

Professional & Ethical Standards and Corporate ethics

Monash University

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Channa Wijesinghe
FCMA(UK), FCPA, FCA
Chief Executive Officer

APESB 
Accounting Professional & Ethical Standards Board

Overview

- History and structure of APESB
- Structure of APESB pronouncements
- APESB's International perspective
- APES 110 *Code of Ethics for Professional Accountants*
- Restructuring of the Australian Code
- The importance of personal integrity
- Corporate scandals
- NOCLAR Standard
- Corporate ethics

History and structure of APESB



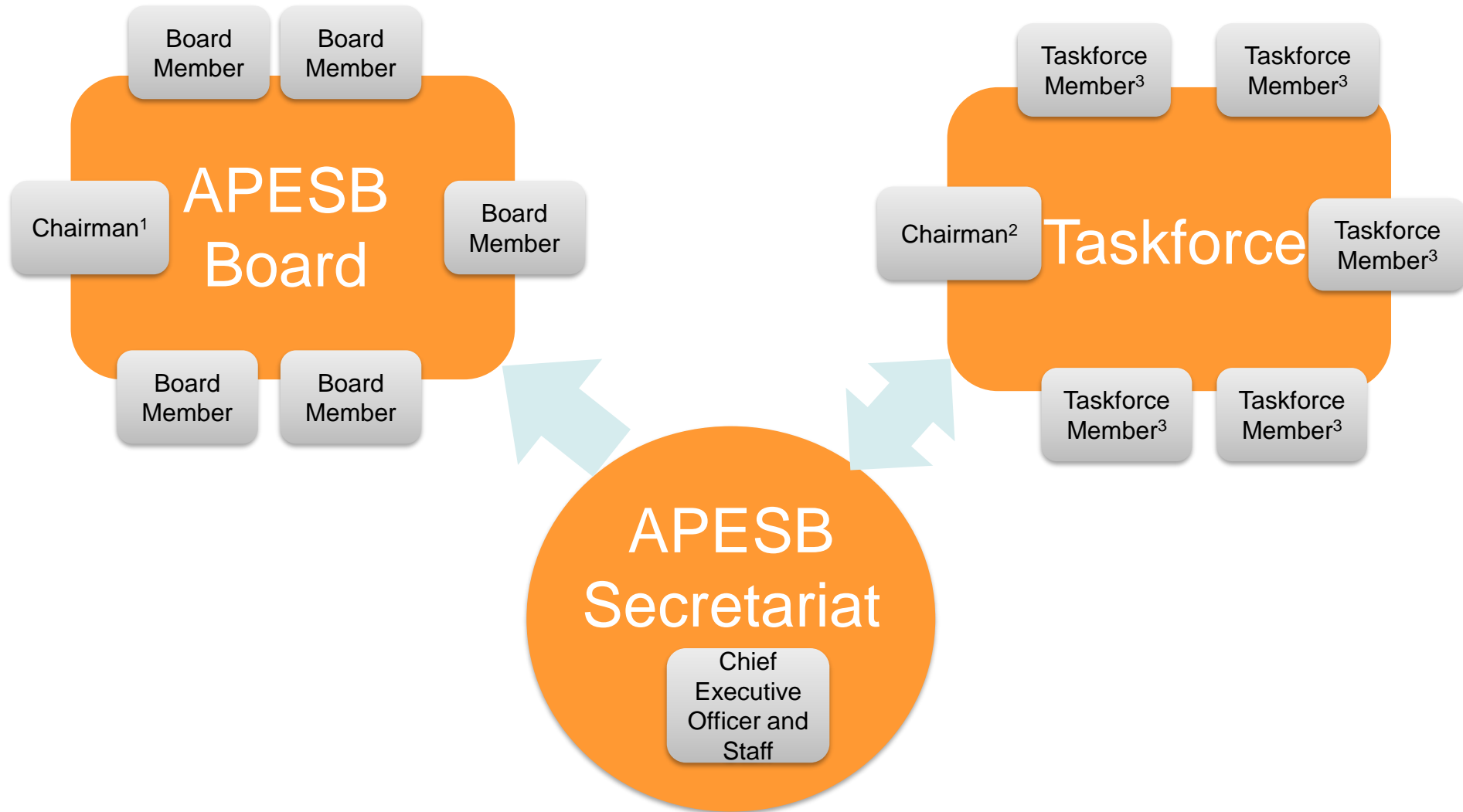
APESB History

- 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 21 pronouncements consisting of 15 Standards and 6 Guidance Notes.

Board Composition

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

APESB Functional Structure



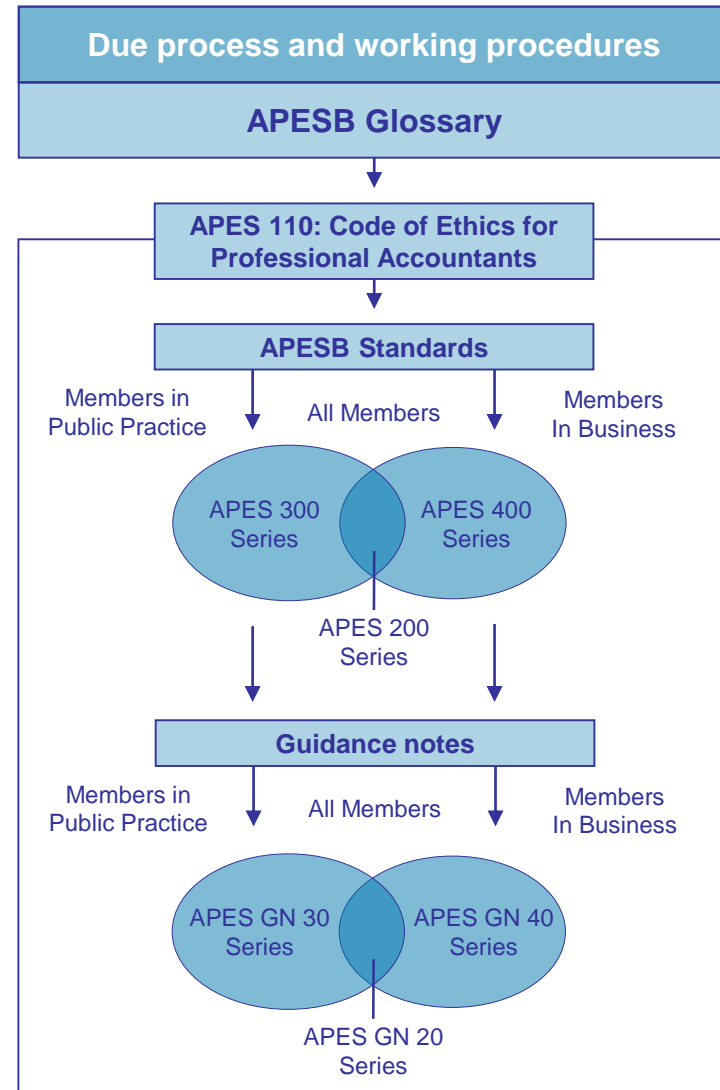
Structure of APESB pronouncements

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*
- APES GN 31 *Professional and Ethical Considerations relating to Low Doc Offering Sign-offs*

APESB Pronouncements to date

Members in Business

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

APESB's International perspective

APESB International perspective

International perspective

- APESB structure is unique in the world and in the last 12 years has developed one of the most comprehensive suite of accounting 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 and IAASB influence the international standard setting process

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
- Current 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

The Code has **five** fundamental principles:

- integrity;
- objectivity;
- professional competence and due care;
- confidentiality; and
- professional behaviour.

Threats to Compliance

The Code also identifies five threats that ***could compromise*** or ***appear to compromise*** compliance with the fundamental principles:

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

Safeguards can be used to **eliminate** or **reduce these threats** or if safeguards are not sufficient **decline** the engagement or **disengage**.

Restructuring of the Australian Code

Restructuring of APES 110

- Based on restructured IESBA Code
- Exposure Draft issued in May 2018 (without *Inducements* provisions)
- *Inducements* Exposure Draft to be issued in second half of 2018
- Proposed new name - APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*
- Proposed operative date of 1 January 2020

Key changes

- Use of simple language
- Introduction to each section
 - requires application of conceptual framework & compliance with fundamental principles
- Requirements distinguished from application material
- Application material positioned next to requirements
- Reorganised into sections and subsections
 - More sub-headings to facilitate navigation
- Auditor Independence sections moved to the end of Code

Structure of the new Code

OVERVIEW OF THE CODE

GLOSSARY (ALL MEMBERS)

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

PART 2
MEMBERS IN BUSINESS (INCLUDING
EMPLOYMENT RELATIONSHIPS OF MEMBERS IN
PUBLIC PRACTICE)
(SECTIONS 200 TO 299)

(PART 2 IS ALSO APPLICABLE TO INDIVIDUAL
MEMBERS IN PUBLIC PRACTICE WHEN
PERFORMING PROFESSIONAL ACTIVITIES
PURSUANT TO THEIR RELATIONSHIP WITH THE
FIRM)

PART 3
MEMBERS IN PUBLIC PRACTICE
(SECTIONS 300 – 399)

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)

Importance of personal integrity

The greatest Ponzi scheme



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

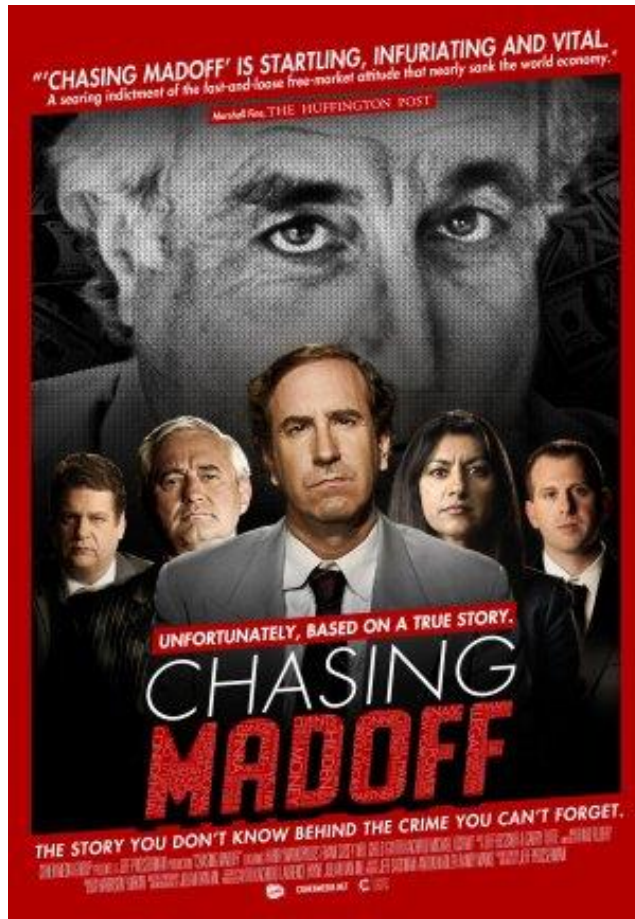


Number of years sentence for those involved

- 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/eil/business/ins/article5733960.ece> | <http://www.bbc.com/central-ated-news/568409-madoff-screwed-the-entire-world-made-of-and-made-out>

Chasing Madoff



https://www.youtube.com/watch?v=rpH_NNjModY

ICAS Ethics Committee

The power of one

The sixth fundamental principle –
Moral Courage ?

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

Corporate Scandals

Recent Corporate Scandals

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

1. Volkswagen – Emissions (No 1 global car maker)
2. Royal Commission into Banking – misconduct in the Australian banking, superannuation and financial services industry (e.g. AMP)
3. KPMG South Africa – involved in Gupta and VBS Bank scandals
4. PwC India – negligence in Satyam audit

Volkswagen scandal

Volkswagen emissions scandal

VW admitted in September 2015 it had installed so-called defeat devices in 11 million diesel engines worldwide to make the cars seem less polluting than they were

What was the scam?

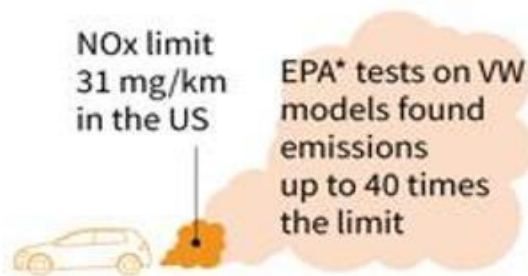


Defeat devices

- ▶ Customised software that programmed diesel engines to detect when a car is undergoing emissions tests
- ▶ Turned full emissions controls for **nitrogen oxides (NOx)** on only during the test

What happened at other times?

- ▶ Emissions controls were turned off, vehicle emits NOx above legal limits



*Environmental Protection Agency

What does NOx do?



- ▶ Linked to increased asthma attacks, other respiratory and cardiovascular illnesses

Source : USEPA/Autonews.com/ICCT/CarThrottle.com

© AFP

Royal Commission into Banking



Royal Commission

into Misconduct in the Banking, Superannuation
and Financial Services Industry

**AML / CTF
law breaches**

**Misleading
financial
advice**

**Fee for no
service**

**False statements to
regulators**

**Mortgage
loans bribery
and forgery**

Accounting Firms



- Involved in Gupta corruption and VBS Bank scandal
- Banned from working on South African government contracts



- Negligence in the audit of Satyam which reported fraudulent earnings
- 2 – year ban from auditing listed companies in India
- US \$6 million penalty paid to US SEC

Non-Compliance with Laws & Regulations (NOCLAR) Standard

(issued in 2017 and effective on 1 Jan 2018)



Accounting Professional & Ethical Standards Board

Scope of NOCLAR

An act that causes substantial harm

- Involves serious **adverse consequences** to investors, creditors, employees, general public in **financial** or **non-financial terms**
- Has wide **public interest** implications
- Examples:
 - Financial fraud resulting in significant financial losses to investors
 - Breaches of environmental laws/regulations that endanger health and safety of employees or public

Scope of NOCLAR

- NOCLAR or suspected NOCLAR that can cause **substantial harm** relate to matters:
 - that have a **direct and material** effect on a client's or employer's financial statements
 - that are **fundamental** to an entity's business/operations or to avoid material penalties
- Excludes:
 - inconsequential matters
 - personal misconduct unrelated to business
 - Non-compliance not committed by a client or employer

Examples of laws and regulations

NOCLAR covers:

- Fraud/corruption/bribery
- Securities markets trading
- AML/CTF/proceeds of crime
- Banking/financial products & services
- Public health and safety
- Data protection
- Tax/pension liabilities
- Environmental protection
- Public health and safety



RioTinto

ATO fraud scandal



Corporate Ethics

The seven signs of corporate ethical collapse

***The Seven Signs of Ethical Collapse: How to Spot Moral Meltdowns in Companies Before It's Too Late* by Professor Marianne Jennings (2006)**

- 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

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...