

ASSOCIATION OF ACCOUNTING TECHNICIANS

GUIDANCE NOTES

ACCOUNTING QUALIFICATION - DIPLOMA PATHWAY

UNIT 32: PROFESSIONAL ETHICS

Introduction to the unit

This guidance relates to unit 32 – professional Ethics and should be read in conjunction with the specification for this unit. The aim of this guidance is to provide further detail and additional advice for tutors delivering the ethics unit of the AAT Accounting Qualification (Diploma Pathway). This guidance includes detail on the intended breadth and scope expected for the knowledge specifications.

Background

The Ethics unit is accredited at level 3 but can also be attempted by candidates early, after level 2 studies, or later at level 4. This will depend largely upon the individual circumstances and requirements of the candidates. Centres may therefore wish to adopt an approach where the delivery of this unit is timetabled for level three but consideration could be given to enabling ease of access for level 2 and 4 candidates who may wish to take this unit at a stage of their studies that is considered different to the ‘norm’. Achievement of this unit is not dependant on achievement of any other units of the qualification hence it will be suitable as a stand alone unit of study.

The unit has been developed, using the existing AAT *Guidelines on Professional Ethics*, which are in turn based upon principles approved by the International Federation of Accountants (IFAC). The approach has been to extract and assimilate the most critical requirements that reflect professional conduct and competence in the accounting sector.

Whilst this unit is of a generic nature it is nonetheless seen as *pivotal* to ensuring that candidates are fully aware of the professional and ethical qualities required of them in their current or future role as accounting technicians. The ethics unit will also provide those candidates intending to progress beyond the technician level and into the professional sponsoring body qualifications with a sound basis for a seamless transition within this particular aspect of their studies.

Unit content

This unit requires the candidate to:

Gain knowledge and understanding of ethical principles and demonstrate an ability to apply these within accounting practice.

The assessment of this unit is:

By means of simulation only with results submitted to the Skills Test section at the AAT. There is no exam for this unit. The simulation /skills test will be written by the AAT but marked by centre staff. A suitable proportion/sample of completed simulations will form the basis of a national external quality assurance procedure and the methodology for this procedure will be clearly communicated to each centre.

The unit is broken down into three elements:

32.1 Apply general principles and procedures for ethical compliance expected within the accounting sector

32.2 Develop, maintain and apply ethics in employer /employee situations.

32.3 Develop, maintain and apply ethics in public practice.

The **first** element is essentially *general* in nature and is intended to set the scene for the standards of professional behaviour expected from an accounting technician. The element sets out what is required of an individual to demonstrate a professional commitment to working within the fundamental acceptable principles of honesty, integrity, objectivity, professional and technical competence, due care, confidentiality and professional behaviour and within the overall scope of the latest AAT guidance on ethics. The candidate should be able to differentiate between those aspects of professional practices requiring confidentiality and those aspects where it is appropriate to disclose confidential information. The element requires the candidate to recognise the principles of effective continuing professional development (CPD) and to perform all duties within the scope of the latest ethics guidance.

The **second** element is essentially concerned with the candidate's ability to demonstrate appropriate skills in ethical procedures as an *employee*. For example, the candidate must be able to describe the culture of an organisation that would best support high ethical values. The student should also be aware of indicators of low ethical values within an organisation and what steps they can take to raise these ethical values. They should also be aware of their own limitations and the problems or issues this creates.

The **third** element is essentially concerned with issues associated with competent performance in the context of ethics as required in *self-employment* as an accounting technician.

Where should tutors start?

When teaching this unit tutors must stress the relevance and/value of *all three* elements to *all* candidates. The unit should be delivered in a manner which ensures that the content is accessible and meaningful to all 'categories' of candidates, whatever their individual background. For example, the tutor may wish to clarify at the earliest possible opportunity that whatever the context of a candidate's current work role, the purpose of this unit is to ensure that each individual candidate will be aware of and know how to manage issues of ethics in a wide range of professional contexts. This concept is vital to ensure that candidates are able to transfer the knowledge and understanding of ethical issues between different contexts of engagement – such as employment or self-employment. Currently around five percent of the AAT membership is self employed hence it is important for all *student* members to be made aware of and to be assessed on those aspects of ethics relating to self employment. A sizeable proportion of candidates are likely to follow this route following completion of the AAT qualification or they may decide to progress to self-employment at some point in the future. Tutors should therefore clearly stress the rationale and value for equipping all student members with a wide reaching understanding of the ethical dimensions to equip them for *both* employment and self-employment. Tutors should also acknowledge that some candidates may not be in relevant work and case study type resources should form the basis of their learning.

The structure and presentation of this unit

The structure of this unit follows an element based approach which is supported by a range statement followed then by the knowledge and understanding required to ensure competent performance.

The Performance criteria set out what a candidate must do to claim competence and the range statement clarifies the ways in which performance should be contextualised.

The presentation format of this unit follows standard AAT practice. Terms appearing within individual performance criteria are at times re-qualified as range statements to 'spell out', or expand on what that term covers.

The following information is a reminder of the range statements that are attached to each of the three elements.

Element 32.1: Apply general principles and procedures for ethical compliance expected within the accounting sector

Performance in this element relates to the following range:

Fundamental principles include -

Integrity, objectivity, professional and technical competence, due care, confidentiality, professional behaviour

This range is included to ensure that all students are familiar with all the principles necessary to achieve the objectives of the profession.

Professional work *Situations* includes -

Provision of services as self employed; preparation of financial statements for client or own organisation, performance of internal audit services. Provision of financial management services, acceptance of gifts

Professional services include:

Taxation; VAT calculations; financial management; consultancy;

Sources of information for CPD include: the internet, professional journals, professional body network opportunities, organisational /company training updates; AAT on-line forums and the Accountancy Web internet site.

Confidential information and disclosure of information: basic duties, usage, non disclosure and disclosure when expressly authorised by client, or legal, regulatory or professional duty.

Contractual:

Nature of service/contract, responsibilities, fees, due care, ownership, lien.

Organisational contexts:

Inland Revenue, Customs and Excise, client organisations, employers, the professional bodies

Communications and personal skills:

Communication with peers, superiors, clients, external bodies and agencies and **including** specifically **skills** of negotiation, critical decision making, discussion, letter and report writing.

Element 32.2: Develop, maintain and apply ethics in employer/employee situations.

Range Statement:

Cultural values: openness, trust, integrity, respect, empowerment, accountability.

Procedures: seek confidential independent or professional counselling and advice, keep accurate records of meetings/discussions, persuade employer not to perpetuate action, advise client of ethical and legal considerations, 'enforced' resignation.

Acts –(Illegal or unethical); Fraud, other illegal activity, falsification of records, supply of information or statements that are misleading, false, or deceptive, client influence, employer influence, actions of delegated staff.

Performance in this element relates to your professional conduct with:
peers, employers, superiors and subordinates

Element 32.3: Develop, maintain and apply ethics in public practice.

Range Statement:

Specific situations and professional independence: simultaneous engagement in other related business; ownership or interest in client's companies; personal and family relationships; agency commission; outstanding fees.

Recommendations to policy on performing recurring work for a client: where work is taken over **from** another professional advisor, and where work is handed over **to** another professional advisor.

Performance in this element relates to the **following contexts:**

Work Assignments; taxation; reporting; accounting services; advertising.

The Knowledge and Understanding required for the Ethics Unit:

In common with other units the knowledge and understanding component of this unit will lend itself well to written questioning and hence will form a significant part of the skills based assessment. The candidate will be required to demonstrate clear evidence of critical thinking as they will be required to distinguish between different possible scenarios presented as ethical problems for an accounting technician - within the context of an AAT skills test- based upon cases study material.

To perform this unit effectively the candidate will require knowledge of:

- 1. The guidelines of your professional body**
 - including professional liability and negligence
- 2. A principle based approach to professional ethics.**
- 3. Legal considerations: UK or own country, with particular consideration of**
 - The common types of fraud,
 - Ownership of records,
 - Lien: retention of books and other documentation

From the knowledge aspects detailed in the list above the following notes are intended to clarify the anticipated coverage

1. The guidelines of your professional body

All candidates must be familiar with and understand the content of the most recent guidelines on Professional Ethics produced by the AAT.

2. A principle based approach to professional ethics.

What is a principle based approach?

A principles based approach means using a framework of professional ethics to make decisions based on principles rather than using a system of rules and regulations.

It means making ethical decisions based on the **fundamental principles** outlined i.e:

integrity, objectivity, professional and technical competence, due care, confidentiality and professional behaviour.

The fundamental principles are of a general nature. They do not generally solve ethical problems in specific cases and must be applied in conjunction with detailed guidelines on professional ethics. The professional body guidance is most likely to be in keeping with the guidance set by the International Federation of Accountants (IFAC) which advocates that people training for and practising in accounting should be well grounded in professional values, attitudes and ethics. A principle based approach needs to consider the process of enquiry and how judgement on an issue is reached. Furthermore, the principle-based approach compared to a rule-based approach may be considered as follows:

A principle-based approach means that you look at the objective that is to be achieved and focus on that objective.

A rule-based approach means that you apply the rule exactly as stated regardless of the circumstances (i.e. literally).

For Example: Your client is blind and there is a requirement for you to send them a written letter of engagement.

- rule-based approach: you would need to send them a written letter of engagement
- the purpose of a letter of engagement is to make each party aware of their rights and responsibilities (this is the principle). Although blind person cannot read a written letter of engagement, they could still be made aware of their rights and responsibilities if it is in braille. Therefore, you would send them the letter in braille.

Example 2: You visit your client who is a dealer in architectural salvage. He sells an item to a customer for £15,000 and the customer offers to pay in cash.

- rule-based approach: you report your client to NCIS
- principle-based approach: you advise your client not to take the cash without verifying the identity of the customer under the Money Laundering Regulations. He does not take your advice, so you report him to NCIS.

3. Legal considerations: UK or own country

The candidate should have an awareness of but not necessarily a working knowledge of the legislation that supports ethical practices. The current edition of the Guidelines on Professional Ethics contains several simple references to the law associated with ethics (in the UK only). These references are clearly identified within the text of the guidelines and are therefore not repeated again within these guidance notes – tutors should however familiarise themselves and the candidates fully with the relevant points.

The following is further guidance and a brief indicator of breadth required:

- (i) Money Laundering Regulations and Proceeds of Crime Act: the students need to have a working knowledge of e.g. what constitutes money laundering, what a person has to do when they discover money laundering and the implications of failing to follow the regulations; and
- (ii) Taxes Acts - the crimes and punishments in relation to VAT/Personal and Business Tax.

With regard to other laws, the students would only need to know these to the extent that they are mentioned in the Guidelines on Professional Ethics e.g. what lien means and what constitutes lien. See also point 6.

4. The common types of fraud

This aspect will require the candidate to have an appreciation of the common types of fraud within the business environment. e.g. fictitious employees and suppliers - and possibly a basic understanding of methods of detection. The candidate will be required to have some awareness of contemporary and past published examples of failures and avoidance of controls constituting fraudulent behaviour, for example, high profile fraud cases with ethical dimensions. – this will set the theory of study for this unit within a realistic and up to date context making it more meaningful for the candidates.

5. Ownership of records

The candidate should be familiar with the rules concerning ownership of books and records arising from a client and a professional person relationship – in the UK this is mainly derived from statute and case law. The candidate must be able to differentiate between the rules applicable when acting as a principal for a client and when acting only as an agent. They must also have a basic knowledge of the differences in ownership in relation to taxation documentation.

6. Lien: retention of books and other documentation

The candidate will need to understand the key principles of Lien. The candidate will be required to have knowledge of the three conditions that constitute a right of lien.

7. Professional liability

The candidate will be required to demonstrate knowledge of professional liability within the context of professional negligence. It does not include a requirement for the candidate to know about liability arising from other causes (for example criminal acts). Candidates should be familiar with examples of recent cases where substantial sums have been claimed from accountants in claims for damages for negligence. Candidates should be aware of how and when they can disclaim professional liability and when this could be considered unreasonable. Candidates must be aware of the requirement for the self-employed accounting technicians to maintain adequate professional indemnity insurance

Other general considerations for centres when planning for the delivery of this unit.

Pre course reading

Candidates could be given pre course reading for this unit – which should include for example the AAT Guidelines on Professional Ethics.

The unit is not a core accounting unit and hence has the potential for delivery using a variety of methods and may have potential for more flexible and innovative teaching and learning strategies since the tutor will not be constrained by the timings of the exams.

Teaching strategies

Tutors and trainers should provide an overview of the unit to candidates before seeking to deliver the individual components of the three elements. Tutors should also consider developing generic skills such as objective analysis, critical thinking, negotiation and effective communication before engaging students in considering ethics-related situations.

As most candidates will be attempt this unit at level 3 it could be assumed that individuals would have sufficiently developed study skills for centres to follow a student centred approach to the delivery of this unit. This may involve the use of work books and tutorial text. The learning could be supported with group work and discussions to enable candidates to contextualise facts within a framework of situations relevant to them and which would prepare them for case studies in preparation for final assessment. The use of case studies is desirable and candidates should be encouraged to follow real cases in the media where poor decisions have real consequences.

It is not appropriate to stipulate a set number of guided learning hours for this unit. Over the years centres have developed very flexible programmes responsive to student and employer needs – there is no reason for this to discontinue. It is anticipated however that on average centres may wish to allocate at least 30 hours study time to the delivery of this unit.

Potential overlap (in delivery) to other accounting units or key skills

The unit could be taken at level 3 or level 4 and since there is some obvious crossover in the content proposed for this unit and the current unit 10 MSP there is strong potential for exemption, or integration or ‘compensation’ from the delivery side in areas such as fraud, colleague support and development etc. This potential should be explored to ensure there is no perception by the candidates that their effort is duplicated or that there is unnecessary redelivery or repeat of content within the overall syllabus.

In addition to the specific learning outcomes for this unit, the Ethics subject matter forms an ideal basis for developing the candidate’s communication skills, at a level sufficient to provide a smoother progression for candidates from level 3 to level 4. The Ethics unit also provides an ideal forum to develop the candidate’s critical decision making skills. For example, a formative assessment of the candidates’ ability to identify from case study material an appropriate course of action in respect of an ethical dilemma - could also form the basis of the candidates’ evidence of critical decision-making or problem solving skills.

Unit Assessment

The assessment strategy for the Diploma pathway is based on the following conditions:

- Units that are skills-based (such as Unit 32) will be assessed through AAT simulations. The AAT maintains that the work-based evidence demonstrated through simulated tasks is capable of providing valid evidence of competence. The approach provides a more holistic assessment of the unit standards as all the tasks are based around given scenario(s). Centrally produced simulations also allow for standardisation across candidates and centres, ensuring consistency in the assessment process.
- All performance criteria, range and knowledge and understanding will be covered **over time**, but no one simulation will cover all aspects of the unit. However, each simulation will cover most aspects. Candidates are expected to address the full standards specification in their learning, and should expect to be tested on any aspect of the unit standards. If the candidate successfully completes all aspects of a simulation then the assessor should take this as demonstration of broad competence in that unit and s/he is entitled to a unit achievement credit.

Should the candidate have succeeded in most parts of the simulation, but shown weakness, lack of clarity or incorrect response to some areas, then the assessor should carry out supplementary assessment(s) to address the weakness. These assessments could take the form of oral or written questions, a short assignment, or a task, which

specifically addresses the area(s) of weakness. Such supporting evidence and the task/questions set should be attached to the simulation and made available to AAT should the candidate's work be called in for inspection by us.

- If the candidate has not succeeded in a substantial part of the simulation then additional developmental guidance should be given to the candidate. They should re-sit a different simulation on the same unit when they are ready for formal assessment.
- To maintain rigorous quality assurance and standardisation across centres and candidates, the AAT does not permit the use of centre-devised simulations on the Diploma pathway.
- Simulated assessments are subject to recall by the AAT for centralised quality assurance.