ETHICS AND GOVERNANCE

CPA PROGRAM SUBJECT OUTLINE

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 and effective corporate behaviour and operations. A better understanding of ethics, 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 you 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 Advanced 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.

Ethics and Governance is a compulsory subject in the CPA Program for candidates commencing from semester 2, 2009. It is recommended that you enrol in Ethics and Governance as part of your first enrolment.

EXAM STRUCTURE

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

SUBJECT AIMS

The subject has three key aims:

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

This subject provides you with the knowledge and skills required of the professional accountant to operate effectively in a demanding and dynamic global business environment. This subject is designed to ensure the development of a range of professional ethics, values and attitudes among professional accountants.

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 judgment
- 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 ‘proportion of study time’ column is a guide for you to allocate your study time for each module.

Table 1: Module weightings and study time

<table>
<thead>
<tr>
<th>Module</th>
<th>Recommended proportion of study time (%)</th>
<th>Weighting (%)</th>
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<tbody>
<tr>
<td>1. Accounting and society</td>
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<td>2. Ethics</td>
<td>20</td>
<td>20</td>
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<td>3. Governance concepts</td>
<td>25</td>
<td>25</td>
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<td>4. Governance in practice</td>
<td>25</td>
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<tr>
<td>5. Corporate Accountability</td>
<td>15</td>
<td>15</td>
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The subject is divided into five modules. A brief outline of each module is provided below.
Module 1: Accounting and society

This module considers what it means to be a professional accountant and examines the wide range of capabilities and skills required to be a professional accountant. Professional accounting is more than the application of technical knowledge. It must also be understood as a social force that effects changes on organisations, people and their lives and on entire societies. It is therefore important to ensure that the accounting profession has a positive impact on society. The module also explores various environments in which accountants work and the pressures that can challenge a professional accountant. While criticisms of professions (including accounting) are sometimes made, in responding to these criticisms, the module emphasises the value that accounting can and does bring to society.

Contents:

Part A: Accountants as members of a profession

- Public interest or self-interest?
- Enlightened self-interest
- Ideals of accounting - entrepreneurialism and professionalism
- What is a profession?
- What is a professional?
- Trust and professions
- Attributes of the accounting profession
- The profession's regulatory process

Part B: Interaction with society

- Accounting roles, activities and relationships
- Social impact of accounting
- Credibility of the profession
- Capability considerations

Module 2: Ethics

This module discusses the practical implications of professional ethics based on the notion of the public interest. The module provides an overview of ethical approaches that guide accountants to help them resolve complex ethical dilemmas. It also provides a detailed analysis of the Code of Ethics for Professional Accountants (APES 110) and demonstrates how to apply this Code when addressing specific ethical issues. The module also describes the factors that influence ethical decision-making and outlines a structured approach to decision-making that may lead to better decisions.

Contents:

Part A: Professional ethics

Part B: Ethical theories

Part C: Compiled APES 110 Code of Ethics for Professional Accountants

- An introduction to the APESB Code of Ethics
Module 3: Governance concepts

Module 3 covers the key concepts and principles that underpin corporate governance approaches. The nature of corporate governance, theories of corporate governance and the key components generally found in corporate governance frameworks are discussed. This includes consideration of relationships between companies, boards of directors, managers and various other stakeholders.

Major codes and guidance on corporate governance in countries such as the United Kingdom and Australia are considered as well as the role and impact of differing cultural approaches to corporate governance. The module concludes with a discussion of several causes of governance failure that have been identified and may arise again in the future, as well as recommendations for improvements.

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

Contents:

Part A: Overview of corporate governance
- Governance
- The need for governance
- Components of corporate governance

Part B: International perspectives on corporate governance
- Global push for improved governance
- Thirty years of corporate governance

Part C: Codes and guidance
- OECD Principles of Corporate Governance
- UK Financial Reporting Council Corporate Governance Code
- ASX Principles and recommendations
- Alternative international approaches to governance

Part D: Non-corporate and governance

Part E: Governance failures and improvements
- Common failure factors
- Improving corporate governance
Module 4: Corporations and other entities

A "balancing act" confronts those who are involved with modern corporations. The balance demands conformity with the many expectations of diverse societies while achieving performance outcomes that both satisfy investors and also the economic goals required by those societies.

The module explores some key corporate governance factors relating to corporations and their boards, shareholders and society at large. Diversity within the corporation and in the boardroom and its importance for successful decision-making capabilities is addressed. The debate and mechanisms arising from recent international focus on remuneration practices is considered along with the growing balance in favour of greater shareholder power over remuneration. The module also considers a range of operational matters that are important within corporations and in respect of which day-to-day attention to rules is important – including in relation to employment conditions and protections.

The module also covers some of the legal fundamentals that apply within a corporate context and considers some key aspects of rules that apply internationally which are designed to protect competition and consumers. The module concludes with a brief explanation of some of the rules that relate to financial market protection and that are, inevitably, highly consistent internationally.

Contents:

- Corporate governance success factors
- Operational issues
- Impact of the legal system on the corporation
- Proof, penalties and redress – criminal and civil
- Competition and protecting markets for goods and services
- Legal compliance and governance
- Consumers and customers
- Unconscionable conduct
- Governance issues in the non-corporate sector
- The corporation and financial markets

Module 5: Corporate Accountability

This 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.

It investigates the relationship between different, and sometimes conflicting, managerial perspectives of 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. It also explains why our traditional financial accounting practices are deemed to be relatively deficient when it comes to providing the basis for reporting information about an entity’s social and environmental performance. An overview of specific tools and techniques for improving reporting is provided and accounting issues associated with the important topic of climate change are explored.
Contents:

- Overview and introduction to key elements
- Drivers of increased business accountability
- Linking to ethical theories
- What can be measured and reported?
- Limitations of traditional financial reporting
- Reporting and guidelines
- Current reporting practice
- International initiatives on climate change
- Current developments