

THE FINANCE INDUSTRY



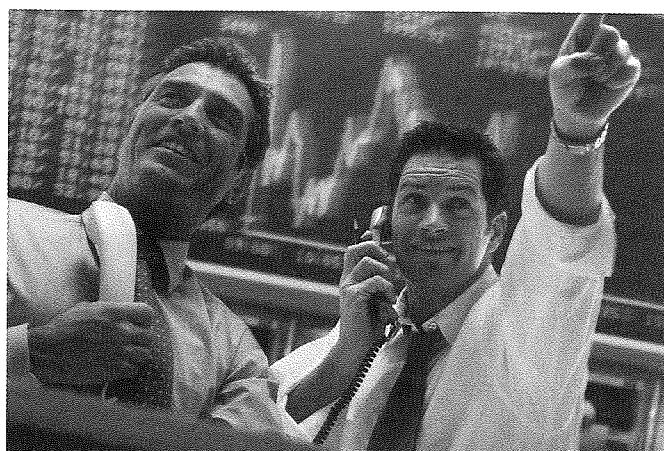
An examination of the finance industry will show that there is a wide range of financial services and products available from a variety of differing institutions, such as banks, credit societies, insurance companies, superannuation companies, brokers and financial planning and accounting firms. Financial decisions, like all other decisions, are rarely made in isolation. Decision-makers seek information to support their actions. Just as a sportsperson may be trained and advised by a coach, so may a potential investor seek out an expert for guidance in financial matters.

An examination of the finance industry will also highlight the requirement for financial advisors to be licensed under Australian law. The required licence has the intent of producing more confidence in the operation of the financial sector. Financial service providers can also gain credibility by membership of professional associations.

Financial markets are an integral feature of all economies and perform the vital function of facilitating the distribution of capital by bringing together borrowers and lenders. Financial markets are used by participants to either raise funds (e.g. by issuing securities or borrowing) or to invest savings (by buying securities and other financial assets).

The major markets in the Australian financial system include the capital markets (shares and bonds), the money market and the derivatives market. There are also other markets in the financial systems that facilitate the trading of specific financial products, such as the national electricity market.

There are various careers for those who operate in the financial market sectors, ranging from accountants, stockbrokers and bank managers to insurance advisors and general financial advisors.



Financial services providers and investment choices

With a sophisticated, varied and dynamic financial industry, Australian individuals and businesses have considerable choice in making investment decisions. Individuals and businesses need to exercise care in seeking financial services – from bank credit cards to retirement packages. They should compare products available, seek broad advice, ensure service providers are trained, competent and experienced and ensure that service providers belong to professional associations and follow and apply an identified code of ethics.

Occasionally financial choices turn sour. Many factors can be involved, including economic turbulence, greed, corruption, excessive risk and failures in ethical and professional practice. Investors and borrowers are in a more vulnerable position as they generally enter financial transactions or contracts with limited knowledge of products, services and information. Therefore they require protection. All financial service providers must have a licence to operate and there are laws that govern many aspects of the finance industry.

LEGAL FRAMEWORK FOR FINANCIAL ADVISORS IN AUSTRALIA

The *Australian Financial Services Reform Act 2001* clarifies the licensing rules and disclosure requirements for financial advisors, particularly in relation to banking, superannuation, securities, insurance and funds management. The legislation provides some protection for users of information. Since 2001 every person or organisation who engages in the activities shown in Figure 12.1 requires an Australian Financial Services licence.

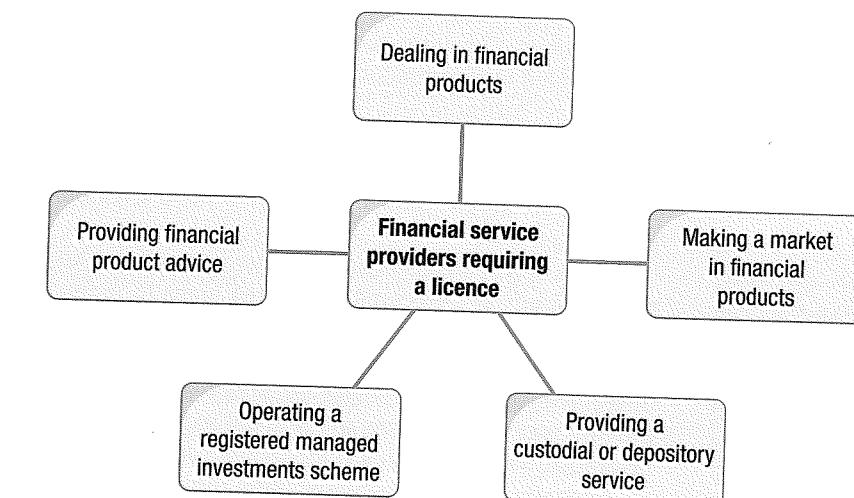


Figure 12.1 Licensed financial service providers

This licence requires that accountants and financial advisors work within a framework of integrity, objectivity, honesty, truthfulness, independence, fairness and reliability. The main objectives of the Act (Chapter 760A) are listed in Figure 12.2.

In Australia, the financial services sector is regulated by the Australian Securities and Investments Commission (ASIC). The Act states, for example, that stockbrokers need to gain specific accreditation, including a university degree in finance or commerce, in order to trade on behalf of clients. Stockbrokers also require extensive experience in the financial services sector.

Many other parts of the finance industry are regulated in some way. The banks are regulated by the Australian Prudential Regulatory Authority (APRA). APRA is responsible for regulating much of the financial industry, including insurance and superannuation companies. There is also the Reserve Bank, which is an Australian government body exercising the authority of a central bank with the major role of ensuring the stability of the Australian financial system.

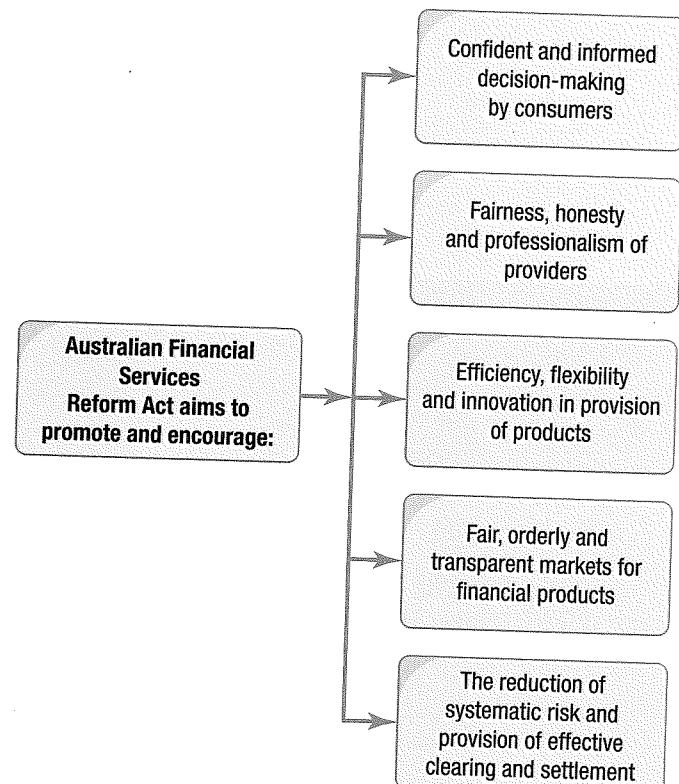


Figure 12.2 Objectives of the Australian Financial Services Reform Act

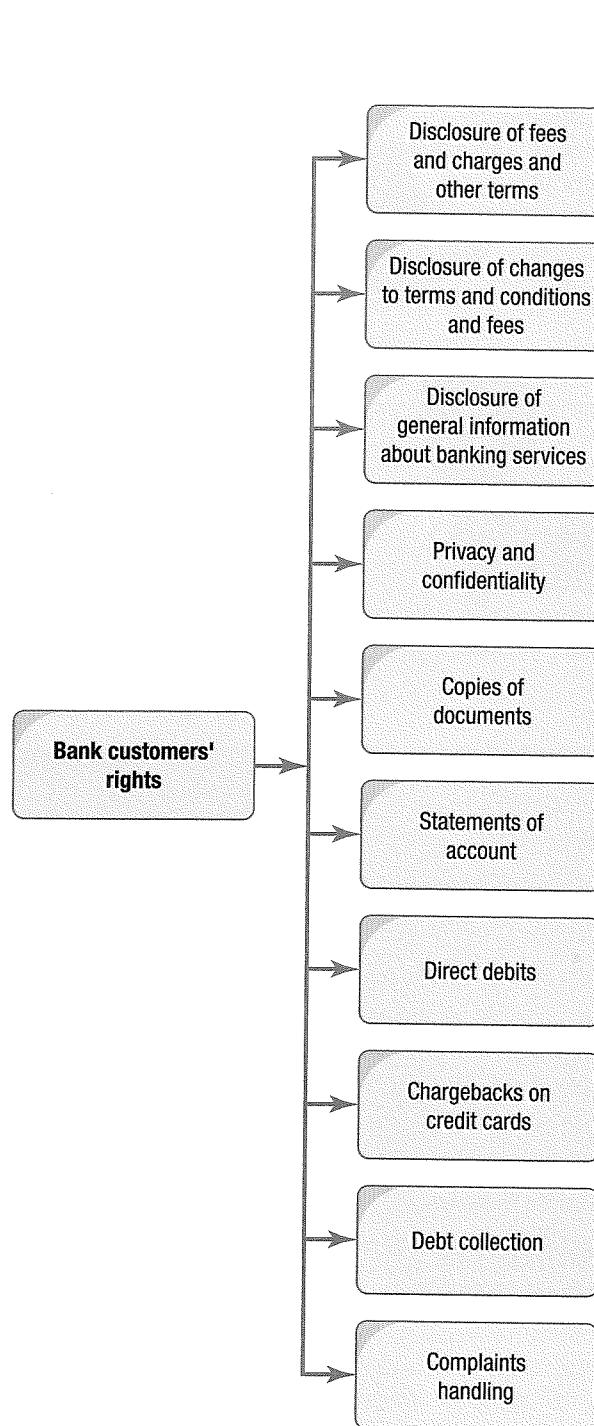


Figure 12.3 Australian bank customers' rights

www.bankers.asn.au

Key Concept 12.1

Regulation of the financial services sector

The financial services sector is regulated by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA).

Bankers

A career in banking will provide a wide variety of job opportunities. Currently, the Australian banking sector is dominated by four major banks operating as public companies: Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation.

There are several smaller banks that have a regional base in one state.

Banks secure deposits paying interest to clients and provide funds as unsecured or secured loans to individuals (personal and mortgage housing loans) and businesses.

Bank finance may be in the form of overdrafts, unsecured loans or mortgages (secured loans). Banks provide many other forms of financial services, including insurance, superannuation and general financial advice.

Australia has a de-regulated bank industry and there are a number of foreign subsidiary banks. However, only a few have a retail banking presence and foreign banks have a more significant presence in the Australian merchant banking sector.

Banking industry association

The Australian Financial Markets Association (AFMA) is the peak industry association for Australia's wholesale banking and financial markets. These markets play a pivotal role in the Australian economy by making it possible for Australian financial institutions and companies to conduct business with each other and with their counterparts overseas.

AFMA represents over 130 industry participants in the wholesale banking and financial markets, including Australian and foreign banks, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.

All banks in Australia endorse the Australian Banking Association Code of Banking Practice giving customers rights that the bank must observe.

Bank customers have a number of rights under the Australian Banking Code (see Figure 12.3). Further details can be found in the Australian Bankers website.

Banking products and services that are covered by the Code are those provided to individuals and small business customers. Examples are shown in Figure 12.4.

Insurance

Insurance companies are common in the Australian financial industry. The services and products available are usually well defined and the relationship between the service provider and the clients reasonably transparent. Insurance companies provide their customers with cover against the financial consequences of specified events in return for a payment, usually called a *premium*.

Given the wide range of risks covered by insurance policies and the huge amount of premiums paid, the insurance sector is a very significant part of the finance industry. Insurance provides cover over assets and revenue, protection against liability and personnel protection. Examples of insurance include business loss of income, burglary, fire, life insurance, transit insurance, vehicle cover, product liability and workers compensation.

Insurance companies are regulated by APRA.

Superannuation

Australia has a compulsory employer-contributed superannuation scheme. All employers are required to contribute an additional nine per cent of each employee's gross wage or salary into a superannuation fund. In addition, many people, or their employers on their behalf, make voluntary contributions into superannuation to provide for their old age. The superannuation industry in Australia manages billions of dollars in managed accounts. The sector provides a wide range of finance careers.

This industry is also regulated by APRA.

Financial planners

In recent years financial planners have provided services ranging from salary sacrificing, investment in property development and self-managed superannuation funds to complex share investment schemes and retirement plans.

Financial planners are regulated by the ASIC, which requires all financial planners to have an Australian Financial Services Licence (AFSL).

Brokers

Brokers manage investments for clients. Such clients can be individuals or companies and other large organisations. Brokers offer three different types of service:

- discretionary – managing clients' investments and making decisions on their behalf
- advisory – advising clients about various investment options
- 'execution only' – buying and selling only on the client's instructions without giving advice.

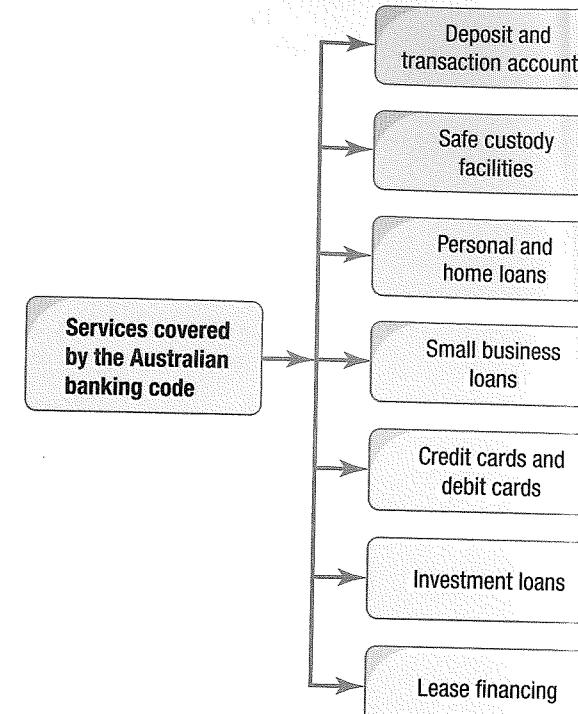


Figure 12.4 Services covered by the Australian Banking Code



Brokers may specialise in one type of service or offer all three. Across all types of service, brokers would be:

- managing and reviewing clients' investment portfolios
- researching financial markets (working closely with investment analysts who report on how companies and markets are performing)
- answering clients' questions
- keeping clients informed about their investments
- instructing stock market traders to achieve the best market prices
- providing market services to new clients.

In larger companies, brokers specialise in investing in certain markets, such as technology or finance, or in specific regions. Brokers who work for private individual clients may be known as investment managers or wealth managers.

The regulator in action!

REALITY CHECK 12.1

ASIC bans broker in rumour crackdown

The corporate regulator has taken its first scalp in its crackdown against spreading false market rumours but has also admitted it does not have all the powers needed to combat the behaviour. The Australian Securities and Investment Commission has banned Richard Macphillamy, of Bondi in Sydney, from providing financial services advice for 18 months after finding he wrote and widely distributed an email falsely claiming that Macquarie Group was struggling to meet withdrawal requests from its cash management trust ...

Source: *Australian Financial Review*, 24 March 2009.

LEGAL FRAMEWORK FOR ACCOUNTANTS IN AUSTRALIA

Accountants are required by provisions of taxation law to be licensed with the Tax Agents Registration Board (a government body) if they are to act as tax agents. This enables them to deal with the taxation affairs of individuals or companies, including preparing and submitting annual taxation returns on their behalf. As indicated previously, if an accountant is to act as a financial planner they must have an Australian Financial Services Licence to provide professional advice. Those who wish to be an external company auditor must register with ASIC to undertake auditing of companies. The latter is governed by the *Corporations Act 2001*.



Key Concept 12.2

Regulation of accountants

Accountants are subject to legislative control in their roles as:

- tax agents
- financial advisors
- external auditors.

ACCOUNTANTS AS PROVIDERS OF FINANCIAL SERVICES

Accountants are well known and recognised in the role of providers and communicators of financial information and as financial advisers. Accountants have specialised skills and they are trained to act in informed and professional ways within an ethical framework. Accountants belong to professional associations that provide educational training and services, social activity and legal guidance and their associations have the power to ban members from the profession should they breach ethical standards. The largest providers of accounting services in Australia include Deloittes Touche Tomatsu, Ernst Young, KPMG and Pricewaterhouse Coopers. RSM Bird Cameron is a well-known Western Australian accounting business.

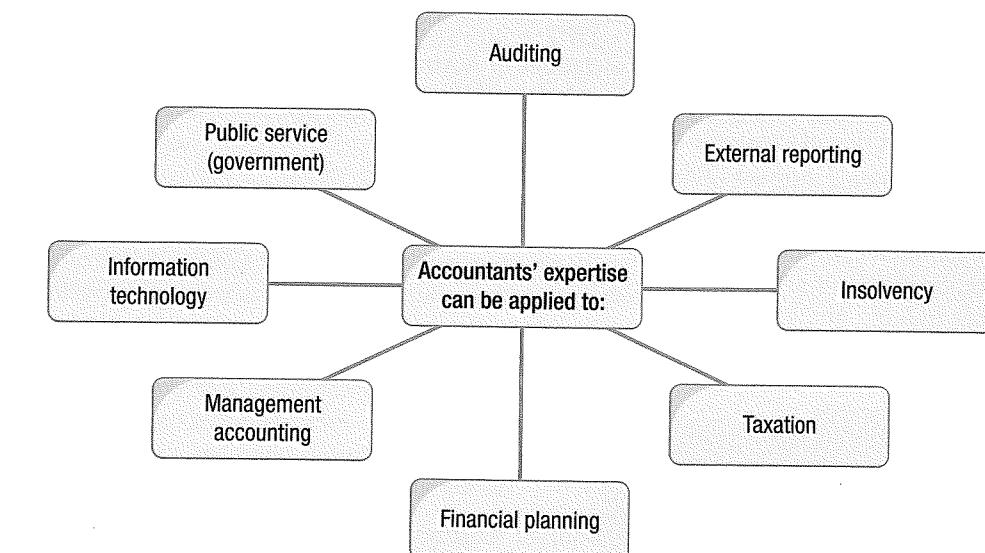


Figure 12.5 Accountants' areas of expertise

Accountants provide expertise in area such as:

- audits – independently examining a business's financial records, processes and reports in order to form an opinion on whether due accounting processes have been followed and whether the information is a true and fair view of the business's financial performance and position
- external reporting – reporting on the financial information of a business to users who may use such information in applying their scarce resources
- insolvency – assisting businesses experiencing trading difficulties, such as liquidity or profitability problems
- taxation – assisting businesses to comply with taxation legislation (accountants specialise in these areas of taxation demands and reporting requirements)
- financial planning – accountants may provide services such as budgeting, investment, mergers, takeovers, deceased estates, leasing and technology systems
- management accounting – promoting business profitability through systems quality and cost accounting of products and/or services (these can be specialised areas for accountants)
- information technology – providing advice on appropriate software and hardware in business and protecting the integrity of information
- government – processing and reporting on government businesses and statutory authorities and departments at national, state and local level.

Accounting professional associations

Those working as accountants or as financial service providers in many of the financial sectors are able to join a professional association that will assist them in their careers – both professionally and socially. In most careers there is a need to regularly improve skills and update professional knowledge. Professional associations provide a broad range of career support and social networking opportunities.

There are three professional accounting organisations in Australia and these are:

- 1 CPA (Certified Practising Accountant) Australia
- 2 Institute of Chartered Accountants Australia (ICAA)
- 3 National Institute of Accountants (NIA).

Key Concept 12.3**Professional accounting associations in Australia**

Certified Practising Accountant (CPA) Australia
Institute of Chartered Accountants Australia (ICAA)
National Institute of Accountants (NIA)

The benefits of membership of these associations include:

- professional recognition
- international standing
- further training and promotion
- participation in professional activities
- professional and business networking
- meritorious awards
- research grants
- social networking and recreation
- commitment to a code of ethics.

To gain CPA or ICAA membership an aspirant must be a university graduate with a finance or commerce degree as well as mentored experience. In addition, new members must undertake post-graduate training and gain three years professional work experience working under the guidance of a professional member. NIA members can gain their qualifications through Technical and Further Education (TAFE) training and relevant industry experience.

CPA Australia's Member Benefits**Member benefits**

CPA Australia creates high-calibre, work-ready individuals of today and the strategic business leaders of tomorrow.

Completing CPA Program ensures you are equipped with an understanding of the dynamic issues facing organisations in a global marketplace. You'll learn how to think strategically, how to position yourself as a leader and gain a global perspective. As a CPA, you will be in demand.

CPA Australia membership also gives you exclusive access to a range of benefits and services, including continuing professional development and special offers.

Keep abreast of the latest industry information and build on your skills and knowledge through CPA Australia's many networking opportunities available through committee and member groups and CPA Program.

The CPA designation is also recognised by a number of overseas membership bodies under agreements with CPA Australia, making an international career easier to pursue.

Special offers are available to members, including:

- AMP banking deals
- American Express card specials
- detailed IBISWorld reports
- savings on *BRW*, *Asset*, *AFR Smart Investor* and *CFO* magazines
- discounted Australian Unity health cover
- ING insurance benefits
- AIG travel insurance discounts
- Europcar car hire discounts.

The information as seen above is provided by CPA Australia Ltd.

www.charteredaccountants.com.au

www.cpaaustralia.com.au

www.nia.org.au

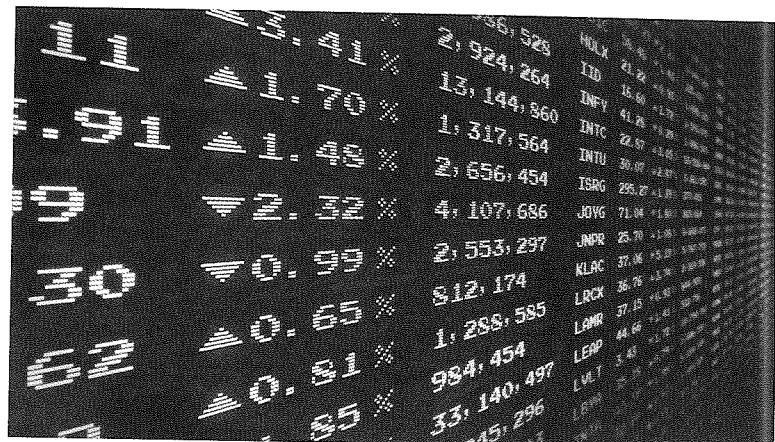
FINANCIAL SERVICES PROVIDER PROFESSIONAL ASSOCIATIONS

Those working within the finance industry as service providers are able to join an appropriate professional association. The following is an outline of some of these associations.

Brokers

The Securities and Derivatives Industry Association (SDIA) is the peak industry body representing institutional and retail stockbroking firms. The SDIA promotes among its members high standards, skills and knowledge of securities and derivatives. SDIA aims to effectively represent the securities and derivatives industry in the following way:

- discuss policy and issues with government and regulatory agencies
- consider customer-supplier relationship issues with exchanges, clearing houses and other suppliers
- provide professional recognition for industry practitioners
- promote the securities and derivatives profession
- provide professional education and training
- facilitate the discussion and resolution of industry-wide issues
- ensure members are better informed on issues likely to affect their business
- collect and publish statistics on the industry.

**Bankers**

The Australian Institute of Banking and Finance (AIBF) is the major banking and finance professional association for Australia and New Zealand. It is dedicated to enhancing the professionalism of its members (and therefore of the financial services industry in general) by increasing knowledge and skills through education and professional development.

Insurers

The National Insurance Brokers Association is a key education and training body for this sector. The aim of the association is to support and encourage members to adopt high standards of professional competence and conduct. There is also the Australian and New Zealand Institute of Insurance and Finance (ANZIIF), which also provides professional development for its members, encourages professional conduct and provides opportunities for business networking.

Superannuation

The superannuation industry's main professional body is the Association of Superannuation Funds of Australia (ASFA). ASFA works to:

- represent the superannuation industry, trustees and, through them, the members of funds
- undertake research and develop policy to improve the administration of superannuation and retirement income for members
- create public awareness of superannuation issues

- provide professional development, education and training for those working in the superannuation industry
- promote best practice in the operation of superannuation funds
- coordinate a range of events, seminars and forums to enable information sharing, debate and networking on superannuation and related issues
- provide a range of information and resources to ensure members are kept up to date on matters affecting the superannuation industry.

Financial planners

Financial planners can be members of the Financial Planners Association (FPA) though they must hold an Australian Financial Services licence. The FPA is the main association for financial planners in Australia. The FPA works toward goals of professional membership, professional conduct and professional accountability. These goals embrace continuing education and encouraging members to operate within a code of ethics.

Benefits of joining the Financial Planners Association (FPA)

Membership of the FPA tells colleagues, clients and Australians:

- that you adhere to high professional standards and a code of ethics and rules
- that you are committed to continuing professional development
- that you put the interests of your clients ahead of all other considerations.

Other benefits include:

- the value placed on FPA membership by the majority of consumers inspiring trust and confidence in you as a professional
- gaining professional certification including FPA practitioner status and CFP certification
- influencing regulatory and professional issues via debate policy formulation and lobbying
- access to a broad range of education and learning opportunities for you as a professional or for your practice
- referrals to your practice via Find a Planner and access to quality discounted consumer brochures
- a dynamic network for the exchange of experience and information via the events and community initiatives of our 31 Chapters.

Source: adapted from 'Why join the FPA?', Financial Planning Association of Australia, November 2007, www.fpa.asn.au/files/PubWhyJoinTheFPA07.pdf.

www.fpa.asn.au

Consequences of misconduct

Where the control exerted by the regulatory authorities is inadequate, or where finance industry managers have disregarded their own codes of conduct, the consequences for investors can be severe.

REALITY CHECK 12.2

Let the buyer beware!

Various news reports and federal court actions revealed during 2008 that a prominent Queensland financial advisory business, Storm Financial Services Pty Ltd, was under surveillance by the Australian Securities and Investments Commission. By March 2009 the business investors voted to have the business liquidated under the company legislation. The major focus in the situation appeared to be on highly geared investors – many on relatively low incomes and elderly – who had arrangements made for them to acquire loans on their properties (houses) and then the funds were applied to buy shares.

The company, formed in 1994, rewarded many investors throughout the boom years. However, when the global economic downturn hit in the final quarter of 2008, a

significant loss of equity in property and shares occurred. By September 2009 a Senate hearing of the federal parliament reported that a possible sum of over \$3 billion in losses had occurred. An interesting set of allegations implicated three Australian banks in possible careless lending practices. Properties were overvalued to generate loans that were so highly geared that any hint of recession would compromise the borrowers' capacity to repay the loans.

REALITY CHECK 12.3

Ponzi schemes

Madoff and Ponzi have almost become household terms. The term 'Ponzi' emerged when an enterprising American called Charles Ponzi initiated a finance scheme during the 1920s offering high returns on a range of investment schemes. Very much pyramid in form, the early returns are actually paid from the capital sums invested as positive publicity attracts increasing numbers of 'gullible' investors.

Many business and legal reports from the USA in the latter part of 2008 exposed Bernard Madoff, a prominent New York financier, as the mastermind of a vast Ponzi-like scheme that had collapsed with the potential of US\$65 billion in investor losses. Upon his admission of guilt for fraudulent financial actions Mr Madoff was gaoled for 150 years!

A later report on this investigation in May 2009 revealed that at least \$3 billion of investors' losses is estimated, with ASIC pursuing criminal charges for major breaches of the Corporations legislation and ASIC legislation.

www.afr.com

See the Financial Planners Code of Ethics and assess how many of these principles were ignored by Storm Financial Services.

Commentary

The Storm Financial Services and Madoff cases could be further investigated for their background and consequences and from the perspective of investors' responsibilities, professional skills of the providers and their responsibilities, an ethical framework, the extent of legislative regulation, the general economic environment, the ultimate impact such failures have on individuals and systems and whether improvements have been implemented to protect against future similar outcomes.

Often significant collapses of complex business arrangements take many years to resolve with very little benefit to the investors. The above cases and other similar cases obviously occurred within an accounting, banking and legal environment. Other people than the principal (owner) would have been complicit in the actions causing serious distress and loss. Clearly personal ethical behavioural and professional codes of practice were breached by a number of professional people associated with the businesses (lawyers, bankers, advisors and accountants).

REALITY CHECK 12.4

Professional images

A telephone poll by Roy Morgan Research conducted in June 2009 included the following data on the image of various professions:

Occupation	Ratings for ethics and honesty
Nurses	89%
Pharmacists	84%
Doctors	82%
School teachers	76%

Engineers	69%
Dentists	69%
Police	65%
Accountants	51%
Financial planners	25%
Stockbrokers	15%
Insurance brokers	11%
Advertising people	6%
Car salespeople	3%

Source: Roy Morgan Research, ' Roy Morgan Image of Professions survey', 24 June 2009, www.roymorgan.com/news/poll/2009/4387/.



Commentary

It is interesting to note that those professions related to the finance industry are well down the list. Visit the Roy Morgan website and see how the ratings have changed over the years the poll has been running. (Note, 2009 was the first year financial planners were included in the poll.)

- Why do you think that those professions associated with the finance industry rate so low with regards to ethics and honesty?
- What factors might have affected people's opinions of these professions? What role do the media play in this?
- Does the existence of legislation play a part in this result?
- Are the financial services professions so complex and by nature related to activities that seem to involve more potential for criminal activity that they are bound to be perceived in an unfavourable manner?

WORKING WITHIN A CODE OF BEHAVIOUR

Sporting associations have guidelines of expected behaviour for both players and spectators. Tribunals exist to rule on unacceptable behaviour and infringements can be imposed on players. For example, in the Australian Football League players can be banned from playing or fined. Most professional bodies develop codes of behaviour to build confidence by the public in the services offered by the professional group. Ethics is the cornerstone of what accountants do. Clients seek impartial information and depend on accountants to perform their jobs with the highest degree of accuracy and ethical standards. The stability of a free-market system depends to a great extent on competent and ethical financial information providers.

Professional codes of conduct for accountants

The Accounting Professional and Ethical Standards Board (APESB) was established as an independent body in February 2006, as an initiative of CPA Australia and the Institute of Chartered Accountants in Australia (the Institute). CPA Australia, the Institute and the National Institute of Accountants (NIA) are all members of the APESB, with the objectives of producing a code of model ethical behaviour for accountants and to maintain timely debate on topical ethical issues.

The fundamental principles and features identified in the Code are:

- integrity – being straightforward and honest in all professional and business relationships
- objectivity – not allowing professional judgement to be compromised by bias, conflict of interest or the undue influence of others

- professional competence and due care – maintaining professional knowledge and skill at the level required to ensure competent professional service and acting diligently in accordance with applicable standards when providing services
- confidentiality – respecting the confidentiality of information acquired as a result of business relationships and not disclosing any such information to third parties without proper authority
- professional behaviour – complying with relevant laws and regulations and avoiding any action that discredits the profession.

The Code then acknowledges that a broad range of circumstances may potentially threaten compliance with the fundamental principles, such as:

- self-interest threats, which may occur as a result of the financial or other interests of the individual or their family
- self-review threats, which may occur when a previous judgement needs to be re-evaluated by the accountant responsible for that judgement
- advocacy threats, which may occur when an accountant promotes a position or opinion to the point that subsequent objectivity may be compromised
- familiarity threats, which may occur when, because of a close relationship, an accountant becomes too sympathetic to the interests of others
- intimidation threats, which may occur when an accountant may be deterred from acting objectively by threats, actual or perceived.

The following news article shows how some accounting service providers may disregard the law and their professional code of conduct and what the consequences of this sort of action may be.

REALITY
CHECK
12.5

Accountants face court over laundering charge

by Harriet Alexander

Three partners of a suburban accounting firm and 11 of their clients faced court yesterday accused of participating in the alleged tax evasion scheme which is targeting hundreds of wealthy Australians, including the actor Paul Hogan ...

The firm allegedly put the money through a false invoice scheme, which involved transferring money to overseas financial institutions disguised as business expenses and then returning the same money to Australia in the form of interest-free loans.

The case forms part of Operation Wickenby, an investigation by the Australian Federal Police and Australian Taxation Office into an alleged \$100 million tax evasion scheme involving money laundering promoted by Agius, the director of accounting firm PKF Vanuatu ...

Source: *Sydney Morning Herald*, 11 March 2009, www.smh.com.au.

Commentary

The accounting partnership mentioned above will not enhance the image of accountants! The Australian Taxation Office acted on behalf of the public to maintain the integrity of taxation laws in Australia. Both the accountants and the clients apparently acted in a conspiracy to defraud the community and obtain unfair financial advantages.

Identify the breaches of professional practice in this instance.

Professional codes of conduct for financial services providers

The Financial Planning Association of Australia has set professional standards in its Code of Ethics. The Code of Ethics is part of the professional obligations that all members of the Financial Planning Association (FPA) need to adhere to. The full code can be downloaded from the FPA website.

Financial Planning Association of Australia Code of Ethics

Principle 1: Client First

Place the client's interests first.

Placing the client's interests first is a hallmark of professionalism, requiring the financial planner to act honestly and not place personal and/or employer gain or advantage before the client's interests.

Principle 2: Integrity

Provide professional services with integrity.

Integrity requires honesty and candour in all professional matters. Financial planners are placed in positions of trust by clients, and the ultimate source of that trust is the financial planner's personal integrity. Allowance can be made for legitimate differences of opinion, but integrity cannot co-exist with deceit or subordination of one's principles. Integrity requires the financial planner to observe both the letter and the spirit of the Code of Ethics.

Principle 3: Objectivity

Provide professional services objectively.

Objectivity requires intellectual honesty and impartiality. Regardless of the services delivered or the capacity in which a financial planner functions, objectivity requires financial planners to ensure the integrity of their work, manage conflicts and exercise sound professional judgment.

Principle 4: Fairness

Be fair and reasonable in all professional relationships.

Disclose and manage conflicts of interest.

Fairness requires providing clients what they are due, owed or should expect from a professional relationship, and includes honesty and disclosure of material conflicts of interest. It involves managing one's own feelings, prejudices and desires to achieve a proper balance of interests. Fairness is treating others in the same manner that you would want to be treated.

Principle 5: Professionalism

Act in a manner that demonstrates exemplary professional conduct.

Professionalism requires behaving with dignity and showing respect and courtesy to clients, fellow professionals, and others in business-related activities, and complying with appropriate rules, regulations and professional requirements. Professionalism requires the financial planner, individually and in cooperation with peers, to enhance and maintain the profession's public image and its ability to serve the public interest.

Principle 6: Competence

Maintain the abilities, skills and knowledge necessary to provide professional services competently.

Competence requires attaining and maintaining an adequate level of knowledge, skills and abilities in the provision of professional services. Competence also includes the wisdom to recognise one's own limitations and when consultation with other professionals is appropriate or referral to other professionals necessary. Competence requires the financial planner to make a continuing commitment to learning and professional improvement.

Principle 7: Confidentiality

Protect the confidentiality of all client information.

Confidentiality requires client information to be protected and maintained in such a manner that allows access only to those who are authorised. A relationship of trust and confidence with the client can only be built on the understanding that the client's information will not be disclosed inappropriately.

Principle 8: Diligence

Provide professional services diligently.

Diligence requires fulfilling professional commitments in a timely and thorough manner, and taking due care in planning, supervising and delivering professional services.

Source: Financial Planning Association of Australia, Code of Ethics from the Financial Planning Association's Code of Professional Practice, www.fpa.asn.au.

Test your knowledge

- 1 List some of the laws and regulations that are in place to control the banking industry.
- 2 What laws and regulations apply to control the activities of accountants as tax agents and company auditors?
- 3 What laws and regulations apply to control the activities of financial planners?
- 4 What is the purpose of accounting and financial service provider professional associations?
- 5 What is a code of ethics?
- 6 What is the purpose of a code of ethics?
- 7 Explain the following in regards to a code of ethics and ethical behaviour:
 - a integrity
 - b confidentiality
 - c competence
 - d objectivity.

Test your understanding

- 12.1 If you were new to the accounting profession, what services from an accounting professional association would be useful to support you in your career? Create a list of these and investigate how one of the three accounting associations would be able to support your interests.
- 12.2 An experienced and respected accountant is asked by a wealthy client to make misleading remarks in a press release about the current financial results of the client's business to divert attention from the recent poor performance of the client's business. The accountant refuses. The client then talks to a senior partner of the accounting practice that employs the accountant and requests her to get the accountant to cooperate and make the press release.

Comment on what should happen and ways in which you, as the partner, should respond. Should you:

- sack the accountant for not supporting a client
- refuse to act for the client any longer
- promote the accountant

- give responsibility for this client to another employee within the firm who may be more willing to do what the client wants
- or give another possibility?

12.3 In the following report from a local newspaper fraudulent behaviour has resulted in criminal charges being laid.

What do you think is the ethically correct course of action by management?

Centrelink crackdown on skimpy cash fraud

Centrelink investigators have saved taxpayers more than an estimated quarter of a million dollars as part of a continuing investigation into Western Australia's skimpy barmaids and strippers.

Since March last year, Operation Mariana, together with two other operations, has resulted in estimated savings of \$280 000 to date, with thirteen workers having their Centrelink payments cancelled or suspended.

Centrelink is also likely to refer the cases of six workers to the Commonwealth Director of Public Prosecutions for prosecution consideration.

Centrelink WA Business Integrity Manager Suzan Anthony said the investigation focuses on skimpy barmaids and strippers in metropolitan Perth and Kalgoorlie.

'The operation is still in progress and we're anticipating further savings and debts from a number of cases,' Ms Anthony said. 'Some of these customers are very clever and will go to extraordinary lengths to hide the fact they're earning an income at the same time as they are on a payment from Centrelink.'

Source: Centrelink Western Australia, Media Release, 11 January 2007, http://www.centrelink.gov.au/internet/internet.nsf/news_room/07wa_cash_fraud.htm.

Required

- a Identify the stakeholders in this breach.
- b What responsibility do the employers have and is there a case for the prosecution being extended to the employers?
- c Do a business's accountants have some responsibility to uphold legislation related to employment and benefits and have they breached their professional codes in other ways?

12.4 You are a recently retired person who has decided to manage your own superannuation funds. You have a good general understanding of finance markets, but you are not an expert. Your situation is complicated somewhat by the fact that your spouse, who is younger than you, is still working and you have a disabled child still living with you, for whom you are able to get certain government allowances.

Identify three financial professionals whose services you might employ and explain what each of them might be expected to do for you. In each case, outline the controls that the professional is subject to that will ensure that they do the job you want of them.

Investigation

- 1 Visit the website of a financial professional association and discover the answers to following:
 - a How do you become a member?
 - b What qualifications are required?
 - c How do you maintain membership?
 - d What training and professional development is offered?
 - e How does a client lodge a complaint?
 - f What does its code of conduct or code of ethics require?
 - g What is the process for dealing with members who are alleged to have breached professional requirements and what are the consequences for the members if they are found to be guilty of such breaches?

- 2 Identify a recent case of default by financial service providers in Australia (search your library or the internet) and research it. Then produce a report in written or electronic form.
 - Describe the circumstances of the case.
 - Identify the nature of failures and the reasons for them.
 - Examine the role of the regulators (both government and professional associations). Did they do what was expected of them? Could they have done better?
 - Explain the consequences for the clients, the service providers and any other stakeholders.

Essay

'Professional associations play a vital role in our society to ensure confidence in the capital markets through regulation and professional training.'

Discuss this statement as it applies to the finance industry, including in your answer the following:

- the role of professional associations, giving some examples to illustrate your answer
- the importance of professional codes of conduct
- the consequences of an absence of active professional associations
- the relationship between the professional associations and other market regulators.

Ethics case study

Consider this dilemma of the chief accountant of a Welshpool engineering firm. The firm is seeking bank finance to update its manufacturing machinery in order to remain competitive in the market. While business is difficult, the company's board of directors are assured by the Chief Executive Officer that bank finance is assured, given that profits are expected to improve by three per cent on the previous year's results. A new sales contract is being finalised for the next period. The accountant is aware that current sales have been sluggish and performance is below the three per cent increase expected. However, if he included the new contract in the current result he could report the desired growth outcome.

The accountant's own remuneration and bonuses, together with those of the CEO depend on improving results. The machinery update is vital for the firm's success in the marketplace and failure to finance this could possibly threaten the firm's existence. There is considerable unemployment in senior accounting, management and engineering positions at the moment!

Discuss your responses to the following questions.

- Should the accountant tell the truth to the bank, irrespective of the consequences?
- Does it really matter if the accountant 'massages' the figures, including sales that will occur in the future?
- Is the self-interest of the accountant a justifiable concern?
- How should the accountant tackle the matter of loyalty to the CEO? Isn't the CEO ultimately responsible for the decision?
- Does the accountant have a responsibility to protect the jobs of employees?
- Who are the stakeholders in this and what are their interests?
- What should the accountant do?