governance is rewarded with a higher market valuation.

Q. 2: Shareholder vs. Stakeholder

Ans.:

Point	Shareholder	Stakeholder
1	Shareholders are the owners of a particular organization.	Constituents of an organization; insiders like employees, trade union; outsiders like customers, creditors, society, government, competitors, local communities, shareholders.
2	Shareholder is a narrower term.	Stakeholder is a wider term.
3	Every shareholder is a stakeholder.	Every stakeholder is not a shareholder.

Q. 3: Corporate Governance (CG) – issues – Development abroad and in India.

Ans.:

- CG is concerned with structures & processes for decision making, accountability control & behaviour at the top level of organization.
 - It influences how the objectives of an organization are set & achieved, how the risk is monitored and assured & how the performance is optimized.
 - CG measures include non-executive directors placing constraints on management power & ownership concentration.
 - It includes ensuring of proper disclosure of financial information & executive compensation.
 - CG is getting focused attention for satisfying the divergent interest of the stakeholders especially after corporate scandals & loss of shareholders value at Enron.
 - The scandals led to numerous CG perform including – Sarbanes – Oxley Act.
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Adoption of new listing requirement by NYSE (New York Stock Exchange): In India, various committees were set up by SEBI & DCA (Department of Company Affairs) to recommend further improvements in CG applicable to Indian companies.

Q. 4: What is CSR (Corporate Social Responsibility)? Why it is needed in Indian Business Environment?

Ans.: The concept of CSR focuses on the idea that beyond making profits, a business has a social obligation to produce an overall positive impact on the society by fulfilling the needs of employees, consumers, community & society as a whole. Besides making profits & being answerable to shareholders; organization are also responsible towards its stakeholders like investors, creditors, government, competitors, etc. In short, CSR is achieving commercial success in ways that honour ethical values & respect people, communities & the natural environment.

Need for CSR –

KEY: CSR Creates A Great Society

- C- Converts resistance into resources.
- S- Fulfils long term **S**elf-interest.
- R- Avoid government **R**egulation & control.
- C- Control environmental damage.
- A- Avoids misuse of natural resources & economic power.
- G- Gives an organization a law of responsibility.
- S- Helps to achieve goals & establish a better **S**ociety.

Q. 5: Benefits of CSR.

Ans.:

- Increases productivity & quality of work life.
- Increases ability to attract & retain employees.
- Reduce regulatory oversight.
- Improves financial performance.
- Increases sales.
- Improves customer loyalty.
- Access to capital.
- Reduce operating cost.
- Brand image & reputation.

Q. 6: List the various ways in which the companies can integrate CSR into business strategy & decision making frame work. Explain CSR Mechanism. Indicate key strategies used by companies for implementing CSR policies?

Ans.: Nowadays, Companies are adopting formal techniques to discuss CSR into business strategy & decision making framework. Some companies have established committees, standing committees or special BOD to include responsibility for CSR issues. Companies implement CSE by putting in place internal management system that generally promotes:-

Adherence to labour standards

- Respect for human rights
- Consumer protection environment
- Avoiding bribery & corruption
- Protecting environment
- Reducing the negative impacts of operating in conflict zones

Each company differs in how it implements CSR; distinction depends upon company's size, sector, culture and the commitment of its leadership.

Key strategies used by companies for implementing CSR policies are as follows:

- Mission, Vision & Value statements
- Cultural Values
- Management structures
- Strategic planning
- General accountability
- Employee recognition & rewards
- Communication, Education & Training
- CSR reporting
- Use of influence.

Q. 7: Global Reporting Initiative (GRI)**Ans.:**

- GRI is a reporting standard rather than a performance standard.
 - It was established in 1997 with the mission of designing globally applicable guidelines for preparing enterprise-level sustainability reports including both social & environmental indicators.
 - The GRI is convened by CERES (Coalition for Environmentally Responsible Economies) & incorporates the active participations of corporations, NGO's, International organization, UN agencies, Consultants, Accountancy org., business associations, Universities & other stake holder around the world.
 - The GRI first released its Sustainability Reporting guidelines in 1999 & is now a permanent, independent, international body with a multi-stake holder governance structure.
 - Its core mission will be maintenance and enhancement of the guidelines through a process of on-going consultation & stake holder engagement.
 - The GRI vision is that reporting on economic, environmental and social performance by all organization. GRI accomplishes this vision by developing, continually improving and building capacity around the use of its Sustainability Reporting Framework
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CHAPTER 3:- WORK PLACE ETHICS

Q. 1: Write a short note on discriminatory practices.

Ans.: To discriminate means to distinguish one object from another. Employment discrimination is treating one person better than another because of their age, gender, race, religion or other protected class status.

KEY: Ram Se Pehle Dashrath Crowned

- **Recruitment Practices:** Firms that rely solely on the word-of-mouth referrals of present employees to recruit new workers only from those racial and sexual groups that are already represented in their labour force. When desirable job positions are advertised only in media that are not used by minorities or women or are classified as for men only, recruitment would also tend to be discriminatory.
- **Screening Practices:** Screening is said to be discriminatory when the parameters required are such as which are not relevant to the job to be performed. Interviews for the jobs are said to be discriminatory if the interviewer disqualifies certain class of people for reason not related to work. E.g. the occupation is not suitable for women, etc.
- **Promotion Practices:** Promotion, job progression & transfer practices are discriminatory when employer place males on job tracks separate from those open to women & minorities.
- **Dismissal:** Firing on employee on the basis of her/his race or sex is a clear form of discrimination; though not as serious as an offence but the same is considered as discriminative.
- **Condition of Employment:** Many times equal wages & salaries are not given to employees performing essentially similar tasks. Another issue is related to fair wages and treatment to workers.

Q. 2: Write a short note on "Harassment"

Ans.: Harassment is "tormenting by subjecting to constant interference or intimidation". It creates a negative work environment where work is extracted from the employees by intimidating them & using coercive measures to get job done. Harassment in business can be of following forms:

- **Racial Harassment:** Racial or colour Harassment includes offensive written or physical conduct at the characteristics of a person's race, entire or national origin name or colour. It also includes derogatory name calling racist jokes & so on.
- **Sexual Harassment:** Sexual Harassment means situations in which an employee is coerced into giving into another employee's sexual demands by the threat of losing some significant job benefit, such as promotion, raise or even the job. It is an unjust misuse of the unequal power that an employer can exercise over the employee. Sexual Harassment is prohibited & an employer is held responsible for all sexual harassment engaged in by employees "regardless of whether the employer knew or should have known. The harassment occurring & regardless of whether it was forbidden by the employer"

Q. 3: Importance of Ethical behaviour at the work place

Ans.:

KEY: DUSTER

An organization, whether a business or a government agency, is first & Foremost human society. If an employer does not take steps to create a work environment where the employees have a clear, common understanding of what is right & wrong & free feel to discuss & ask questions about ethical issues & reports violations, significant problems could arise which are as follows:-

- D- Diminished reputations in the industry & community
 - U- Increased risk of employees making Unethical decisions
 - S- Significant legal exposure & loss of competitive advantage in market place
 - T- Increased Tendency of employees to report violations to outside regulatory authorities because they lack on adequate internal forum.
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- E- In the long run, **E**ffect of this would be that it would render the company unprofitable & the company would go into liquidation.
- R- Inability to **R**ecruit & **R**etain top people.

Q. 4: Explain in brief the measures to ensure ethics in work place.

Ans.: The focus on care values & sound ethics, the hall mark of ethical management is being recognized as an important way to ensure the long term effectiveness of governance structures & procedures & avoid the need for whistle blowing. Employers, who understand the importance of work place ethics, provide their work force with an effective frame work & guiding principles to identify & address ethical issues as they arise. Measure to ensure ethical in work place is

- 1) Code of conduct & ethics
- 2) Establish open communication
- 3) Make ethics decisions in group and make these decision public as appropriate
- 4) Integrate ethics management with other management practices
- 5) Use of cross-functional teams when developing & implementing the ethics management programme
- 6) Appointing an Ombuds person
- 7) Creating an atmosphere of trust
- 8) Regulatory updating of policies & procedures
- 9) Include a grievance policy for employees
- 10) Set an example from the top

Q. 5: Write a note on work – place ethics.

Ans.:

- Work place ethics is how one applies values to work in actual decision making, a set of right and wrong actions that directly impact the work place.
 - Ethical decisions in an organization are influenced by 3 factors: Individual moral standards, influence of manage & co-workers & opportunity to engage in misconduct.
 - Good moral standard help an individual to have a good sense off ethics which he would carry along with him to enterprise & thereby set a good example to follow workers.
 - The activities of colleagues along with policies established by the firm are critical in gaining consistent ethical compliance in an organization.
 - Acts such arriving late to work, engaging in gossips at work place, etc. tempt other employees to follow the same & thereby lead to a chain of unethical acts throughout the organization.
 - The behaviour of business person towards customers, suppliers & others in their workplace also generates ethical concerns.
 - Ethical behaviour within a business involves keeping secrets, meeting obligations & responsibilities avoiding undue pressures that may force others to act unethically.
 - Hence, a clear code of conduct practiced at the highest level, fairness & honesty in its dealings with the stakeholders & prohibition of any kind, discrimination & harassment are the characteristics of highly ethical workspace.
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CHAPTER 4:- ENVIRONMENT AND ETHICS

Q. 1: Business is a part of the ecological system. Elaborate

Ans.:

- An ecological system is an interrelated & interdependent set of organisms & environments.
- The corporate world, the industry or others engaged in the use of natural resources or environment services are closely linked with environment and natural resources.
- Business firms depends on natural environment for their energy, material resources and waste disposal and that environment in turn is affected by the commercial activities of business firms.
- So all business firm must ensure that their activities do not injure the ecological ethical system. This resolve is called ecological ethics.
- It is based on the idea that the environment should be protected not only for the sake of human beings but for its own sake.
- Hence, as ecological systems are interrelated & affected by business; business forms an important part of it.

Q. 2: Write a short note on “Conservation of Natural resources”

Ans.:

- Conservation refers to the strong or rationing of natural resources for later uses.
- Environment protection should be in mind while achieving economic progress/growth.
- If companies redesigned products & adopt latest technologies available; they can achieve the goals of reduction in wastage & conservation of resources.
- Eco friendly technologies throughout the product life cycle & maximization of waste play major role in protecting the environment & conservation of resources.
- Business, Industry & MNCs’ has to recognize environment management as the priority area & a key determinant to sustainable development.
- Sound management of wastes is among the major environmental issues maintaining the quality of environment and achieving sustainable development.
- Conservation is the only way of ensuring a supply for tomorrow’s generations.
- According, waste management can be achieved by
 - * Minimum waste production
 - * Maximizing re-use of waste and recycle it
 - * Promoting environmentally sound waste disposal practices.

Q. 3: Explain the term sustainable development with reference to pollution & conservation of natural resources.

Ans.: Sustainable development refers to maintaining development. It may be defined as development that meets the needs of present without compromising the ability of future generation to meet their own needs.

A nation or society should satisfy its requirements – social, economic & others – without **jeopardizing** the interest of future generations.

This is no economic growth without ecological costs – High economic growth means high rate of extraction, transformation and utilization of non – renewable resources. One must realize that increased development higher GNP are related to environmental damage and resource depletion. Therefore, an element of resources re-generation and positive approach to environment has to be incorporated in developmental programmes. Business, Industry & MNC does have to recognize environment management as priority area & a key determinant to sustainable development.

Q. 4: State the special responsibilities of the industries that are based on natural resources towards future generations.

Ans.: Industries that are based on natural resources like minerals, timber, finer & foodstuffs, etc. have a special responsibility.

- To adopt practices that have built in environmental consideration
- To introduce process that minimize the use of natural resources & energy reduce waste and prevent pollution.
- Make products that are environment – friendly with minimum impact on people & ecosystem.

Q. 5: How the adoption green accounting system helps in avoiding policy decisions which are non-sustainable for the country?

Ans.:

- Green Accounting system basically focuses on deficiencies in conventional accounts with respect to the environment.
- It makes efforts to see that environmental costs are properly reflected in the prices paid for goods & services.
- As a result companies & consumers would adjust market behaviour in a way that would reduce damage to environment & decrease pollution and waste products.
- Price signal will also influence human behaviour to avoid exploitation or excessive use of natural resources.
- Such measures will facilitate the approach of “Pollution Pay Principles” & thus avoid policy decisions which are non-sustainable for the country.

Q. 6: List the benefit of eco-friendly business practices.

Ans.: Business & Industry are closely linked with environment & resources utilization. If companies redesigned products & adopts eco-friendly business practices they are the ones who are ultimately going to enjoy the fruits. The benefits can be listed below:-

- The goals of reduction in wastage & resources depletion can be achieved.
 - Incorporating environmental issues in the process of developing a product improves corporate performance.
 - Eco friendly practices results in more savings. E.g. Process of recycling of the waste.
 - Business firms will be able to create wealth if they respond to the challenges of sustainable development as unsustainable products will become obsolete.
 - Proper environmental costs can be reflected with the help of green accounting system & even consumer would adjust market behaviour in a way that would reduce damage to environment.
 - Business firms using eco-friendly practices will gain competitive knowledge
 - Business, Industry & MNC’s have to recognize environment management as the priority area & a key determinant to sustainable development.
 - Sound management of wastes is among the major environmental issues maintaining the quality of environment and achieving sustainable development.
 - Conservation is the only way of ensuring a supply for tomorrow’s generations.
-

CHAPTER 5:- ETHICS IN MARKETING AND CONSUMERS PROTECTION

Q. 1: Explain the reasons for/need of ethical behaviour in marketing scenario.

Ans.: Marketing is the most important element of any business. It influences sales and behaviour of customers. The main reasons for ethical behaviour are:-

- **To reverse declining public confidence in marketing:** Unethical practice such as misleading package labels, false claim in ads, infringements of well establishment trademarks, etc. not only declines public confidence in marketing but also damages reputation of all marketers. To reverse this situation, Companies must set high ethical standards & enforce them in consumer's interest as consumers are lifeblood of business.
- **To avoid increase in Government regulation:** Most of the governmental limitations on marketing are the results of management's failure to live up to its ethical responsibilities at one time or other.
- **To sustain the power granted by society:** Marketing executives hold and use a great deal of social power as they influence market & speak out on economic issues. However, there are responsibilities tied to this power & if marketers do not use their power in a socially acceptable manner then that power will be lost in long run.
- **To protect Image of the organization:** Buyers often form an impression of an entire organization based on their contact with one person & and mostly that person represents the marketing functions.

Q. 2: What is competition?

Ans.: Competition is "a situation in a market in which firms or sellers independently strike for the buyers' patronage in order to achieve a particular business objective. E.g. Profit, Sales or Market share"

The following are the salient features of competition are:-

- Good competition is trade where there is unrestricted liberty of every man to buy & sell.
- The factor affecting free market (regulated) is the income distribution system where the one with good disposable income rules the market. However, the real culprit is income distribution system and not the competitive system.
- Thus in an unregulated market it could be benefit to the owner of withhold of goods from market in order to extract a high price.
- Therefore, the problem in a free market can be overcome by posturing competition. It is the only way to protect the interest of ultimate consumer.

Q. 3: Explain the salient features of Competition Act, 2002

Ans.: The competition Act, 2002 which passed on 13th January, 2003 is a laudable step towards harmonizing international trade policy. It intends to provide:-

- a) For establishment of a commission to prevent practice having adverse effect on competition.
- b) To promote & sustain competition in market
- c) To protect the interest of consumers
- d) To ensure freedom of trade carried on by other participants in markets

Parameters of Competition Law:-

- Prohibition of certain agreements considered to be anti-competitive in nature.
- Exploitation of dominant position by imposing unfair conditions and restricting production of goods and services.
- Regulation of combinations which causes or likely to cause an adverse effect on competition within India; such combinations are considered to be void.

Q. 4: Competition Laws UK & US.

Ans.: 3 major federal anti-trust laws in US aimed at encouraging competition are:-

- The Sherman Act passed in 1890 & aimed at restraint of trade & monopolization of interstate & foreign commerce.
-

- The Clayton Act passed in 1914 to overcome the failures of Sherman Act. It attempts to nip monopolize in the business by specifying practices that monopolists used to gain monopoly power.
- The Federal Trade Commission Act, 1914 to prohibit unfair methods of competition. These laws ensure free and open competition thereby bringing benefits by way of lower prices, new and better products, etc. The UK Competition Act 1988 came into force in 01.03.2000 aimed at prohibiting the agreements with the objective of preventing, restricting or distorting competitions which directly or indirectly fix prices, trading conditions limit/control products, markets sources of supply.

Q. 5: Define consumer as per competition Act, 2002

Ans.: CONSUMER as per **Section 2(f)** - "consumer" means any person who –

- Buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment when such use is made with the approval of such person, whether such purchase of goods is for resale or for any commercial purpose or for personal use;
- Hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such services other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first-mentioned person whether such hiring or availing of services is for any commercial purpose or for personal use.

Q. 6: List the themes around which the UN guidelines have enunciated various steps for consumers' welfare.

Ans.: The UN guidelines has call upon governments to develop, strengthen & maintain a strong consumer policy and provide for enhanced protection of consumers by enunciated various steps & measures around 8 themes:

- | | |
|------------------------------|------------------------------------|
| ➤ Physical safety | ➤ Redress |
| ➤ Economic interest | ➤ Education and information |
| ➤ Standards | ➤ Specific areas concerning health |
| ➤ Essential goods & services | ➤ Sustainable consumption |

Q. 7: Mention the consumer rights recognized by UN guidelines.

Ans.: The Consumer rights recognized by UN guidelines can be used as touchstones for assessing the consumer welfare implications of competition policy & law and to see how they help or obstruct the promotion of these rights. The Rights are:-

- | | |
|------------------------|--------------------------------|
| ➤ Right to Basic needs | ➤ Right to Information |
| ➤ Right to Safety | ➤ Right to Consumer Education |
| ➤ Right to Choice | ➤ Right to Healthy environment |
| ➤ Right to Redress | ➤ Right to Representation |

Q. 8: Explain the 3-tier consumer protection council in India.

Ans.: In India, we have 3-tier structure of Consumers Councils at Central, State & District levels which are as follows: · The Central Consumer Protection council at Central level · The State Consumer Protection council at State level · The District Consumer Protection council at District level The objects of the consumer protection councils shall be to promote & protect the rights of the consumers at their representative levels which are as follows:

Rights of consumers:

- Right of protection against marketing of goods which are hazardous to life & property

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- Right of information about the quality, quantity, purity, standard & price of goods & services
 - Right to access to variety of goods & services at competitive prices
 - Right to redress against unfair trade practices
 - Right to seek consumer education
 - Right to be heard and to be assured that consumer's interest will receive due consideration at appropriate terms
-

CHAPTER 6:- ETHICS IN ACCOUNTING & FINANCE

Q. 1: Explain the potential conflicts faced by a finance & accounting professional working –

- (a) As consultant or auditors
- (b) As an employer

Ans.:

- (c) A Finance & accounting professional working **as consultant/auditors** in public practice should take adequate care to identify situation that could pose a conflict of interest. If not followed, they may give rise to threat to comply with the fundamental principles.
- (d) A Finance & accounting professional working **as an employer** has professional obligation to comply with the fundamental principles laid down by the organization. At the same time, he should also follow the regulation of the law & should ensure that whatever he does complies with ethical code of conduct. However, there are situations when superiors or the top level of management apply pressure on the employees to perform activities which are:
 - Contrary to law or regulation.
 - Contrary to technical or professional standards.
 - Unethical or facilitate illegal earnings management strategies.
 - Associated with issue of financial or non-financial report that materially misrepresents the facts, including statements in connection with financial statements, tax compliance, legal compliance or reports required by security regulators.

Q. 2: Point to be kept in mind for creating a sound ethical environment.

Ans.: A sound ethical environment can be created if the following points are kept in mind:

(1) *Awareness of legal and ethical responsibilities*

- Ethical organization should have policies to train & motivate employees towards ethical behaviours. This would require initiation from the top.
- Number of companies both in West & in India have been known for their quality & soundness of their ethics programmes.
- In India, Wipro was amongst the pioneers to establish an organized set of beliefs to guide business conduct.
- Companies now are also providing an integrity manual which helps employees whenever they face ethical dilemmas.

(2) *A Transparent communication system*

- Ethical organization should provide facilities for employees through which they could communicate with responsible position for reporting frauds, mismanagement or any other form of non routine detrimental (harmful) behaviour.
- Companies like Wipro have introduce a helpline comprising of senior members of the company who are available for guidance on any moral, legal or ethical issues that an employee may face.

(3) *Fair treatment to whistle blowers:* Fair treatment to whistle blowers is important, as this encourages other members of the company to report similar activities in future. On the contrary, if the company demotes such whistle blowers, it discourages other employees from reporting on any malpractices within the organization which might affect its reputation as well as cause financial losses.

Q. 3: Reason for unethical behaviour

Ans.: Some of the reasons which encourage employees to act unethically are as follows:

1. *Emphasis on short term results:* Company's manipulated accounting entries to depict good profitability in order to raise further capital from the market. This is one of the primary reasons for downfall of companies like Enron, WorldCom, Satyam, etc.
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2. Ignoring small unethical issues: Tolerance of small lapses lead to larger problems. So, the companies should develop an environment where small ethical lapses are taken seriously so that they are not repeated in the future.
3. *Economic cycle*: To prevent disclosure of ethical problems in times of depression, companies should be extremely careful & vigilant during good times. It must ensure itself that the effect of depression on the company's financial statements will be limited & company will be able to bear losses & at the same time it makes the situation acceptable for the share-holders.
4. *Accounting Rules*: In the era of globalization, accounting rules are changing faster & becoming more complex. It becomes difficult to identify deviation from these complex set of requirements. The difficulty associated with identifying abuse is the reason which may promote unethical behaviour.

Q. 4: Fundamental Principles relating to Ethics.

Ans.: Certain fundamental principles need to be adhered for behaving in an ethical manner. These principles have been summarized below-

(1) The Principle of Integrity:

Integrity means "adherence to moral and ethical principles" professional have to adhere religiously to honesty and straight forwardness while disclosing their representative professional duties. The following act of responsibility would help to comply with the integrity principles.

- Avoid activities which could affect goodwill of an organization.
- Refuse to get involved in activities which could adversely affect the achievement of organization objectives.
- Communicate adverse and favorable information with those concerned.
- Avoid conflicts.
- Refuse favours or gifts which could influence action taken or to be taken.

(2) The Principles of Objectivity:

According to this principle accounting and finance professionals should not allow bias, personal views, conflicting interest and undue influence of themselves or other to override business judgement. They should communicate information fairly and objectively in a transparent manner.

(3) The Principles of Confidentiality:

This requires accounting & financial professional to refrain from disclosing confidential information related to their work. Such information may be however disclosed to

- (a) Subordinate & ensure that they too maintain confidentiality &
- (b) When under legal obligation or because of some statutory ruling.

(4) The Principles of professional competence & due care:

Finance & accounting professional need to update their skills and knowledge from time to time and shall ensure the client or employers receives competent professional services based upon current developments in the related areas.

(5) The Principles of professional behaviour:

This principle requires accounting & finance professional to comply with relevant laws and regulations and avoid such actions which may result into discrediting the profession.

Q. 5: Explain the types of ethical threats.

Ans.: The dynamic environment in which business operate today has posed many situation because of which compliance with fundamental principles may be potentially threatened. Such threats are classified as follows:-

- (1) *Self Interest threats* – which may occur as the result of the financial or other interest of a finance and accounting professional or of an immediate or close family members.
- (2) *Self-review threats* – which may occur when a previous judgement needs to be reevaluated by the finance and accounting professional responsible for that judgement.

- (3) *Advocacy threats* – Advocacy is the act of arguing on behalf of a particular issue, idea or person. These threats occur when professional promotes a position or opinion to the point that subsequent objectivity may be compromised.
- (4) *Familiarity threats* – occur when professionals has close relationship in the work environment & such relationship impair his selfless attitude towards work.
- (5) *Intimidation threats* – occur when a professional may be prohibited from acting objectively by threats, actual or perceived.

Q. 6: What are the various ethical threats faced by an finance and accounting professional working as an employee of a company?

Ans.: The dynamic environment in which business operate today may usher a broad range of circumstances because of which compliance to principles of integrity, objectivity, confidentiality & professional competence and due care in case of a finance and accounting professional working as an employee may be threatened surely and it can be classified as under:

➤ **Self-interest threats**

- * Financial interests, loans and guarantees in the company in which the professional is working.
- * Incentive compensation arrangements.
- * Inappropriate personal use of corporate assets.
- * Concerns over employment security.

➤ **Self review threats**

Such threats occur when business decision or data is subject to review and justification is required to be given by the same professional who was responsible for taking such decisions or preparing that data

➤ **Advocacy threats**

When furthering the legitimate goals & objectives of their employing organization; finance and accounting professional may promote the organization's position provided any statement made are neither false nor misleading.

➤ **Familiarity threats**

- * Long association with business contacts influencing business decision.
- * Acceptance of a gift/preferential treatment unless the value is clearly insignificant.

➤ **Intimidation threats**

- * Threat of dismissal or replacement over a disagreement about the application of an accounting principle in which financial information is to be reported for external use as well as decision making purpose.
- * A dominant personality attempting to influence the decision making process. E.g. with regard to exclusion of irrelevant cost from projected cost estimates.

Q. 7: What are the various ethical threats faced by an finance and accounting professional working as a consultant or an auditor of a company?

Ans.: Threats faced by an accounting & finance professional working as an auditor of a company can be classified as follows:-

➤ **Self-interest threats**

- * A financial interest in a client or jointly holding a financial interest with a client.
- * Having a close business relationship with the client.
- * Potential employment with a client.
- * Contingent fees relating to an assurance engagement.

➤ **Self-review threats**

- * The discovery of a significant error during re-evaluation of the work of the finance and accounting professional.
- * A member of the assurance team being or having recently been, a director or officer of that client.

➤ **Advocacy threats**

- * Promoting shares in a “listed entity” when that entity is a consultancy or a financial statement audit client.
- * Acting as an advocate on behalf of an assurance client in litigation or disputes with 3rd parties.

➤ **Familiarity threats**

- * A member of the engagement team having a close or immediate family relationship with a director or officers of the client.
- * Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- * Long association of senior personnel with the assurance client.

➤ **Intimidation threats**

- * Being threatened with dismissal or replacement.
- * Being threatened with litigation.
- * Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

Q. 8: Ethical Conflict Resolution

Ans.: While evaluating compliance with the fundamental principles, finance and accounting professional may be required to resolve a conflict in the application of fundamental principles. The following needs to be considered either individually or together with others, during a conflict resolution process:

- Relevant facts.
- Ethical issues involved.
- Fundamental principles related to matter in question.
- Established internal procedure.
- Alternative course of action.

Having considered these issues, a professional should determine the appropriate course of action that is consistent with fundamental principles identified & weight the results of each possible course of action. If the matter remains unsolved, the professional should take following steps:

1. Consult the appropriate person within the firm or employing organization for help in obtaining resolution.
2. If the matter involves conflict within an organization; then it is advisable to consult with those charged with governance of the organization of the organization such as BOD.
3. It may be in the best interest of the professional to document the detail and the substance of issue.
4. If a significant conflict cannot be resolved, obtain advice from the relevant professional body or legal advisors & there by obtain guidance on ethical issues without breaching confidentiality.
5. If after all relevant possibilities, the ethical conflict remain unresolved, it is appropriate to withdraw from the engagement team or specific assignment or to resign altogether from the engagement team, the firm or the employing organization.

Q. 9: Explain the safeguards which may be created by business enterprise to overcome various threats faced by accounting & finance professionals.

Ans.: Safeguards that may eliminate or reduce the various threats to an acceptable level fall into 2 categories:

(A) Safeguards created by profession, legislation or regulation.

- Corporate governance regulations.
- Professional or regulatory monitoring & disciplinary procedures.
- Educational training & experience requirements for entry into the profession.
- Professional standards.
- Continuing professional development requirements.

(B) Safeguards in work environment.

- Strong internal controls.
 - Appropriate disciplinary process.
 - The employing organizations ethics & conduct programs.
 - Policies & procedures to implement & monitor the quality of employer performance.
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