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SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ETHICS

Test Code - I N J 1 0 9 2

BRANCH - (MULTIPLE) (Date :14.08.2016)

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Answer-1 (a) :

Ethics: The term 'Ethics' has a variety of meanings. One of the meanings is '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. **(2 Marks)**

Business Ethics: In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation. **(1 Mark)**

Requirements: Being ethical in business requires acting with an awareness of -(a) The need for complying with rules (e.g) (i) laws of the land, (ii) customs and expectation of the community (iii) principles of morality (iv) policies of the organization and (v) general concerns such as the needs of others and fairness.(b) How the products, services and actions of a business enterprise, can affect its stakeholders (i.e. employees, customers, suppliers, shareholders and community society as a whole) either positively or negatively. **(2 Marks)**

Answer-1 (b) :

1) **The Common Good Approach:** The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others-especially the vulnerable-are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of Laws, effective police and fire departments, health care, a public educational system, or even public recreational areas. **(3 Marks)**

2) **The Virtue Approach:** A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, "What kind of person will I become if I do this?" or "Is this action consistent with my acting at my best?" **(3 Marks)**

Answer-2 (a) :

According to J. Wolfensohn, President of the World bank, "Corporate governance is about promoting corporate fairness, transparency and accountability". It is concerned with structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organisation are set and achieved, how risk is monitored and assessed and how performance is optimized. **(2 Marks)**

Corporate Governance can also be defined "as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources." **(1 Mark)**

Benefits of goods Corporate Governance:1. Protection of investor interests and strong capital markets,2. Studies show clear evidence that good governance is rewarded with a higher market valuation.3. Ensure commitment of the board in managing the company in a transparent manner. **(2 Marks)**

Answer-2 (b) :

1) The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. **(1 Mark)**

2) CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders' expectations and enhancing shareholders' values. **(1 Mark)**

3) Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment. **(1 Mark)**

4) Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. **(1 Mark)**

- 5) Need for social responsibility:1. The iron law of responsibility2. To fulfill long term self-interest3. To establish a better public image4. To avoid government regulation and control5. To avoid misuse of National Resources and Economic Power6. To convert Resistances into Resources7. To minimise Environmental damage. (3 Marks)

Answer-3 (a) :

Ethical decisions are influenced by three key factors:Individual moral standards, the influence of managers and co-workers and the opportunity to engage in misconduct. While one may have great control over personal ethics outside the workspace, co-workers and the management exert significant control on one's choices at work. The activities and examples set by co-workers along with rules and policies are critical in gaining consistent ethical compliance in an organization. If a company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for unethical behaviour. Example: If the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long distance phone calls at work and charging them to the company, one may be more likely to do so also. In addition having sound personal values contributes to an ethical work place. (3 Marks)

Some examples of ethical issues faced by an individual in the workplace are:

1. Relationships with suppliers and business partners
 - a. Bribery and immoral entertainment
 - b. Discrimination between suppliers
 - c. Dishonesty in making and keeping contracts
2. Relationship with customers
 - a. Unfair pricing
 - b. Cheating customers
 - c. Dishonest advertising
3. Relationship with employees
 - a. Discrimination in hiring, promoting, etc
 - b. Unequal treatment
4. Management of resources
 - a. Misuse of official funds
 - b. Tax evasion

(2 Marks)

Answer-3 (b) :

Harassment is "tormenting by subjecting to constant interference or intimidation". Law prohibits harassing acts and conduct that "creates an intimidating hostile or offensive working environment," which could be a term or condition of an individual's employment, either explicitly or implicitly or such conduct which has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile or offensive working environment. Another type of harassment is sexual harassment – situations in which an employee is coerced into giving in to another employee's sexual demands by the threat of losing some significant job benefit, such as a promotion, raise or even the job. Sexual harassment is prohibited and 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 was occurring and regardless of whether it was "forbidden by the employer." (5 Marks)

Answer-4 (a) :

An organization, whether a business or a government agency, is first and foremost a 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 and wrong, and feel free to discuss and ask questions about ethical issues and report violations, significant problems could arise, including:

- 1) Increased risk of employees making unethical decisions
- 2) Increased tendency of employees to report violations to outside regulatory authorities (whistle blowing) because they lack an adequate internal forum
- 3) Inability to recruit and retain top people
- 4) Diminished reputation in the industry and the community
- 5) Significant legal exposure and loss of competitive advantage in the marketplace.

(5 Marks)

Answer-4 (b) :

Ecological ethics is based on the idea that the environment should be protected not only for the sake of human beings but also for its own sake. The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal. (2 Marks)

Business and Industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play major role in protection the environment and conservation of resources. Business, Industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development. Sound management of wastes is among the major environmental issues for maintaining the quality of Earth's environment and achieving sustainable development. (2 Marks)

If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pays Principle". Removing subsidies that encourage environmental damage is another measure. (2 Marks)

Answer-5 :

Familiarity threats for finance and accounting professionals working as consultants or auditors

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
- A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.
- A former partner of the firm being a director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement.
- Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- Long association of senior personnel with the assurance client. (3 Marks)

Familiarity threats for finance and accounting professionals working as an employee

- A finance and accounting professional, in a position to influence financial or non financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
- Long association with business contacts influencing business decisions.
- Acceptance of a gift or preferential treatment, unless the value is clearly insignificant. (3 Marks)