

AGENDA PAPER

Item Number: 12.3
Date of Meeting: 31 January 2011
Subject: Proposed Guidance Note APES GN 40 *Members in Business*

Action Required **For Information Only**

Purpose

To provide a project status update to the Board, and seek feedback from the Board on the key issues identified by the taskforce on the preliminary draft of APES GN 40 *Members in Business* (APES GN 40).

Background

APESB initiated a project in late 2008 to replace the existing GN 1 *Members in Business Guidance Statement* with the proposed APES GN 40. The project was delayed due to other APESB commitments during 2009 and 2010.

APESB's engagement with Members in Business to date indicates that there is a low level of awareness of APESB Standards within the business community. This is partly due to the focus of the previous professional standards being on Members in Public Practice rather than on Members in Business.

APESB in its development process of the APES series included Members in Business where applicable in the standards development process (i.e. APES 215 *Forensic Accounting Services* and APES 220 *Taxation Services*). However, as historically there were very few professional standards applicable to Members in Business, the level of awareness of Members in Business of Professional Standards has continued to be low.

Consideration of Issues and status update

The APES Board reviewed the preliminary draft Guidance Note at the November 2010 board meeting and raised a number of recommendations. These recommendations were incorporated by the taskforce in the following manner.

Board Recommendation	Technical Response
Include a decision tree that will assist users of the guidance note to navigate the case studies	A decision tree has been included in the guidance note that precedes the case studies. This allows users to follow the ethical decision making process when considering the case study scenarios presented.

The title of the guidance note should more accurately reflect its contents.	The guidance note title has been changed to: <i>Dealing with Ethical Conflicts for Members in Business</i> .
Consider including a reference to materiality in paragraph 4.3 of the proposed guidance note.	Paragraph 4.3 has been amended to reflect materiality of the matter under consideration.
Case study headings should more accurately reflect the dilemma being addressed.	Case study headings have been reviewed for consistency in style and changed, where appropriate, to reflect the ethical dilemma addressed.
Consider including more local case studies.	A number of additional case studies have been added to the proposed guidance note.

In the fourth meeting of the taskforce held on the 18th of January, the taskforce discussed the draft guidance note which incorporated the Board's recommendations noted above. Taskforce members raised the following additional matters for further consideration:

Roles and responsibilities of senior finance personnel.

The taskforce considered the difficulties that may arise where there is no direct reporting link between finance personnel in an organisation and senior finance roles such as the CFO. For example, where divisional accountants are hired by and report to the divisional manager with no real reporting or other links to the head office CFO.

Taskforce members agreed that the responsibilities of finance personnel is an important issue that should be best addressed by including a new section in the Guidance Note titled "*Roles and responsibilities of senior finance personnel*" or similar. The section will adopt a principles based approach and an additional case study illustrating the principles will be added.

Clarification of ethical aspects prior to accepting a new role.

The taskforce considered the importance of understanding the structure of a finance position and its relationship to ethical issues. Key points for a potential employee to discuss prior to accepting a role include:

- the criteria by which the Employer measures success/failure;
- the appropriate person to approach for functional advice;
- agreement with the Employer that functional advice should be obtained where necessary, prior to the Employee providing advice on any issue; and
- the approach that should be taken when an ethical issue arises.

The taskforce agreed that the above issues can also be best addressed in the new "*Roles and responsibilities of senior finance personnel*" section of the Guidance Note.

Review of case studies.

The taskforce reviewed the case studies as currently drafted and noted that the following changes were required:

- the sequence of case studies needs to be reconsidered;
- boundaries between case studies require more clarity so the user can easily identify where a case study begins and ends;

- a table of contents is required to precede the case studies which will make it easy to find the relevant and most applicable case study;
- reference to well-known examples of ethical dilemmas would enhance understanding of issues presented by APES GN 40. Such examples may be incorporated via a bibliography (Enron, HIH, Worldcom);
- Case study solutions should clearly state where the Member should initiate discussions with external parties including (but not limited to) the auditors, the audit committee, lawyers, the taxation office and police.

Staff Recommendation

The Board note the progress of the project to date and provide Technical Staff with high level comments on the key issues identified by the taskforce.

Material Presented

- Minutes of Taskforce meeting held on 22 October 2010;
- Draft Minutes of Taskforce meeting held on 18 January 2011.

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Date: 20 January 2011