

TECHNICAL STAFF PAPER

Subject: Revised Scope of APES GN 41 *Members in Business in Senior Finance Roles (Incorporating comments received from Professional Bodies in October 2013)*

Project Objective:

The objective of the project is to assist Members in Business in understanding how to identify ethical issues and practices to consider when acting in senior finance roles where they will be dealing with a range of stakeholders when addressing divergent issues. The pronouncement will be based on the requirements of APES 110 *Code of Ethics for Professional Accountants* (the Code) and will bring to the forefront the specific requirements and guidance for Members in Business from Part C of the Code.

The guidance will be tailored to the specific circumstances and relevant ethical quandaries faced by Members in Business in particular senior finance roles. The project recognises the important role of Members in senior finance positions in promoting the ethical conduct within an organisation. The project also recognises the IESBA has a current project to review Part C of the Code and will take note of the significant body of reference material developed by the Professional Accountants in Business Committee of IFAC (PAIB). In developing the pronouncement, Technical Staff will engage with appropriate contacts at the Joint Accounting Bodies who are engaged with their Members In Business committees.

Some recent international developments and topics of interest to Members in Business include:

- IFAC Discussion Paper – The Role and Expectations of a CFO;
- Australian Prudential Regulation Authority (APRA) standards including:
 - SPS 220 Risk Management;
 - SPS 510 Governance; and
 - SPS 520 Fit & Proper;
- Corporate governance and the recently updated COSO Framework for Internal Controls;
- Risk management including hedging in commodities and financial markets;
- Recently released International Integrated Reporting Framework, proposed Sustainability Accounting Framework and increasing investor demand for environmental, social and governance disclosures¹;
- Strategic project and investment appraisals and sustainable value creation²;
- Increasing direct contact and dialogue with fixed-income and equity investors;
- Improvements to the Auditor's Report to highlight matters related to the audit process³; and

¹ <http://www.ifac.org/about-ifac/professional-accountants-business/publications-resources?page=2>

² <http://www.ifac.org/about-ifac/professional-accountants-business/publications-resources>

³ <https://www.ifac.org/publications-resources/paib-committee-response-iaasb-invitation-comment-improving-auditor-s-report>

- The increasing importance of technology and management information systems as well as integrating the Business Reporting Supply Chain and Financial Reporting Supply Chain⁴.

“Strawman” of key requirements and guidance in proposed APES GN 41

The proposed APES GN 41 includes guidance in respect of:

1. Fundamental responsibilities of Members in Business
 - Abbreviated format similar to presentation in APES GN 20 ED 04-12 with Members in Business referred to the fundamental principles in the Code for all Members and Part C for responsibilities and requirements specific to Members in Business.
 - This section could follow the approach of APES GN 30 *Outsourced Services* which puts the application of the conceptual framework into the context of the pronouncement. For APES GN 41, this could bring in contextual matters specific to CFOs/senior finance personnel (SFPs) and how they impact on compliance with the ethical principles, e.g. involvement in cross-border negotiations, outsourcing, tax schemes, bribery or anti-money laundering.
2. Roles and responsibilities of the CFO and SFP in the organisation

Members in Business who act as a CFO/SFP have a diverse range of roles and responsibilities such as:

- Carrying out duties on internal management committees;
- Interactions with the Board and Directors, including Board reporting and conflicts in responsibilities around advice provided to the Board;
- Dealing with regulators and other government authorities;
- Dealing with investor relations, analyst, stakeholder briefings and related continuous disclosure obligations; and
- Divisional or geographical responsibilities.

These are proposed sub-sections that will contain guidance to understand specific features and functions which in these roles give rise to threats to the fundamental principles.

Guidance/illustrative examples/tables with content related to some of the existing responsibilities for CFOs/SFPs such as risk management, strategy, business processes and internal controls and information technology, as well as emerging roles in environmental matters, sustainability, integrated reporting and corporate social responsibility and how they may lead to conflicts of interest.⁵

The role of Members in Public Practice who function as outsourced CFOs will also be considered.

⁴ <http://www.ifac.org/about-ifac/professional-accountants-business/publications-resources?page=3>

⁵ A number of these roles are discussed in the recent IFAC Professional Accountants in Business press release from May 2013 <<http://www.ifac.org/news-events/2013-05/paib-enevs-may-2013>>

Members in Business who are CFOs/SFPs when undertaking the different roles noted above will engage with a number of stakeholders as well as deal with a range of issues as identified in Appendix 1.

3. Interactions with Those Charged with Governance, Audit Committees and Due Diligence Committees
 - Guidance on ethical issues with respect to this function of the CFO/SFP role including reference to APES 350, mergers and acquisitions, divestments and debt raising activities.
 - Guidance on circumstances where a Member is on the Audit Committee.
4. Dealing with potential conflicts of interest arising from different roles and responsibilities
 - A general statement with direct reference to APES GN 40.
5. Guidance specific to Members in Business in Small and Medium sized Entities
 - Insights on special considerations for SMEs and how the guidance can be made scalable.
 - Guidance on how the CFO/SFP can deal with the concentration of responsibilities and the related conflicts that arise in SMEs. This can include impact of different legal and ownership structures, such as private and family owned enterprises.
6. Interactions with the Auditor and the Management Representation process
 - A general statement with reference to the proposed APES GN 42 *Representations by Members in Business in Senior Finance Roles*.

The proposed Guidance Note could also include illustrative scenarios of ethical issues faced by Members in Business acting as CFOs/SFPs and refer to the conceptual framework in the Code/APES GN 40.

Appendix 1 – Stakeholders engaged by the CFO/SFP and key issues

Stakeholders the CFO/SFP will engage with

- CEO
- Board of directors
- Senior management of the organisation
- Divisional financial controllers and finance staff
- Board subcommittees and Advisory committees (e.g. audit, due diligence, risk, etc.)
- External audit
- Internal audit
- Shareholders/investors/potential investors/creditors/debt holders
- Community (public relations)
- Treasury
- IT Function
- Authorities, regulators and policy makers
- Bank syndicates
- Employees

Key Issues

- Establishment of an ethical business culture and corporate governance
- CFO's management support role to the Chief Executive (CEO)
- CFO's stated/unstated role to the Board as an officer of the company
- Potential for CFO to be active simultaneously as management, executive director and Board member
- Financial reporting and audit issues
 - establishment of a financial management framework
 - finance functions i.e. tax, treasury, financial accounting, management accounting, law, audit
 - communication of significant matters to the audit committee
 - dealing with external and internal audit issues
- Involvement in tax strategy, selection and application of tax structures, and tax management
- Management reporting issues
 - strategic planning and operational aspects
 - business leadership – determine policy, program and outcome strategies
 - business management
 - performance management
- Risk management
- Investor relations and continuous disclosure obligations
- Forward looking statements
- Dealing with credit rating agencies
- Technological development – strategic application of technology, outsourcing issues, e-business technology
- Human resources
- Regulatory challenges i.e. regulation and policy development
- Globalisation
 - the role of CFO and physical set up of the finance function (business expansion)
 - culture and cross-border working relationships
 - extra-territorial reach of selected legislation (e.g. UK anti-bribery act)
 - different regulatory and legal requirements across borders
- Environmental issues – corporate social responsibility (CSR) reporting and sustainable business practices