

Module 1

Public Interest

Role of accountants in ensuring market efficiency

- accountants need to be able to distinguish what information is in the public interest to be disclosed.
- this is to ensure people have access to accurate information and in turn enhances market efficiency.

How accountants serve public interest

- Professional accountants serve public interests by distributing information that conveys clear and accurate picture of entity's financial performance and position.
- Also serve public interest by providing accurate, objective and appropriate financial and accounting related advice.
- Acting with integrity, objectivity is linked to idea of "altruism".
- Altruism means bringing no benefit to oneself and may even be at someone's expense.

Market control view (self-interest)

- 'altruism' may not be driving motivation
- West and Larson ---monopolistic professionals are not motivated by service ideal or public interest
- Professional are self-serving monopolists and existence of professional bodies is to maintain membership exclusivity.
- Their motivations are to maintain monopolies and extracting unwarranted wealth and influence.

Responsible decision making

- accountants make decision within systematic framework of principles—governance, accountability and ethics.
- examples of good corporate governance, accountability and ethics are drawn from leading corporations.

❖ Governance

- firstly, within governance framework of profession (codes of behavior)
- also, decision making must be within framework of entity (policies and strategies)

❖ Accountability

- work and decision must be made within framework of accountability (requirements of regulatory authorities)

❖ Ethics

-within framework of ethical conduct (commitment to integrity and honesty)

Enlightened self-interest

- Person act for others but has an underlying motive to benefit themselves.
- inevitable in market economy but must not be allowed to outweigh primary commitment to public interest.
- possible to commit to public interest and possess degree of self-interest.
- Enlightened self-interest is not ethical or right thing to do but it will further your interest – by making yourself to look good, keeping clients satisfied.

Ideals of accounting-entrepreneurialism

- Profession never really had public interest or service ideal.
- It may have existed in the past but it has been abandoned.
- Ideal of professionalism comprises of 4e's—education, entrepreneur, expertise and ethics.
- Placing strong emphasis on 'entrepreneur' and de-emphasis on any other ideals leads to 'deprofessionalisation'.
- 'Deprofessionalisation' may occur due to pursuit of commercial opportunities.
- Accountants often face 'ethics V profit' dilemma.
- Eg. Accountants pursuing self-interested outcome at expense of ethical and professional standards have been linked to corporate collapses in early 2000s.

Profession

Definition

- Based on high level of competence and skills in a given area, which are learnt through specialized training and maintained through continuing professional development.
- differentiated from trade because of its focus on intellectual rather than mechanical actions.

-no clear distinction between occupation and professional.

-often leads to greater status or wealth

Self-regulation (high degree of autonomy)

-Professions have greater authority to set their own rules and have less detailed government regulations.

-Autonomy to self-regulate extends to membership rules of profession.

- Professional bodies for different profession set education level, ethical standard.

Benefits of self-regulation

-Allows members of profession to be judged by their informed peers, rather than regulators whose knowledge is inevitably more limited.

-Allows internal sanction that might be ignored by legal process.

From self-regulation to co-regulation

-potential negative outcome from autonomy to self-regulate if profession does not hold its member accountable when they act inappropriately.

-Corporate failures and poor conduct of professional accountants, some of the authority to self-regulate has been removed from accounting profession.

-Profession has moved from self-regulation to co-regulation which regulations shared between profession and external sources.

-Eg. Australian Financial Reporting Council

Professional

-A person who has high level of skills and competence in an area, behaves in ethical and appropriate manner and applies skills and judgment in areas of importance.

Professions-traditional view vs 'market control' view

Traditional view

-accounting profession demonstrates a range of attributes and focused on serving society.

Market control view

-professional accountants less concerned with public interest

-acted to create 'monopoly' to ensure only certain people can work in this area.

Andersen—failure of HIH Insurance and Enron

-3 former partners are on the board of HIH insurance

- One was recipient of continuing benefits from Andersen—he was made chairman and member of audit committee
- One was engagement partner—was made chief financial officer
- One had significant role in audit of HIH insurance for 25 years—appointed to the board.

Trust and profession

-Society expects great individual capability and application of professional ethics from professionals as their judgments affect entire societies.

-If profession loses credibility, society will start to doubt credibility of accounting standards and work done by professionals.

-Continued erosion of public trust may lead to extreme governmental interference, reduction of autonomy and reputation.

-Eg. Collapses of Enron, HIH and Worldcom.

Attributes that confirm existence of profession

1. Systematic body of theory and knowledge

- Superior skills supported by well-founded body of knowledge.
- Theory construction by mean of research becomes essential basis for development of profession.
- IFAC issued international education standard that outline core competencies that all accountants must follow to be recognized as member of profession.

2. Extensive education process

- Acquired knowledge and skills that are not obtained or understood by general.
- Knowledge and skills will be further enhanced by accumulation of knowledge and experience through mentoring, continuing professional development and education programs.
- IFAC issued standard prescribing requirements for ongoing professional development to ensure members of profession possess current knowledge.

3. Ideal service to community

-Society trust profession and grants monopoly power to them over professional affairs.

-Professional accountants who breach this trust will lose quickly lose moral claim to professional status.

❖ **3 aspects of ideal service**

-well-being of society

- Preparing information that ensures efficient and orderly function of business, not-for-profit organizations and government enterprises.
- Facilitates better decision making.

-Pursuit of excellence

- Accountants accept responsibility for maintaining and updating their knowledge and applying such skills with competence and due care.

-Community service

- Offer their time and skills free of charge to community.
- Eg. Providing financial counselling to people referred by community service. Holding honorary positions in hospital.

4. High degree of autonomy

-Trust relationship between profession and community allows professions to be allowed substantial degree of autonomy--- referred as self-regulation.

-Degree of autonomy is dependent on demonstration of professional and ethical standards.

-Accounting is less free to self-regulate than it used to be, and now co-regulate with external authorities.

❖ **Example: Co-regulatory approach to setting accounting standards.**

-Accounting standards governed by AASB and auditing standards governed AUASB.

-These boards were created by professional accounting bodies (CPA, CA).

-AASB and AUASB now have to report to Australian Financial Reporting Council.

-They no longer have complete regulatory control. They are still very involved but their involvement is tempered by overarching regulation and FRC.

❖ **Co-regulation and professional discipline**

-Complex set of regulatory structures and practices are developed to define technical and ethical responsibilities that accountants owe to third parties, employees.

-Regulatory structures of CPA include

- System accreditation of accounting degree program to ensure relevant body of knowledge is acquired by future members.
- Membership qualifications by way of examination and practical experiences.
- Code of ethics.
- Disciplinary process to address member misconduct.

5. Code of ethics

-Defines expected standard behavior

-Eg. APES 110, corporate law.

-behavior that is consistent with code of ethics is acceptable behavior.

-It deters unacceptable behavior and promotes desirable behavior.

6. Distinctive ethos and cultures

-Ethos and cultures consist of values, norms and symbols.

- Symbols may include certification and titles.
- Cultures and ethos stem from history, jargon and stereotypes.
- New members must learn about the cultures and create cultures to contribute to evolutionary growth.

7. Application of professional judgments

-Acquisition of knowledge through formal education process is not sufficient to identify a person as professional.

-The key is ability to diagnose and solve complex and value-based problems.

-It is also important to distinguish between professional judgments and technical judgments.

- Professionals must have awareness of uncertainty, complexity and value conflict.
- Professionals must choose outcome that best meets social values rather than best outcome of client.
- Professionals are required to develop competencies in professional judgment. These competencies not only required in applying knowledge and skills in problem-solving but also finding and defining the right problem to be solved. Thus, professionals have to communicate effectively with clients to identify and solve right problems.

-Key areas that require auditors to make judgments:

- Deciding whether reasonable assurance or limited assurance is possible.
- Whether budget of audit is sufficient
- Whether sufficient appropriate evidence has been obtained.
- Whether evaluation results is appropriate and sound conclusion has been made.

8. Existence of governing body

-Speak for profession as a whole on matters of public policy that affect profession's independency.

-Ensure those who enter profession has met requisite standards.

-encourage setting and monitoring of high standards of professional conduct.

-apply disciplinary action if accountants have breached professional conduct.

Profession's regulatory process

Background

-AUASB has been reconstituted to become a corporate body under ASIC.

-Registered auditors have legal duty to comply with auditing standards issued by AUASB.

-However, AUASB has acknowledged that it will not reduce or limit profession's own disciplinary activities though professional standards have force of law.

APESB

-profession sought a more transparent process for setting ethical requirements.

-established by CPA and ICAA

-APESB comprises of technical and secretarial. Members include members from CPA, representatives from public sector, corporate sector, government sector and general public.

-Purpose: to increase public confidence by opening standard-setting process to greater public scrutiny.

-Roles of APESB

- Reviewing professional and ethical standards and monitoring areas that require new or updated professional standards.
- Reviewing implementation of new professional and ethical standards.
- Seeking comments on exposure draft
- Referring matters to secretarial for research and amendment
- Monitoring effectiveness of professional and ethical standards.

Quality assurance process

-To help assure quality outputs, multi-level regulatory framework has been developed.

❖ **Standard setting**

-FRC oversees AASB, AUASB sets auditing standards.

❖ **Conformity with standards**

-APES 205 & APES 210 are mandatory statements in preparation of audit report and financial report

❖ **Practice review**

-Members have to demonstrate compliance with quality control by:

- Providing annual signed assurance that established quality control has been met.
- Undergoing practice review (5 years cyclical basis)

-If reviews are unsatisfactory, practitioners have to take remedial actions within agreed timeframe.

❖ **Firm regulation**

-Corporate failures had caused firms to be more concerned about their own procedures of quality control.

-APES 230 provides guidance for a system of quality control. It consists following elements:

- Leadership responsibilities. Designed to promote culture based on recognition that quality control is essential.
- Ethical requirements. Provides reasonable assurance that the firm and its personnel comply with ethical requirements.
- Acceptance and continuance of client relationship. Ensure that it will only undertake or continue engagements where it has considered integrity of clients.
- Human resources. Ensure sufficient personnel with the capabilities to perform engagements.
- Engagement performance. Ensure engagements are performed in accordance with professional standards and regulatory requirements.
- Monitoring. Ongoing evaluation of firm's quality control system.

Professional discipline

-Purpose: Providing quality service that achieves credibility among public and gain confidence.

-Joining CPA Australia means committing to upholding reputation of CPA.

- To ensure all members uphold these standards, CPA has a formal process that enables complaint about members to be heard and evaluated. Where necessary, disciplinary actions to be taken.

-Disciplinary processes are guided by principles of procedural fairness, confidentiality and independence.

-CPA Australia has obligations to ensure complaints are investigated thoroughly.

-CPA Australia has due importance on co-regulation by establishing rules and procedures to handle disciplinary matters.

❖ **Regulation of member conduct**

-Types of complaints

- Obtaining admission as member by improper mean
- Breaching professional conduct
- Acted dishonestly
- Failing to exercise professional care
- Becoming insolvent

-Procedures

- Complaints will be reviewed by MPC.
- If complaint is relevant, file will be opened and allocated to PCO
- PCO will call the member to provide explanation.
- Once PCO completed the investigation, report is given to MPC.
- MPC will then recommend to CEO whether there is a case to answer.
- If CEO determines that there is a case to answer, the case will be referred to disciplinary tribunal.
- Members and complainant will be notified by MPC and ICM will prepare written particulars of case

❖ **Types of penalties**

- Forfeiture of membership
- Fine
- Suspension of membership for 5 years or less
- Suspension of certificates or privileges
- Restricting members from using CPA designation
- Lowering member's status
- Requires members to undertake additional hours of professional development

Accounting roles, activities and relationship

Factors influencing how individual will behave

- personal moral development
- family influence
- organizational level
- laws and regulations
- professional aspects

Public practice accounting

- 1. Big 4 accounting firms.**
- 2. Second-tier accounting firms**
 - Operates on smaller scale. Have a few offices in capital cities.
- 3. Smaller practitioners**
 - Small accounting practice with single professional accountant or a team of professional accountants with supporting staffs.

❖ **Roles in public practice**

- assurance: financial statement attestation and assessing procedures / controls relating to privacy and confidentiality.
- taxation: covers FBT, GST and CGT.
- financial management: Cover performance management to corporate governance.
- forensic accounting: Engagement for legal issues such as fraud.
- insolvency: Personal insolvencies and corporate insolvencies (administrator, liquidation)
- internal audit service: Evaluating and enhancing risk management.
- business advising: Assist business managers to achieve more value (reflect business weaknesses) & advice on takeover and mergers.

Public or private business

❖ Large companies (private or public)

- board members: oversee activities or organization
- chief financial officer: formulation and review of financial and strategic direction of the company
- financial accountant: preparation of general purpose and special purpose report.
- treasury accountant: ensure sufficient cash flow
- strategic management accountant: preparation of budget and forecasts
- internal auditor: review of internal control
- human resources accountant: remuneration and payroll function
- company secretary: regulatory compliance and ensure proper functioning of boards.

SMEs

- SME employed accountants have to complete more detailed work as there is fewer support staff
- covers wider range but reduced complexity.
- In very small SMEs, no professional accountants will be employed and thus there will be total reliance on external accounting public practice.
- examples of difference between roles performed by accountant in large business and SMEs.
 - Large business: budgeting, forecasting and reporting actual results
 - SMEs: engage finance manager who is responsible for end-to end accounting function such as petty cash and monthly reporting.