

LEADING WITH
KNOW
LEDGE

TH8 Ethical conflicts and the CFO

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Accounting Professional & Ethical Standards Board (APESB)

Have you ever been asked?

- Can you find some more profit?
- How can we position this in the market?
- Can we present this so that the market supports it?
- Can you get the auditors to overlook this item?
- Can we get everything out of the way this year?
- How much can we put away for next year?
- Is this really material?
- What assumptions need to change to get the answer we want?

The Importance of Ethics

- **What's been behind the corporate scandals and failures of the last 20 years?**
 - insufficient knowledge and technical skills?
 - inappropriate behaviour?
 - underlying factors
- **What does it mean to be part of a profession?**
 - Responsibilities
 - Benefits

What it means to be part of a profession

Responsibilities

- training
- competence
- putting clients' interests and the public interest ahead of personal benefit
- being diligent in seeking the best outcomes
- complying with a code of ethics

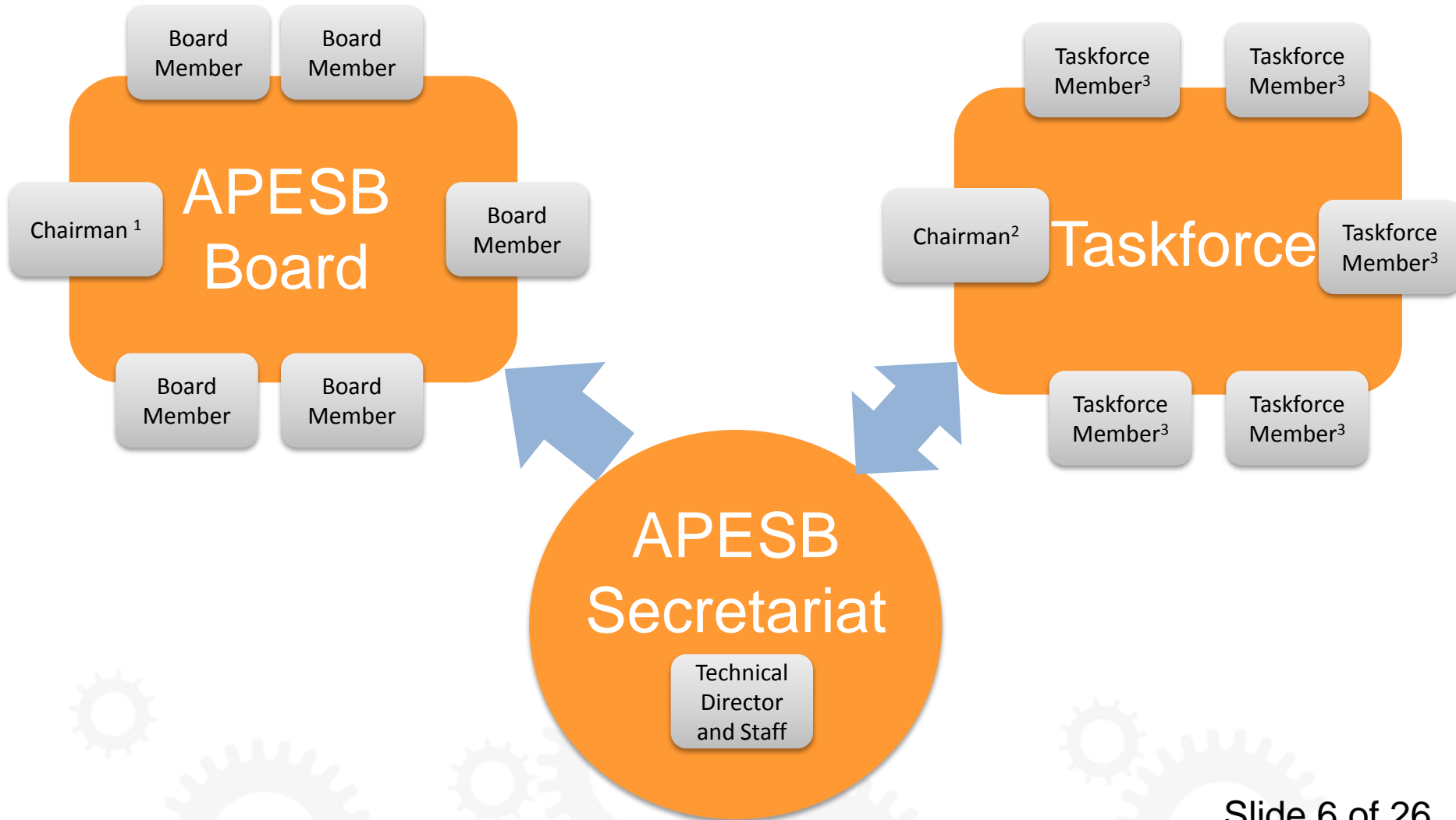
Benefits

- a privileged position in society
- higher than average income

Role of the Accounting Professional and Ethical Standards Board

- Created in February 2006 by CPA Australia and the Institute of Chartered Accountants in Australia. The Institute of Public Accountants joined later.
- APESB is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three major professional accounting bodies must abide.
- To date APESB has released 14 Standards and 1 Guidance Note, with 2 more at Exposure Draft stage.
- More information? See www.apesb.org.au

APESB Functional Structure



Ethical Obligations of the Professional Accountant

- **Adhere to APES 110 - Code of Ethics for Professional Accountants:**

“A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest”

- **The Code has five fundamental principles –**
 - integrity;
 - objectivity;
 - professional competence and due care;
 - confidentiality; and
 - professional behaviour.

What do the Five Principles Mean?

- **Integrity** - *to be straightforward and honest in professional and business relationships*
- **Objectivity** - *to not compromise your professional or business judgment because of bias, conflict of interest or the undue influence of others*
- **Professional competence and due care** - *to maintain your professional knowledge and skills at the level required to ensure that clients or employers receive competent professional service, and to act diligently in accordance with applicable technical and professional standards when providing your services.*

What do the Five Principles Mean? (cont)

- **Confidentiality** - *to refrain from (a) disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority from the client or employer or unless there is a legal duty to disclose; and (b) using confidential information acquired as a result of professional and business relationships to your personal advantage or the advantage of third parties.*
- **Professional Behaviour** - *to comply with relevant laws and regulations and avoid any action or omission that may bring discredit to the profession.*

The Code uses a 'threats and safeguards' approach to compliance. Threats are:

- Self-interest threat
- Self-review threat
- Advocacy threat
- Familiarity threat
- Intimidation threat

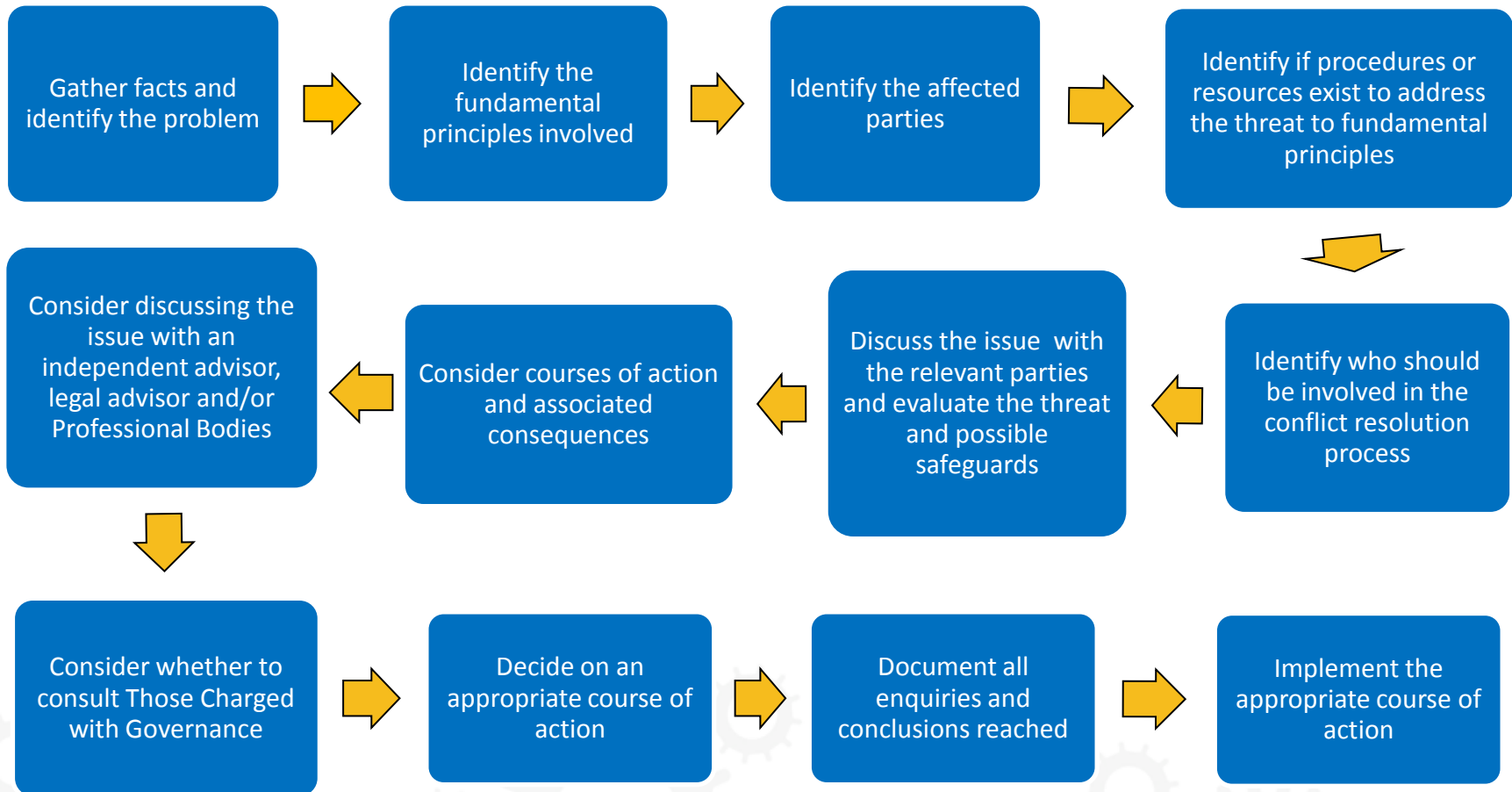
The Code uses a 'threats and safeguards' approach to compliance. Safeguards are:

- Safeguards created by the profession, legislation or regulation
- Safeguards in the work environment

APESB's Guidance Note 40 (GN40) - *Ethical Conflicts in the Workplace*

- Specifically designed for Members in Business (i.e. as opposed to Members in Public Practice)
- Exposure Draft released September 2011
- Comments received from 6 respondents including the Joint Accounting Bodies and G100
- GN40 released and effective from March 2012
- Recommends a structured approach by Members in Business when considering ethical issues
- Provides 21 case studies to guide Members in Business

A Structured Approach for Considering Ethical Issues



If all else fails

- What if the Member in Business believes that the threat to compliance with the fundamental principles has not been satisfactorily resolved?

If all else fails, then

- If, after exhausting all relevant possibilities, the ethical issue remains unresolved, the Member in Business should determine whether it is appropriate to refuse to perform the duties in question or to be associated with the information the Member knows is misleading or to resign altogether from the employer.

Four “Live Hypothetical” Case Studies

- Expenses – “mine or theirs”
- “Free” use of software
- “Giving” yourself a pay rise
- Ignorance is no excuse

Case Study 1 - Significant personal expenses claimed on company

- Alex, the finance manager of a Melbourne company is concerned at the CEO's frequent trips to Perth, with her time and expenses charged to the company. The trips seem to have limited relevance to the company's activities. Alex knows that the CEO was recruited from Perth and still has a number of close family members there.
- Alex raises the issue with the CEO who explains that she has a verbal understanding with the chairman of the company who is aware of the nature and purpose of the visits.
- What fundamental principles of the Code may be threatened here? What approach should Alex adopt?

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

Case Study 1

Ethical principles involved

- **Integrity** - Would processing the payments without an adequate explanation or supporting documentation be seen as honest and fair? Would it be considered legal and acceptable to taxation authorities?
- **Objectivity** - How will Alex demonstrate his objectivity, actual or perceived, from the CEO?
- **Professional competence and due care** - Would allowing the expense payments to be processed without adequate explanation and supporting documentation be seen as acting with due skill, care and diligence?
- **Professional behaviour** - How should Alex proceed so as not to discredit himself?

Case Study 2

Unlicensed software

- Jamie is a young accountant with qualifications in accounting and IT. He has just been hired as an accounting assistant by a mid-sized retail company and is on probation for 2 months.
- During his second week, Megan the financial controller hands him a copy of Microsoft Office and asks him to install the software on 25 computers in the office. She says the new software is needed for Jamie to perform his accounting role. Jamie is about to start the installation when he asks Megan if the software is a licensed copy. She laughs and says he has a lot to learn. She says that buying a licensed copy would cost a lot more with no added benefit to the company.
- What fundamental principles of the Code may be threatened here? What approach should Jamie adopt?

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

Case Study 2

Ethical principles involved

- **Integrity** - Can Jamie overlook the fact that the company does not have the appropriate licences to use the software and maintain his integrity?
- **Objectivity** - How will Jamie manage the conflict between integrity and his desire to secure his job at the company at the completion of his probationary period?
- **Professional behaviour** - Can Jamie ignore the information acquired and still satisfy the principle of professional behaviour?

Case Study 3

Personal financial interest in a proposal

- Stella is the finance director of a public company which has had difficulties over the last few years in attracting and retaining senior staff. Stella has been asked by the Board to develop a new benefits package to assist the company in overcoming this problem. Her own position will be covered by any revised remuneration arrangements.
- Based on extensive research and analysis, Stella concludes that to achieve the Board's objective, a significant increase in remuneration and related benefits is required.
- What fundamental principles of the Code may be threatened here? What approach should Stella adopt?

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

Case Study 3

Ethical principles involved

- **Integrity** - In view of her personal interest, how will Stella ensure that her honesty remains unquestionable?
- **Objectivity** - How will Stella remain unbiased, and consider only the relevant facts, despite her personal interest in the benefits package?
- **Professional competence and due care** - Does Stella have all the necessary skills to draw up such a package?
- **Professional behaviour** - How should Stella proceed so as not to discredit herself?

Case Study 4

Due diligence in Financial Reporting

- Jill is a non-executive director of a publicly listed property management group which has used short-term credit to rapidly increase its portfolio of investment properties. Although easily converted into longer term less risky debt in the past, the tightening of the credit market has left the company with a large amount of debt that needs to be refinanced in the short term.
- Jill has reviewed the draft financial statements and notices that the split between current and non-current debt appears not to reflect this position but the CFO explains that the accounts have been reviewed by him and the finance team and the auditors have given preliminary sign-off.
- What fundamental principles of the Code may be threatened here? What approach should Jill adopt?

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

Case Study 4

Ethical principles involved

- **Integrity** – Can Jill overlook the information available to her and maintain her integrity?
- **Objectivity** – Can Jill rely on the judgement of management and the auditors and remain objective when deciding how to resolve this matter since she is aware of differences?
- **Professional competence and due care** – How can Jill demonstrate she is acting with due skill, care and diligence?
- **Professional behaviour** - How should Jill proceed so as not to discredit herself?

Whistleblowers Beware!

- Who can you turn to?
- Employees have a duty to their employer to maintain confidentiality.
- An employee might consider 'blowing the whistle' on unethical or illegal behaviour in their organisation.
- Beware! Commonwealth and State legislation provides only limited protection to whistleblowers.
- Before you act, get legal advice or speak on an anonymous basis to an ICAA advisor.

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