

Professional Standards and Ethics for Accountants

*CPA Australia
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*Channa Wijesinghe
ACMA (UK), CPA, CA
Technical Director
APESB*

Overview

- History and structure of the APESB
- APESB and its pronouncements
- Issued Standards
- APES 110 – Code of Ethics
- Section 290 – Independence
- Future developments to the Code
- Why accounting ethics matter?

APESB History

- Established in Feb 2006 as an initiative of ICAA & CPA Australia
- NIA became a Member in Dec 2006
- Previously professional/ethical pronouncements were developed by the professional bodies
- Members of the three bodies are required to comply and subject to disciplinary procedures of the relevant professional body

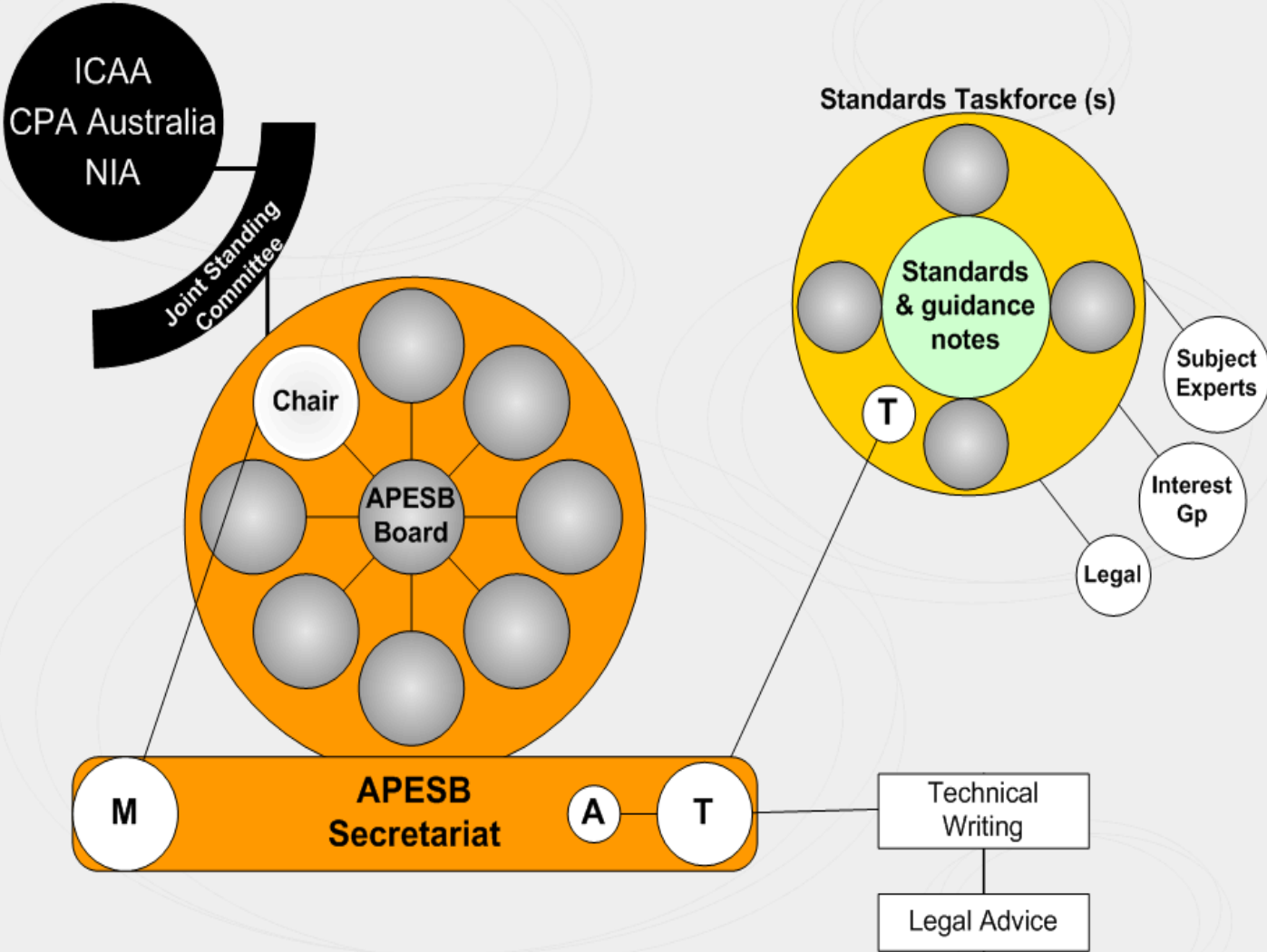
APESB Vision

To be recognised by our stakeholders for our leading contribution in achieving the highest level of professional and ethical behaviour in the accounting profession

Board Composition

- Independent Chair
- Two Directors CPA Australia
- Two Directors ICAA
- One Director NIA

APESB Functional Structure



Appendix

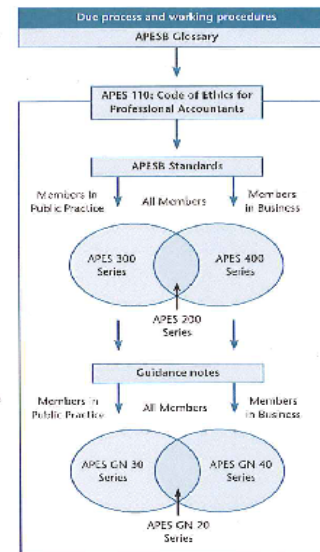
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Structure of APESB pronouncements

- 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
- APES 205 Conformity with Accounting Standards
- APES 210 Conformity with Auditing Standards
- APES 215 Forensic Accounting Services
- APES 220 Taxation Services
- APES 225 Valuation Services

APESB Pronouncements to date

Members in Public Practice

- APES 305 Terms of Engagement
- APES 315 Compilation of Financial Information
- APES 320 Quality Control for Firms
- APES 330 ED Insolvency Services
- APES 345 Reporting on Prospective Financial Information

APES 110 Code of Ethics

- **Part A: General Application**

Fundamental Principles

- **Part B: Members in Public Practice**

Section 290 Independence – Assurance Engagements

- **Part C: Members in Business**

APES 110 Code of Ethics

- **Fundamental Principles**
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

APES 110 Code of Ethics

Part B - Members in Public Practice

- Section 210 – Professional Appointment
- Section 220 – Conflicts of Interest
- Section 230 – Second opinions
- Section 240 – Fees and Other Types of Remuneration
- Section 250 – Marketing Professional Services
- Section 260 – Gifts and Hospitality
- Section 270 – Custody of Client Assets
- **Section 280 – Objectivity All Services**
- **Section 290 – Independence Assurance Engagements**

APES 110 Code of Ethics

Part C - Members in Business

- Section 300 – Introduction
- Section 310 – Potential conflicts
- Section 320 – Preparation and Reporting of Information
- Section 330 – Acting with Sufficient Expertise
- Section 340 – Financial Interests
- Section 350 – Inducements

Section 290 Independence

- **Independence requires:**
 - Independence of Mind
 - Independence of Appearance
- (S. 290.8 and definitions)**

Section 290 Independence

- **Threats to Independence**
 - Self interest threat
 - Self review threat
 - Advocacy threat
 - Familiarity threat
 - Intimidation threat

(S. 290.28 to 290.28.9)

Section 290 Independence

- **Safeguards**

- created by the profession, legislation or regulation
- within the Assurance client
- within the firms own systems and procedures

(S. 290.28.10 to 290.29)

Section 290 Independence

- **Auditor's responsibility**
 - Identify threats to independence
 - Evaluate whether these threats are clearly insignificant
 - If not identify and apply appropriate safeguards
- **When safeguards are not available**
 - Eliminate activity or interest creating the threat
 - Refuse to accept or continue the Assurance Engagement

Future developments that impact the Code

- **International**

- Revised Code issued in July 2009
- Impact of clarity project (Should/Shall)

- **Australian**

- Taskforce working on revised Code

Accountability of Members

- Regulators such as ASIC and APRA
- Professional bodies
- Clients
- Shareholders

Why accounting ethics matter?

- Collapse of Arthur Anderson
- Arthur Anderson's problem clients (refer table 1)
- Increased regulations such as CLERP 9 in Australia and Sarbanes & Oxley in the US
- Recent corporate collapses brought on by the global credit crunch (refer table 2)

Table 1: Arthur Anderson's Audit Clients and their problems

AA Client	Problem	Losses to shareholders	Job losses
WorldCom	US \$ 4.3 billion overstatement of earnings	\$ 179.3 billion	17,000
Enron	Inflation of income, assets, bankrupt 2001	\$ 66.4 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

Table 2: Recent Corporate collapses due to the Global Credit Crunch

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 may be 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?

The Seven Signs of Ethical Collapse

- Pressure to maintain those numbers
- Fear and silence
- Young 'uns and a bigger than life CEO
- Weak Board
- Conflicts
- Innovation like no other
- Goodness in some areas atoning for evil in others

Jennings, M M 2006, The seven signs of ethical collapse: how to spot moral meltdown in companiesbefore it's too late

For more information visit

www.apesb.org.au