

LEADING WITH  
**KNOW**  
**LEDGE**

**W17 Ethical conflicts and the CFO**

**Peter Day FCA**

**Board Member**

**Accounting Professional & Ethical Standards Board (APESB)**

# Why are Ethics Important?

- **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?**
  - training
  - competence
  - putting clients' interests and the public interest ahead of personal benefit
  - being diligent in seeking the best outcomes

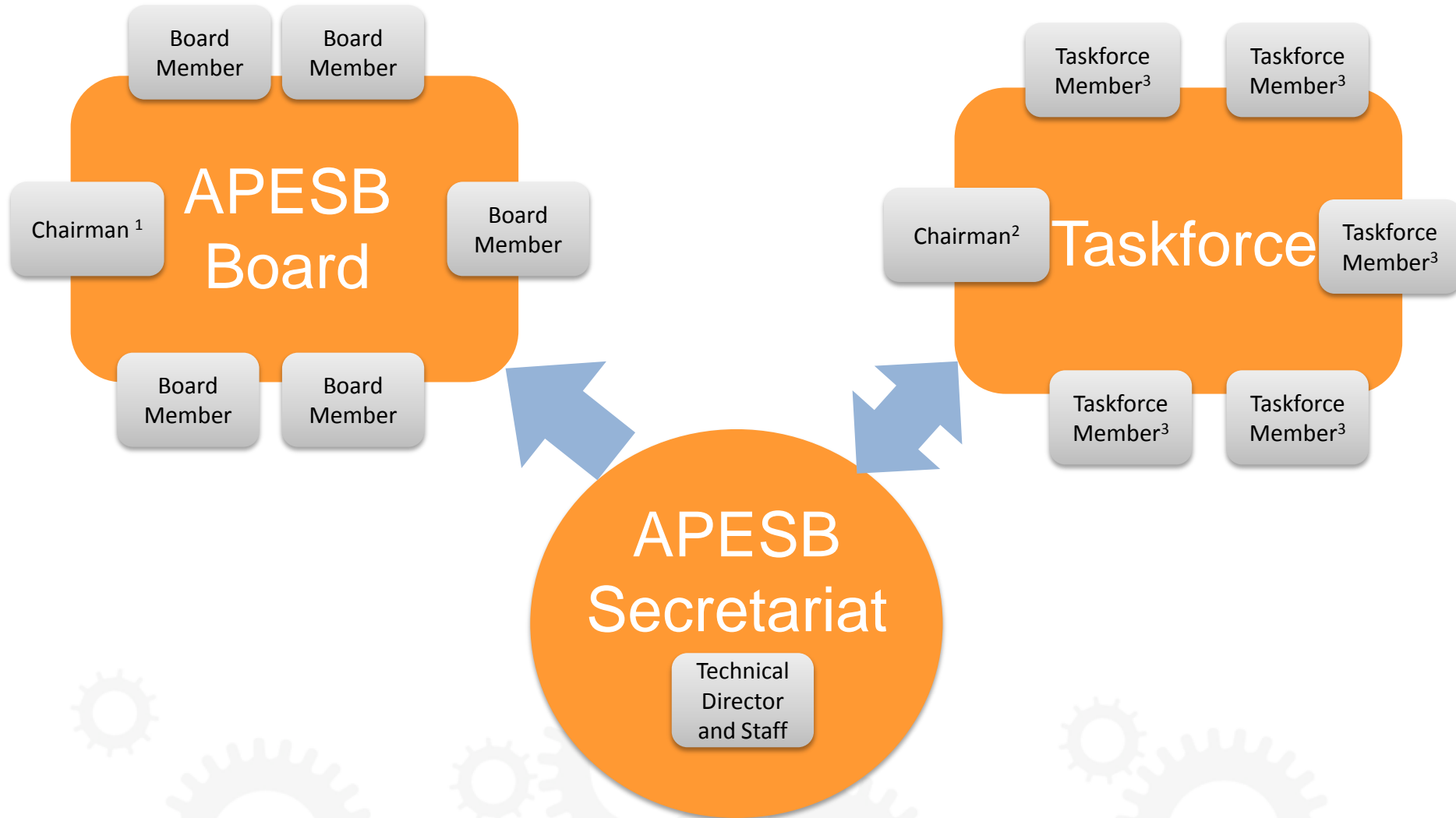
# Have you ever been asked?

- Can you find some more profit?
- How can we position this in the market?
- Can we present this so that the market supports it?
- Will this get past the auditors?
- How can we clean up the balance sheet?
- Can we get things 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?

# 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 National Institute of Accountants (now the Institute of Public Accountants) joined later that year.
- APESB is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three professional accounting bodies must abide.
- To date APESB has released 13 Standards, with 3 more at Exposure Draft stage.
- More information? See [www.apesb.org.au](http://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)

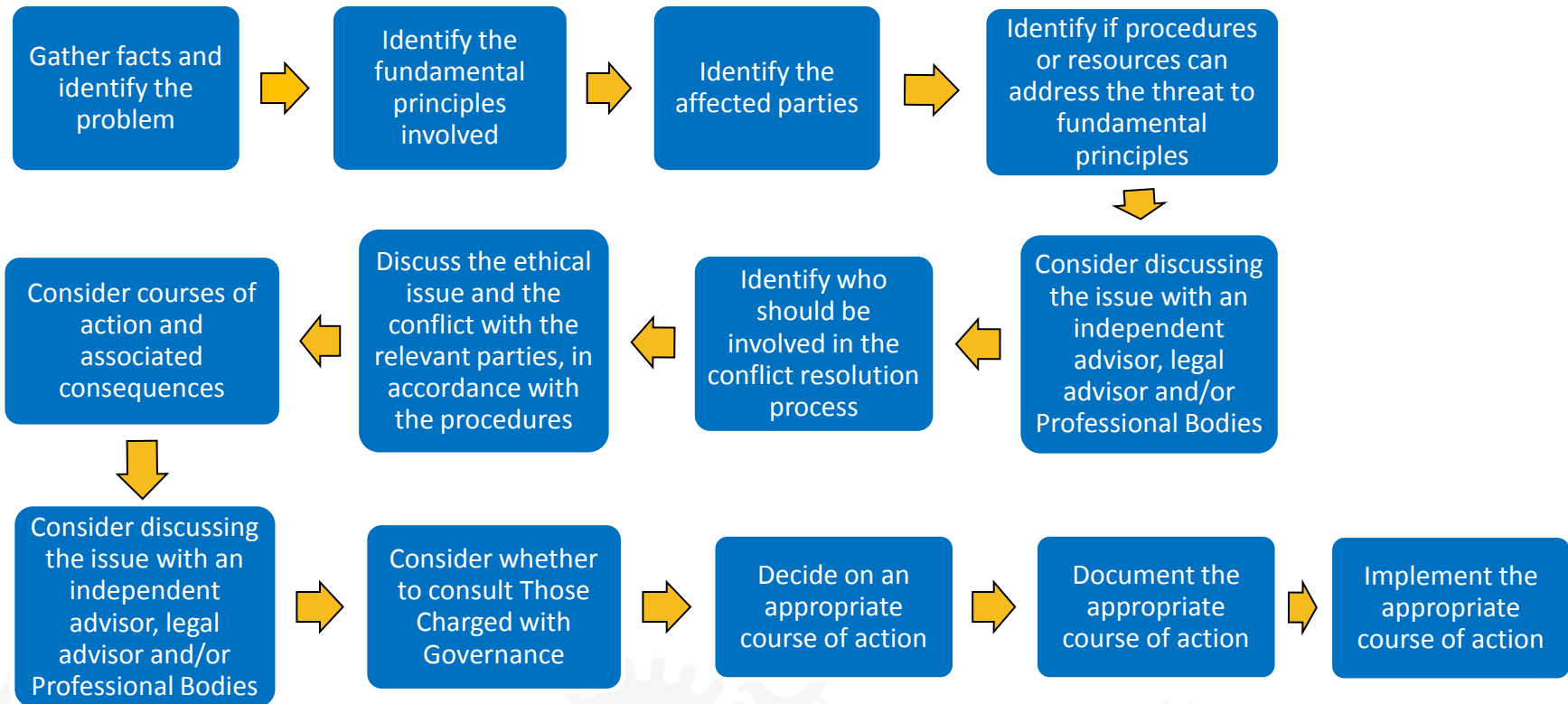
- **Confidentiality** - *to refrain from (a) disclosing outside the firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority from the client or employer or unless there is a legal duty to disclose; and (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.*



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

- GN40 released March 2012
- Specifically designed for members in business (i.e. as opposed to members in accounting firms)
- Comments received from 6 respondents including the Joint Accounting Bodies and G100
- Proposes a structured approach by members in considering ethical issues
- Provides 21 case studies to guide members

# A Structured Approach for Considering Ethical Issues



# 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**

- Kylie, the finance manager of a Melbourne company is concerned at the CEO's frequent trips to Perth, with his time and expenses charged to the company. The trips seem to have limited relevance to the company's activities. Kylie knows that the CEO was recruited from Perth and still has a number of close family members there.
- Kylie raises the issue with the CEO who explains that he 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 Kylie 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 the Kylie demonstrate her 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 Kylie proceed so as not to discredit herself?

# Four “Live Hypothetical” Case Studies

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

## Case Study 2

### Unlicensed software

- Joshua 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 10 computers in the office. She says the new software is needed for Joshua to perform his accounting role. Joshua is about to start the installation when he asks Megan if the software is a licensed copy. She laughs and says Joshua 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 Joshua adopt?

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

## Case Study 2

### Ethical principles involved

- **Integrity** - Can Joshua overlook the fact that the company does not have the appropriate licences to use the software and maintain his integrity?
- **Objectivity** - How will Joshua 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 Joshua ignore the information acquired and still satisfy the principle of professional behaviour?



# Four “Live Hypothetical” Case Studies

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

## 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?

# Four “Live Hypothetical” Case Studies

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

## Case Study 4

# Due diligence in Financial Reporting

- Jill is a non-executive director for a publicly listed property management group which has used short-term credit to rapidly increase their 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 current debt.
- 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 accepts them as is since they have been subject to extensive layers of review.
- 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** - Considering the contradictory opinion of the CFO, how will Jill ensure that the appropriate measures are taken to investigate her findings?
- **Objectivity** - How will Jill remain objective, and consider only the relevant facts, despite the weight of the CFO's opinion on this matter of which he/she is an expert?
- **Professional competence and due care** - Is Jill able to back up her findings with thorough analysis and the appropriate level of professional judgment?
- **Professional behaviour** - How should Jill proceed so as not to discredit herself?

# Whistleblowers Beware!

- Who can you turn to?
- Employees have an explicit or implicit duty to their employer to maintain confidentiality.
- But when all else fails, 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 to an ICAA advisor.

**Disclaimer:**

This paper represents the opinion of the author(s) and not necessarily those of the Institute of Chartered Accountants in Australia (the Institute) or its members.

The contents are for general information only. They are not intended as professional advice - for that you should consult a Chartered Accountant or other suitably qualified professional.

The Institute expressly disclaims all liability for any loss or damage arising from reliance upon any information in these papers.

