KnowledgEquity – Ethics and Governance - FAQs

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KnowledgEquity

Module 1 - FAQs

'Where is the answer to the 'consider this' question on pages 11, 13, 15 and elsewhere?

There is no 'correct' answer or solutions provided. These are 'reflection' tasks in the study guide where you are asked to think what your own opinion is on a particular issue.

Do I have to choose between believing the 'traditional' and 'market control' view?

(See Part A of Module 1)

No, you don't have to choose. You may see it one of the two ways, or even a combination of both ways, with some level of true professionalism, but also some cynicism too. There are likely to be accountants who genuinely act in the 'traditional' way with a genuine focus on the service ideal. There are also other accountants who only focus on their own self-interest and wealth. The idea of enlightened self-interest is also relevant here. Accountants do the 'right thing' by serving society, because it also benefits them with wealth, status and prestige.

Module 2 - FAQs

Are you getting an error for the IFAC article link?

(See 'Figure 2.3' under Consider this, page 53)

The links in the IFAC article may be problematic; if you experience issues, please instead refer to the original research report on CPA Australia's web site. The data tables are contained in Appendix 1 starting from page 60 onwards:
https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/about-cpa/our-organisation/g...

Where can I download APES GN40 from?

(See 'APES GN40', page 113 - 114)

https://apesb.org.au/wp-content/uploads/2021/01/APES_GN_40_Mar_2020_web.pdf

Module 3 - FAQs

What % of shares determines if the director represents a significant shareholder?

(See 'Director independence', page 134 - 135)

Traditionally, there is no specific percentage. It will depend on the organisation and the case facts of the situation. In a company that has a very wide shareholding base (thousands of shareholders) having 5% could be seen as significant. In another company that only has a few large shareholders (such as 3 shareholders who each hold 25%) then having 5% would not be seen as significant. Although not in the study guide, the glossary in the ASX principles (p36) and S9 in the Corporations Act which gives weight to the 5%.

What does "bolt-on review of risk" mean?

(See 'Risk Management Committee', page 157)

What does "bolt-on review of risk"? mean compared to managing risk "as an integral part of overall enterprise management".

"Bolt-on review of risk" means to treat the process to review the risk of the organisation as something that is separate to its own organisational process and as something that can be "bolted on" to the organisation. In contrast, IFAC recommends managing risk "as an integral part of overall enterprise management.

For example, with occupational health & safety, instead of doing your regular work processes and then separately reviewing them to see if they are 'safe', you should design each process so that it is safe and also achieves the organisation's objectives.

How many NFP Governance Principles are there?

(See 'AICD Guidance', page 199)

The AICD has recently (April 2024) updated their NFP Governance Principles reducing them from 10 to eight. Please refer to the new version at 2024 Not-for-Profit Governance Principles – Third Edition (aicd.com.au).

Where can I find the UK FRC code in the study guide? (and is it examinable?)

(See 'Appendix 3.1', pages 206 - 213)

The UK FRC Code is in Appendix 3.1. You can also find a link to the pdf version of the UK FRC code on page 206 of the Study Guide.

Yes – it is examinable. In the Module 3 Webinar we explore an example of a question that could be asked that requires you to apply this code.

When do I use the UK FRC Code compared to the ASX Principles & Recommendations?

(See 'Part D, Module 3')

If you have a question, look at where the organisation is based. If it is based in the UK you should use the FRC Code. If it is based in Australia, use the ASX Principles & Recommendations. The OECD principles are relevant but usually used by government in determining rules and legislation.

Module 4 - FAQs

What is clawback?

(See ‘Executive remuneration and performance’, Page 229 and ‘Glossary’, page 385)

When you read a term you are not sure of the best thing to do is a quick web search. For example, a search of 'clawback' provides useful links with definitions and examples such as the following:

https://www.investopedia.com/terms/c/clawback.asp

"Clawback" refers to the concept of repayment of undeserved remuneration by the executive who has been given performance-based remuneration. It is a control measure because firstly it ensures that the company is able to get the money back if the performance-based remuneration later turns out to be unjustified and recoups the outgoing, and secondly it incentivises the executives to do their job in the way that aligns closely with the intentions of the performance-based remuneration scheme, knowing that their remuneration may be subject to clawbacks after being paid if this turns out to not be the case.

Module 5 - FAQs

What is a responsible investment asset?

(Section 5.8, page 320)

Page 299 of the Study Guide states that "The Australasian region is leading globally in the uptake of responsible investing, with 63% of total assets under management in Australia and New Zealand using a responsible investment approach". Responsible investment assets are the assets acquired and managed under a responsible investment approach.

The best thing here is to explore some websites that discuss what is responsible (or not responsible), and these criteria will then determine if an asset (such as buying shares in a major company) is a responsible investment. For example:

https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group/what-is-responsible-investment

This site explains what responsible investment is, and also gives case study examples of issues (Deepwater Horizon oil spill, Volkswagen diesel emissions scandal, Facebook allowing Cambridge Analytica to harvest personal data). Many investors avoid buying shares in companies involved in activities which may be considered ‘irresponsible’ such as warfare, tobacco, gambling and alcohol for example, in addition to companies irresponsibly dealing with social and environmental issues.