

The evolution of Accounting Professional Standards in Australia

RMIT University

Melbourne, 29 September 2016

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Accounting Professional & Ethical Standards Board

Overview

- History and structure of APESB
- Structure of APESB pronouncements
- APESB's International perspective
- Corporate Collapses
- APES 110 *Code of Ethics for Professional Accountants*
- IESBA's Code Structure project
- The importance of personal integrity
- Recent business cases and the importance of corporate culture

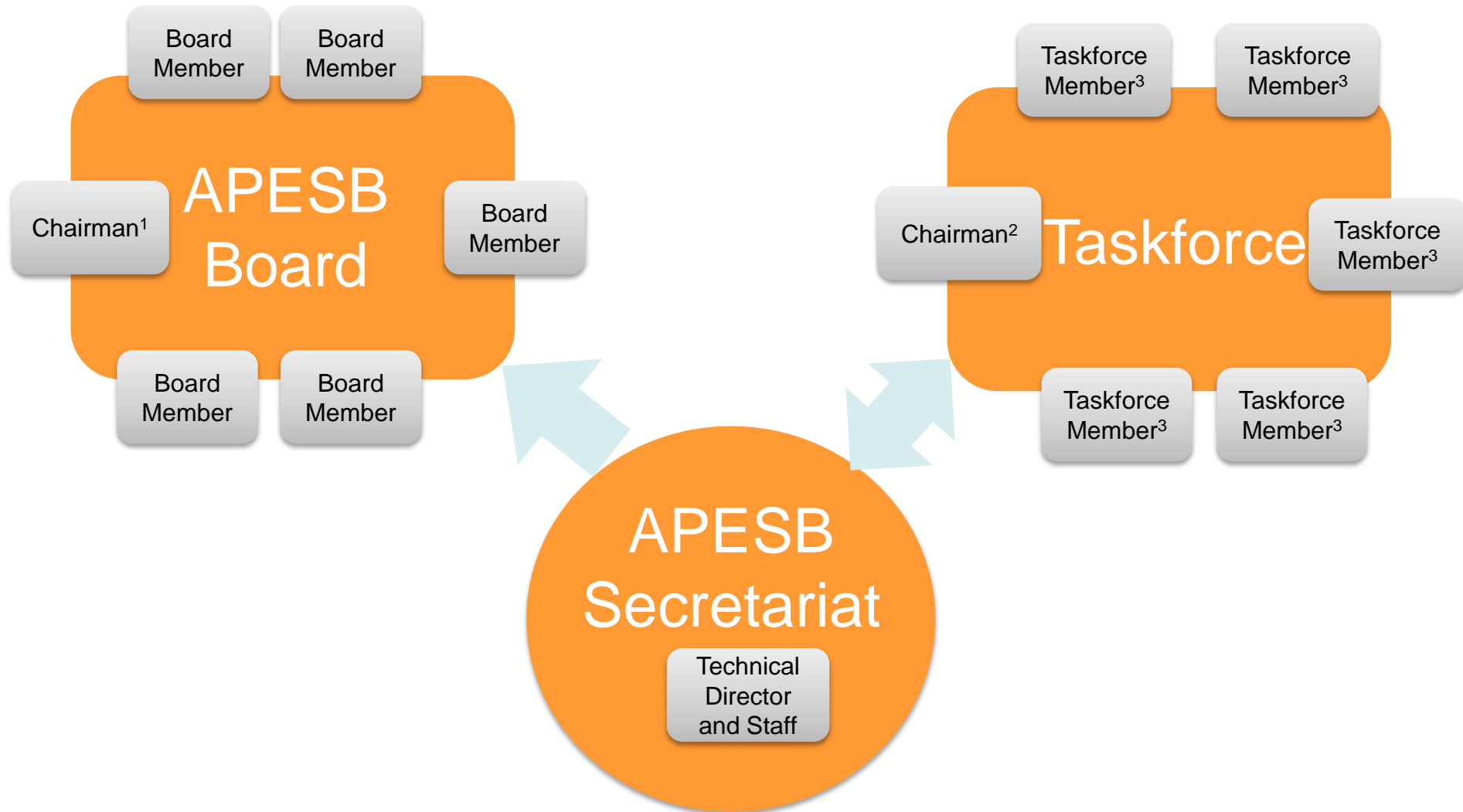
APESB History

- Established in February 2006 as an initiative of ICAA (now CA ANZ) and CPA Australia
- IPA (previously NIA) became a member in December 2006
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members of these bodies are required to comply with APESB pronouncements and are subject to disciplinary procedures of the relevant professional body or ASIC (auditors and liquidators)
- To date APESB has released 20 pronouncements consisting of 15 Standards and 5 Guidance Notes.

Board Composition

- Independent Chair
- Two Directors CPA Australia
- Two Directors CA ANZ
- One Director IPA

APESB Functional Structure

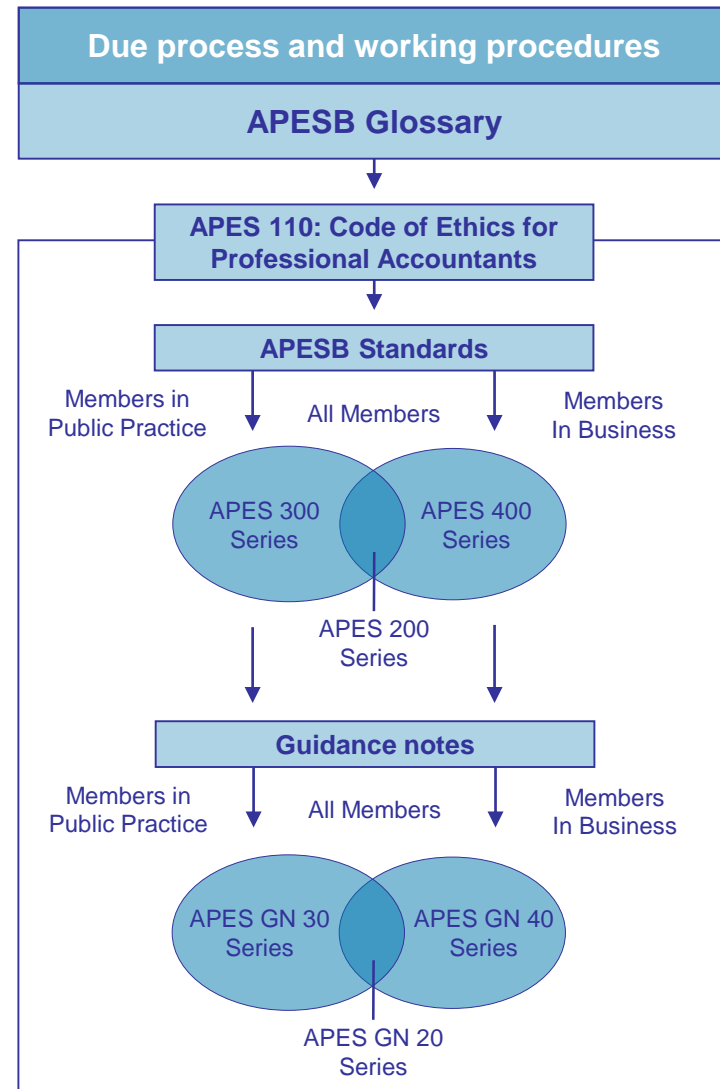


Structure of APESB pronouncements

- **Conceptual Framework**
 - Principles based
 - Mandatory for professional accountants

- **Standard**
 - Introduces principles
 - Mandatory requirements in black letter
 - Guidance and/or explanation in grey letter

- **Guidance notes**
 - Do not introduce new principles
 - Guidance on a specific matter on which the principles are already stated in a Standard
 - Guidance is only in grey letter



APESB Pronouncements to date

All members

- APES 110 *Code of Ethics for Professional Accountants*
- APES 205 *Conformity with Accounting Standards*
- APES 210 *Conformity with Auditing and Assurance Standards*
- APES 215 *Forensic Accounting Services*
- APES 220 *Taxation Services*
- APES 225 *Valuation Services*
- APES 230 *Financial Planning Services*
- APES GN 20 *Scope and Extent of Work for Valuation Services*
- APES GN 21 *Valuation Services for Financial Reporting*

APESB Pronouncements to date

Members in Public Practice

- APES 305 *Terms of Engagement*
- APES 310 *Dealing with Client Monies*
- APES 315 *Compilation of Financial Information*
- APES 320 *Quality Control for Firms*
- APES 325 *Risk Management for Firms*
- APES 330 *Insolvency Services*
- APES 345 *Reporting on Prospective Financial Information Prepared in Connection with a Disclosure Document*
- APES 350 *Participation by Members in Due Diligence Committees in connection with a Public Document*
- APES GN 30 *Outsourced Services*

APESB Pronouncements to date

Members in Business

- APES GN 40 *Ethical Conflicts in the Workplace*
- APES GN 41 *Management Representations*

APESB International perspective

International perspective

- APESB structure is unique in the world and developed one of the most comprehensive suite of professional standards in the world
- A member of the IESBA's National Standards Setters group
- APESB's past Chair was a Board member of IESBA
- APESB's current and past directors on IFAC Committees
- APESB's Submissions to the IESBA

Corporate collapses

- Examples of corporate collapses (refer Table 1)
- Increased regulations such as CLERP 9 in Australia and Sarbanes & Oxley in the US

Table 1: Corporate collapses (circa 2000/01)

Company	Problems	Losses to shareholders	Job losses
WorldCom	US \$ 4.3 billion overstatement of earnings and \$11 billion in assets	\$ 179.3 billion	30,000
Enron	Inflation of income, assets, bankrupt 2001	\$ 74 billion	6,100
Waste Management	Overstatement of income by US \$ 1.1 billion, (1992 -96)	\$ 20.5 billion	11,000
Sunbeam	Overstatement of 1997 income by US \$ 71 million then bankruptcy	\$ 4.4 billion	1,700

Source: "Fall from grace," *Business Week*, 2002

Worldcom



WHAT HAPPENED

Inflated assets by as much as **\$11 billion**, leading to 30,000 lost jobs and \$180 billion in losses for investors.



MAIN PLAYER

CEO Bernie Ebbers

HOW HE DID IT

Underreported line costs by capitalizing rather than expensing, and inflated revenues with fake accounting entries.



HOW HE GOT CAUGHT

WorldCom's internal auditing department uncovered **\$3.8 billion** in fraud.



PENALTIES

CFO was fired, controller resigned, and the company filed for bankruptcy. Ebbers **sentenced to 25 years for fraud**, conspiracy and filing false documents with regulators.



FUN FACT

Following the scandal, Congress passed the Sarbanes-Oxley Act, introducing the most sweeping set of new business regulations since the 1930s.



Enron



Paper shredder: **\$100**

Debt hidden in off-balance-sheet subsidiaries:
\$500 MILLION

Stock cashed in by executives while encouraging
employees to keep buying: **\$1.3 BILLION**

Sitting it front of a congressional committee and
claiming ignorance of any wrongdoing with a
completely straight face: **PRICELESS**

*There are some things money can't buy.
Integrity is one of them.*

GFC related corporate collapses

- Corporate collapses brought on by the Global Financial Crisis (refer Table 2)
- [Inside Job – Official Trailer](#)

Table 2: Corporate collapses due to the Global Financial Crisis

Company	Problems	Business/Social impact
Lehman Brothers	<ul style="list-style-type: none"> - Derivatives : MBS and ABS - Downgrading of credit ratings - Toxic commercial real estate assets - High leverage ratios 	<ul style="list-style-type: none"> - Majority of the 26,000 worldwide staff made redundant?
Bear Stearns	<ul style="list-style-type: none"> - Derivatives : MBS and ABS - High leverage ratios - Unrealistic fair value accounting of assets 	<ul style="list-style-type: none"> - Approximately 9,000 employees lost their jobs - Shareholder lawsuits?
ABC Learning	<ul style="list-style-type: none"> - Revenue recognition - Gearing - Weak corporate governance 	<ul style="list-style-type: none"> - 241 unprofitable day care sites for sale - Unemployment - Child care services at risk?
Opes Prime	<ul style="list-style-type: none"> - Cash and share movement irregularities - Failed margin calls 	<ul style="list-style-type: none"> - Losses of AUD 600 million?

Source: www.google.com

APES 110
Code of Ethics for Professional Accountants

APES 110 *Code of Ethics* for *Professional Accountants*

- Based on the IESBA Code
- The professional obligation to act in the Public Interest
- APES 110:
 - the framework within which APESB develops all of its professional standards and guidance notes
 - has the same style, paragraph numbering, etc. as the IESBA Code
 - has 3 main categories:
 - Part A: General Application
 - Part B: Members in Public Practice
 - Part C: Members in Business

APESB's amendments to the revised IESBA Code

- Scope & application section added
- Addition of Australian paragraphs with prefix AUST
- Additional defined terms: AASB, Administration, AUASB, Auditing and Assurance Standards, Australian Accounting Standards and Member
- Replaced “Professional Accountants” with “Members”
- Defined terms in title case

APESB's amendments to the revised IESBA Code

- Tailored definitions of: Audit Engagement, Engagement Team, Financial Statements, Firm, Member in Public Practice and Review Engagement
- Legislative references
 - Where more stringent independence requirements are imposed by the *Corporations Act 2001*, a footnoting system to warn readers has been adopted in the revised APES 110

Auditor Independence developments – 2012-13

- Australian Corporations Law amendments have resulted in:
 - For Listed Entities, the 5 year audit partner rotation period being extended by two years subject to approval of the audit committee
 - Audits firms must publish audit transparency reports
 - Additional powers given to the Australian Securities and Investments Commission (ASIC) to report on audit deficiencies in respect of audit firms as well as to communicate with Those Charged with Governance of the Clients
- AUASB's *ASA 102 Compliance with Ethical Requirements when performing Audits, Reviews and Other Assurance Engagements* makes the Code legally binding on auditors who perform Corporations Act audits
- APESB approved an additional AUST paragraph to the Code to address the risk of referral source dependence in May 2013 (AUST 290.220.1)

Public Interest Entities (PIEs)

- APESB has issued additional guidance on what entities are likely to be PIEs in Australia (effective from 1 January 2013)
 - Banks, Superannuation Entities (i.e. Entities that manage retirement savings), Insurance and Life Insurance companies who are regulated by the Australia Prudential Regulatory Authority (APRA)
 - Disclosing entities (Listed entities and others who have publicly tradeable debt or equity instruments)
 - Other issuers of debt and equity instruments to the public

IESBA's Code Structure Project

How the new Code is proposed to be structured

OVERVIEW OF THE CODE

**PART 1 (ALL PROFESSIONAL ACCOUNTANTS)
COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK
(SECTIONS 100 TO 199)**

**PART 2
PROFESSIONAL ACCOUNTANTS IN BUSINESS
(SECTIONS 200 TO 299)**

**PART 3
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE
(SECTIONS 300 – 399)**

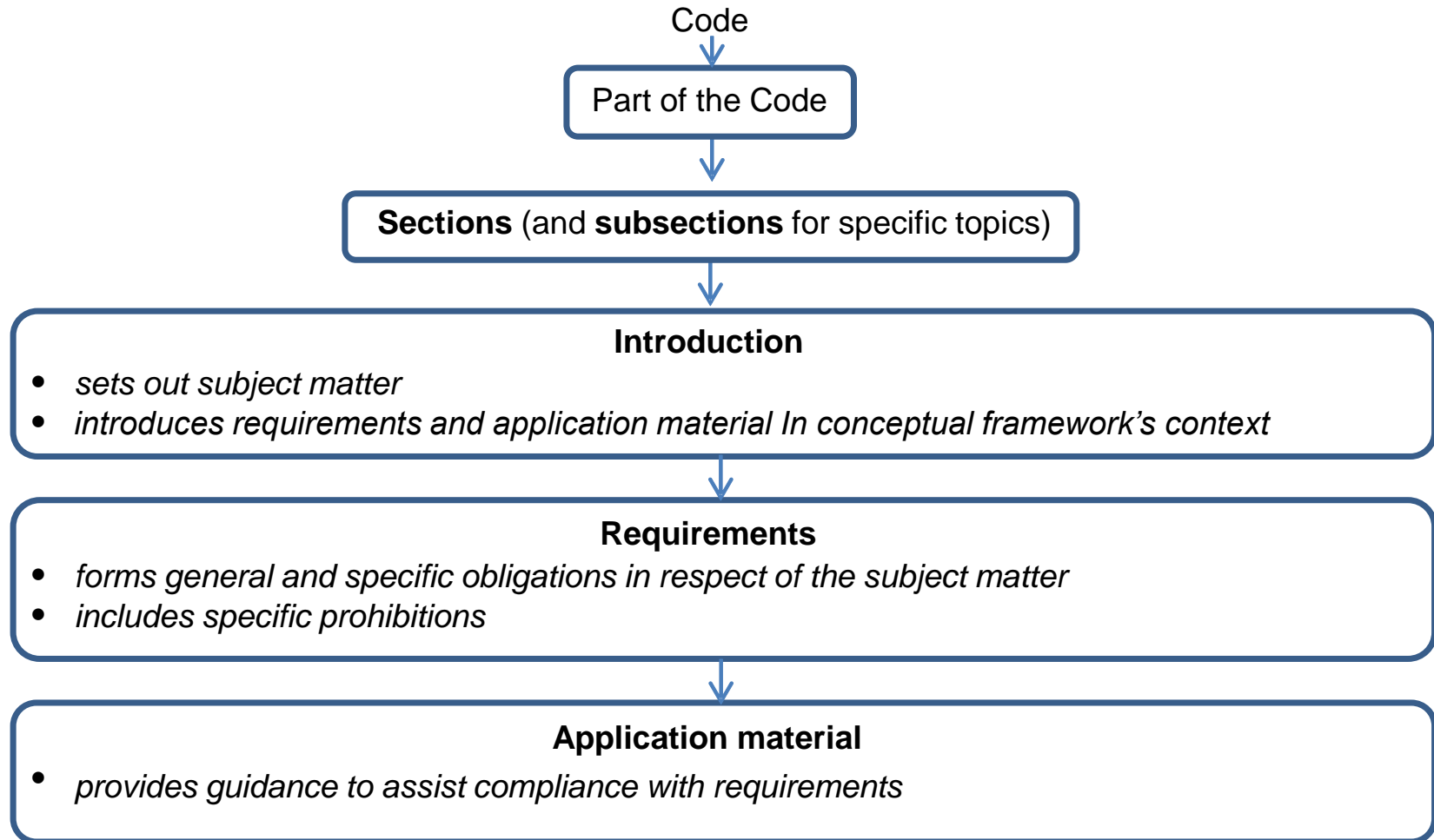
**INTERNATIONAL INDEPENDENCE STANDARDS
(PARTS 4A AND 4B)**

**PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS
(SECTIONS 400 TO 899)**

**PART 4B – INDEPENDENCE FOR OTHER ASSURANCE
ENGAGEMENTS
(SECTIONS 900 TO 999)**

GLOSSARY (ALL PROFESSIONAL ACCOUNTANTS)

How the Code is proposed to be structured



Significant Matters

1. Requirement - apply conceptual framework & comply with fundamental principles.
2. Requirements distinguished from application material.
3. Application material positioned next to requirements.

Significant Matters

4. Identification of a Firm's or an individual PA's responsibility to comply with the requirements.
5. Use of language.
6. Added Guide to the Code.

Significant Matters

7. Organised material into sections and subsections:
 - More sub-headings to facilitate navigation.
8. Independence sections moved to the end of Code:
 - International Independence Standards included in Part 4 as 4A & 4B.
9. Reorganised Code to take advantage of future electronic features.

Other Matters

1. Definition section enhanced and presented as a glossary.
2. Clarification that 'Audit' includes 'review' for independence standards.

(Guide no. 4, 4A paragraph 400.2 and Glossary)

Other Matters

3. Specific references to Network Firms.
(subsection 400.50 – 400.52)

4. New title “International Code of Ethics Standards for Professional Accountants”.

The importance of personal integrity



The Fraud of Bernard Madoff



Bernard "Bernie" Madoff

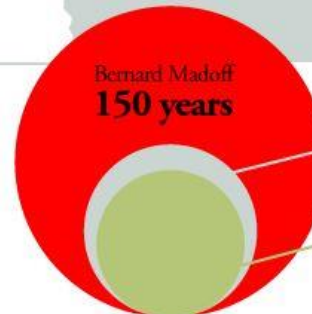
Born in the New York City borough of Queens, on April 29, 1938.

Sentenced on June 29 to 150 years in prison, pled guilty to an 11-count criminal complaint, admitting to defrauding thousands of investors of billions of dollars. He was convicted of operating a Ponzi scheme that has been called the largest investor fraud ever committed by a single person.



The countries affected by the fraud

Total cost of the fraud



Number of years sentence for those involved

- 25 years**
Bernie Ebers World comm Chief
Jeff Skilling Enron Chief
- 20 years** Tim Rigas
Chief of Adelphia communications

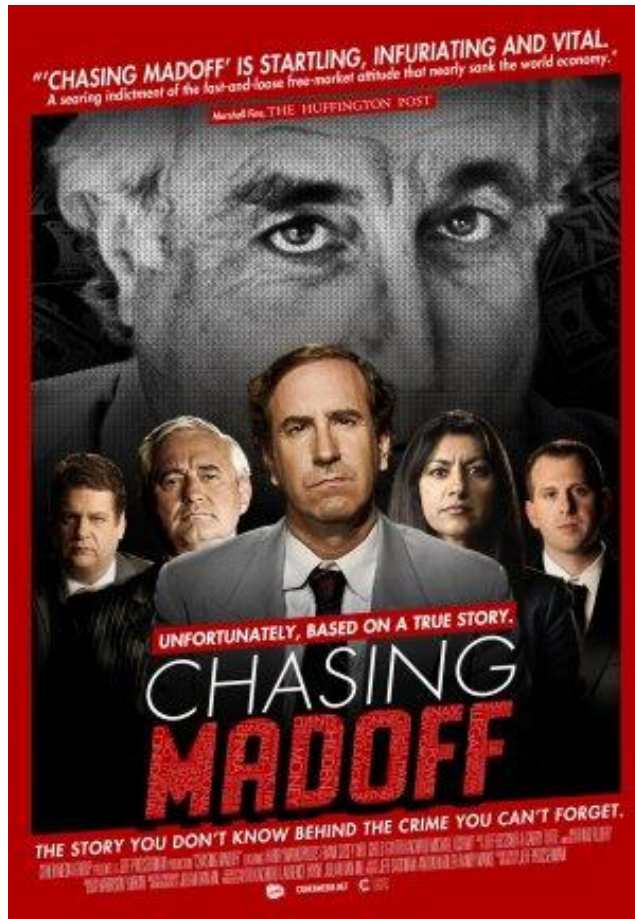
source: http://www.nytimes.com/2009/07/10/business/10madoff.html?_r=1&sq=madoff&st=ec | <http://business.timesonline.co.uk/eol/business/ins/article5733960.ece> | <http://www.bbc.com/centralated/news/5668009-madoff-screwed-the-entire-world-made-of-and-made-out>

A courageous forensic investigator...

Harry Markopolos – Independent Financial Fraud Investigator & Analyst

- Warned the US SEC's Boston office in May 1999.
- Submitted an eight page document listing red flags to the Boston Office in May 2000.
- At the time Madoff fund was estimated at US\$7-10 billion.
- Resubmitted evidence to U.S. SEC Offices in 2001, 2005, 2007 and 2008.
- The 2005 report documented 29 red flags, at which time the Madoff fund was estimated at US\$20-50 billion.
- The final loss in excess of \$100 billion

Chasing Madoff



<http://www.youtube.com/watch?v=62L7VxMDg68>

ICAS Ethics Committee

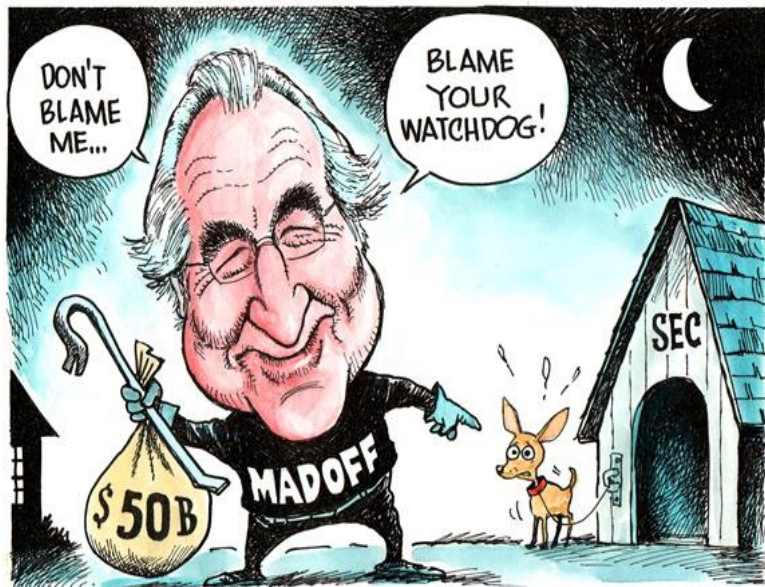
The power of one

The sixth fundamental principle –
Moral Courage ?

Consequences of fraud

Senator Ackerman on Madoff Fraud

http://www.youtube.com/watch?v=FOKSkaQoF_I



DAVE GRANLUND © www.davegranlund.com



Recent business cases

Bad ethics is good business ? - Incentives and culture drives behaviour

1. Volkswagen – Emissions (No 1 car maker)
2. 7 Eleven – Wages scandal
3. LIBOR – (the No 1 interest rate)
4. FIFA (the No 1 sporting organisation)
5. Wells Fargo – fake accounts

Importance of Corporate Culture

Key factors

1. Strong governance (i.e. Independent professional directors)
2. Roles of the Board and CEO
3. HR and people management strategy (e.g. employee engagement)
4. Alignment of corporate values with incentives, remuneration & rewards
5. Code of ethics and conduct
6. Risk management and risk culture
7. Delivering value to customers
8. Engaging with shareholders, suppliers and regulators

Ref: FRC UK study - Corporate culture key to sustainable growth

Next steps...

- For more information:

Visit: www.apesb.org.au

- For timely updates, follow the APESB page:

[LinkedIn](#) 

- To download APESB's mobile app:



Q & A session...