

Ethics and Governance

CPA Program subject outline

Fourth edition

Ethics and Governance is a core component of the knowledge and skill base of today's professional accountants. As key business decision makers, accountants must be proficient in regulatory regimes, compliance requirements, and governance mechanisms to ensure lawful, ethical and effective corporate behaviour and operations. A better understanding of ethics and corporate governance frameworks and mechanisms links with the various roles and responsibilities outlined in other subjects of the CPA Program. From an individual perspective, this subject provides candidates with the analytical and decision-making skills and knowledge to identify and resolve professional and ethical issues. The skills and knowledge obtained are also important for subjects that specialise in the functional disciplines of accounting such as *Australia Taxation*, *Financial Reporting*, *Strategic Management Accounting* and *Advanced Audit and Assurance*.

More than ever, today's professional accountants are less involved in traditional accounting functions and are more concerned with leadership and management. Today's accountants are leaders in their field providing key support to senior management and are directly involved in many important decisions. An understanding of ethics and governance is essential to those in leadership roles, and to those who support their leaders. This subject not only develops an awareness of corporate governance but also helps members (and those whom they support) in discharging their stewardship functions.

Exam structure

The *Ethics and Governance* exam is comprised of a combination of multiple choice and extended response questions.

Subject aims

The aims of the subject are to address concepts related to:

- promote awareness of the ethical responsibilities of professional accountants, thereby enabling them to identify and resolve ethical issues or conflicts throughout their career
- ensure professional accountants understand the importance of governance, including their role in achieving effective governance
- improve understanding of the role of accounting, and of accountants, in providing information about the social and environmental performance of an organisation.

General objectives

On completion of this subject, you should be able to:

- explain, from a global perspective, the nature of the accounting profession and the roles of professional accountants
- apply the key professional responsibilities of an accountant from the perspective of a member of CPA Australia
- explain the importance of ethics and professional judgement

- describe key governance and regulatory frameworks, including international perspectives on corporate governance and the roles of various stakeholders
- explain the expectations placed on various internal and external stakeholders arising from organisational governance responsibilities
- ascertain various compliance and regulatory regimes impacting the global business environment
- identify the strategic, leadership and global issues impacting accountants and the accounting profession
- describe the nature, role and importance of corporate social responsibility, including climate change and sustainable development.

Subject content

The “weighting” column in the following table provides an indication of the emphasis placed on each module in the exam, while the ‘recommended proportion of study time’ column is a guide for you to allocate your study time for each module.

Module	Recommended proportion of study time (%)	Weighting (%)
1. Accounting and society	15	15
2. Ethics	20	20
3. Governance concepts	25	25
4. Governance in practice	25	25
5. Corporate accountability	15	15
	100	100

Module descriptions

The subject is divided into five modules. A brief outline of each module is provided below.

Module 1: Accounting and society

Increasingly, professional accounting involves much more than the application of technical knowledge. Accountants are responsible for providing information and advice that supports important decisions affecting organisations, people and their lives, and society as a whole. With the privileges and benefits that accompany professional status come a variety of obligations, foremost of which is the obligation to put the good of society ahead of personal interests.

This module considers what it means to be a professional accountant in the contemporary global business environment, including the regulatory professional framework within which they operate. It examines the wide range of capabilities and skills required of accountants, the various sectors in

which accountants work and the roles that accountants undertake. There is also an emphasis on what the profession must do to ensure it enjoys the confidence and trust of society and fulfils its role as a positive social force.

Module 2: Ethics

This module explores ethics and ethical decision making in the professional and business context. In other words, it discusses the practical implications of professional ethics based on the notion of the public interest. The module provides an overview of various theories on ethics, each of which can provide perspective and insights that help guide accountants when considering and resolving complex ethical dilemmas.

The module describes key aspects of the Compiled APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (APES 110) and demonstrates how to apply this Code when addressing specific ethical issues. The module also aims to create an understanding of the individual, organisational, professional and societal factors that can influence an individual's decision making.

Finally, the module examines decision-making models that provide a structured approach that can help professional accountants to systematically analyse complex situations, exercise clear judgement and make more consistent and justifiable decisions.

Module 3: Governance concepts

Module 3 outlines the key features of the corporate form. These features combine to shape approaches to corporate governance — the system in place to operate and control the corporation. Good corporate governance is generally linked to good corporate performance. Good corporate governance relates to corporate performance and ensures the social licence to operate is maintained. The nature of corporate governance, evolving theories of corporate governance and key components found in corporate governance frameworks are outlined. This includes consideration of relationships between companies, boards of directors, managers, and other stakeholders including the community.

Codes and guidance on corporate governance in countries such as Australia and the UK are covered, along with the role and impact of differing cultural approaches to corporate governance. Governance in other sectors, including the public sector, is also referenced.

The module highlights that professional accountants must have a strong understanding of governance concepts to successfully fulfil their duties and obligations, and add value to corporations and entities of all types and sizes.

Module 4: Governance in practice

Module 4 builds on the corporate governance concepts presented in module 3 by explaining and, where appropriate, demonstrating their practical application.

The module explores corporate governance factors relating to corporations, their boards, shareholders, various other stakeholders and society at large. The role and operation of the board is considered, including the role of diversity within the corporation and in the boardroom and its key role in enabling informed decision making. The debate and responses arising from the international focus on remuneration practices is considered. The module also examines a range of operational matters that are important within corporations and in respect of which day-to-day attention to rules is required by both good practice and regulation — including in relation to employment conditions and protections. The issues of data security and privacy and the security of critical infrastructure are explored in

relation to consumer and market protection. There is a brief discussion that compares aspects of criminal and civil law followed by content related to anti-competitive consumer market practices.

The module concludes with a brief exploration of financial market protection mechanisms, including whistleblower legislation and sustainability related financial disclosure.

Module 5: Corporate accountability

The final module provides an explanation of corporate accountability together with information about its history and evolution. Accountability is shown to be broader than just providing financial results, and is linked to environmental, social and economic sustainability. The module explores the concept of 'accountability' and its direct relationship to both accounting and accountants. As part of this, it investigates the limitations of traditional financial accounting and financial reporting in relation to the broader interests of an array of stakeholders, in particular in terms of accounting for and reporting information about an entity's social and environmental performance.

The module examines the relationship between different, and sometimes conflicting, managerial perspectives on corporate responsibilities and accountabilities. It also considers the important decisions about 'to whom', 'how' and 'what' environmental and social information is to be reported. Different theoretical perspectives are provided about 'why' organisations voluntarily report social responsibility information.

The module then examines mandatory reporting requirements and some of the non-mandatory frameworks that have been developed and adopted to demonstrate accountability beyond financial performance.