

IKAF CEA-P1 Governance, Risk and Ethics

Syllabus and Study Guide

*CEA Certified External Auditor Qualification
(Based on ACCA Certifications)*

This syllabus and study guide is designed to assist in teaching and learning, also is intended to provide detailed information on the qualification, module and study guide.

Qualification Structure

It explains the content of Certified External Auditor Qualification level, which also includes the Governance, Risk and Ethics Module. Explains the connection of this module to other levels and modules of qualification; modules included at the specified level as well as membership criteria; as well as the characteristics of lectures that are held during the certification period. Modules and Qualifications are also presented through diagrams.

Module

It explains briefly the reasoning of the module's importance, the general and detailed objectives of the module and, also shows in the widest sense the skills that will be developed during the study of the module. The relation of the module to the other modules is presented through a diagram representing the links between them; in order to be as clear as possible for the reader. Also, topics that belong to the module are described; also, how the module's topics and subthemes are planned. Moreover, the form of examination and evaluation is explained in detail, what the exam will consider and why. In the end, the module's content is attached.

Syllabus Structure

It explains the syllabus content of the module Governance, Risk and Ethics, part of the Certified External Auditor Qualification Level. This module contains the main reasoning, aim, and capabilities expected to get learned during the course of the study. In addition, the syllabus includes the topics of the modules, the structure of the examination after the successful completion of the module as well as reading and scheduling the time.

Study Guide

This is the main document that students, education and content providers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations

QUALIFICATION STRUCTURE

*CEA Certified External Auditor Qualification
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The Certified External Auditors must first get qualified as a Certified Accountant in IKAF. Not all Certified Accountants are required or need to qualify as Certified Auditors, unless they choose a career in providing legal audits and related services. The Kosovo Financial Reporting Council (KKRF) licenses Auditors in Kosovo and the role of IKAF is to ensure that they are certified in accordance with International Education Standards, the EU's 8th Directive and best international practices. In recent years, education standards and professional practice requirements for Legal Auditors have been updated, so the new IKAF qualification scheme aims to ensure that Kosovo auditors are qualified with the highest international standards.

To get Certified Auditor training you must first be an IKAF member and have completed the Qualification for a Certified Accountant. Membership at this level is open to all professionals who work in accounting and auditing and who have completed the level for a Certified Accountant.

Certified Auditor Candidates should demonstrate knowledge of Governance, Risk and Ethics Module.

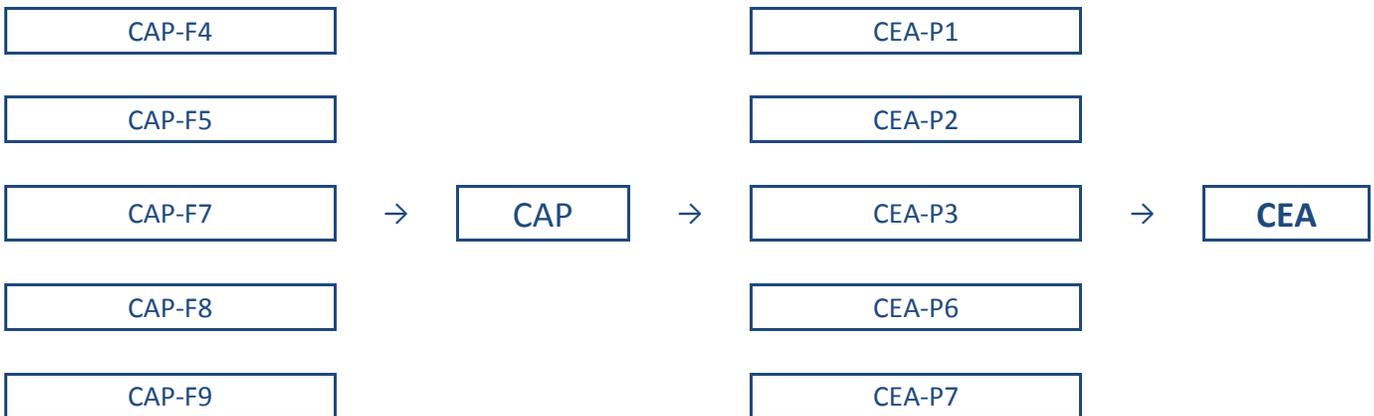


Diagram.1: Certified External Auditor Qualification relations with other modules and certified qualifications

Modules

CEA Certified External Auditor Qualification Level consists of five modules and is mandatory to pass all five in order to obtain the title:

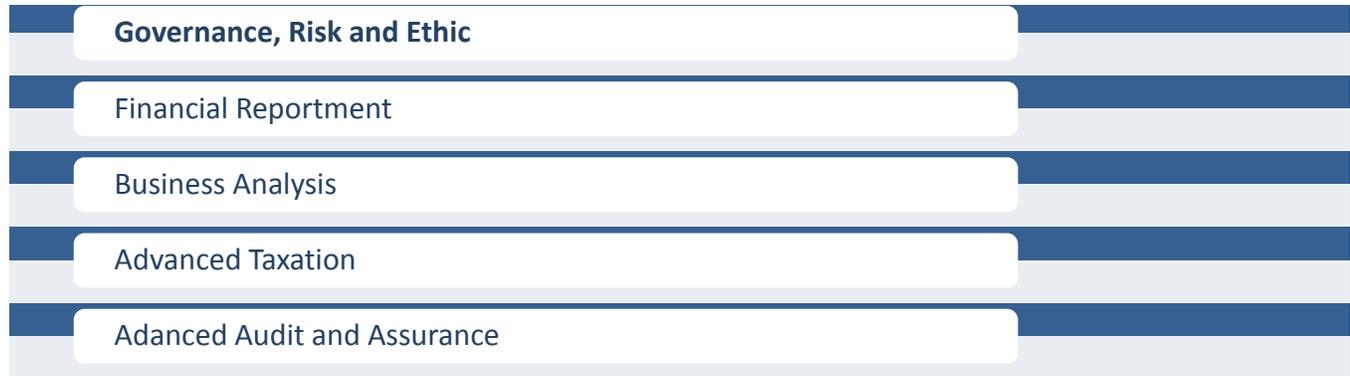


Diagram.2: CEA Certified External Auditor Qualification Level Modules

Qualification and Membership Criteria: Certified External Auditor

- University Degree;
- Completion of Certified Accountant Level
- Proof for at least three (3) years of verified work experience in accounting - which can be acquired during or after the training;
- Have attended and passed five (5) certification exams for this purpose (Exam is passed if 50% of test points are reached) ;
- A person who has been certified in this qualification by IKAF and continues to have a regular membership status of the IKAF has the right to use the title "Certified Accountant" by fulfilling all of the above criteria;
- Regular members of the IKAF to use the title "Certified Accountant" are required to attend Continuing Professional Development (CPD) as defined in the IKAF Regulation.

Training Features:

- A comprehensive review of modules and during the training, participants will be provided with case studies, exercises similar to those given in the ACCA exams, and mock exam.
- Trainers are holding professional qualifications, and well experience in their field
- ACCA materials shall be used in the training
- Upon completion of this course, participants will be able to take the exams of modules at IKAF center.

SYLLABUS STRUCTURE

Rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Relational diagram linking modules

This diagram shows direct and indirect links between this exam and other exams preceding or following it. It indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall Aim

This explains briefly the overall objective of the syllabus and indicates in the broadest sense the capabilities to be developed within the exam.

Main Capabilities

The aim of the syllabus is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Topics

Certain topics that module contains and that will be treated during tuitions.

Examining Structure

This section briefly explains the structure of the examination and how it is assessed.

Annex: Detailed Syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

MODULE

This syllabus and study guide is designed to help with study planning and to provide detailed information on what could be assessed in any examination session.

Rationale

The syllabus assumes essential technical skills and knowledge acquired at the Fundamentals level where the core technical capabilities will have been acquired, and where ethics, corporate governance, internal audit, control, and risk will have been introduced in a subject-specific context.

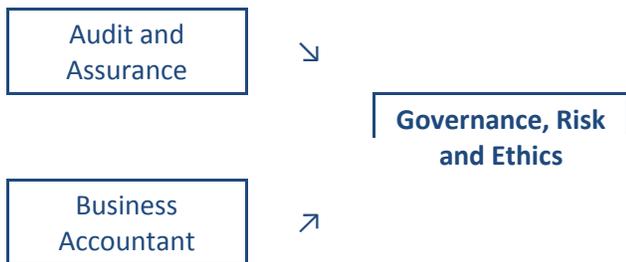


Diagram.1: Module

The GRE syllabus begins by examining the whole area of governance within organizations in the broad context of the agency relationship. This aspect of the syllabus focuses on the respective roles and responsibilities of directors and officers to organizational stakeholders and of accounting and auditing as support and control functions.

The syllabus then explores internal review, control, and feedback to implement and support effective governance, including compliance issues related to decision-making and decision-support functions. The syllabus also examines the whole area of identifying, assessing, and controlling risk as a key aspect of responsible management.

Finally, the syllabus covers personal and professional ethics, ethical frameworks – and professional values – as applied in the context of the accountant’s duties and as a guide to appropriate professional behavior and conduct in a variety of situations.

Aim

To apply relevant knowledge, skills and exercise professional judgment in carrying out the role of the accountant relating to governance, internal control, compliance and the management of risk within an organisation, in the context of an overall ethical framework.

Main capabilities

- Define governance and explain its function in the effective management and control of organizations and of the resources for which they are accountable
- Evaluate the Governance, Risk and Ethics' role in internal control, review and compliance
- Explain the role of the accountant in identifying and assessing risk
- Explain and evaluate the role of the accountant in controlling and mitigating risk
- Demonstrate the application of professional values and judgment through an ethical framework that is in the best interests of society and the profession, in compliance with relevant professional codes, laws and regulations.

Topics

Major topics of Governance, Risk and Ethics Module that will be covered during the training:



Diagram.2: Topics of Governance, Risk and Ethic Module that will be covered during the training

Examination Structure

The syllabus is assessed by a three-hour examination available in paper-based format. * All questions are compulsory. Some questions will adopt a scenario/case study approach. Candidates are provided with a formulae sheet.

Reading and Time Planning

For paper-based exams 15 minutes are added to the three hours to reflect the manual effort required. The total exam time is therefore three hours and 15 minutes. Prior to the start of the exam candidates are given an extra 10 minutes to read the exam instructions.

The pass mark for all IKAF Qualification examinations is 50%.

Annex: Detailed Syllabus

DETAILED SYLLABUS

A Governance and responsibility

1. The scope of governance
2. Agency relationships and theories
3. The board of directors
4. Board committees
5. Directors' remuneration
6. Different approaches to corporate governance
7. Corporate governance and corporate social responsibility
8. Governance: reporting and disclosure

B Internal control and review

1. Management control systems in corporate governance
2. Internal control, audit and compliance in corporate governance
3. Internal control and reporting
4. Management information in audit and internal control

C Identifying and assessing risk

1. Risk and the risk management process
2. Categories of risk
3. Identification, assessment and measurement of risk

D Controlling risk

1. Targeting and monitoring risk
2. Methods of controlling and reducing risk
3. Risk avoidance, retention and modeling

E Professional values and ethics

1. Ethical theories
2. Different approaches to ethics and social responsibility
3. Professions and the public interest
4. Professional practice and codes of ethics
5. Conflicts of interest and the consequences of unethical behavior
6. Ethical characteristics of professionalism
7. Social and environmental issues in the conduct of business and of ethical behavior

STUDY GUIDE

A GOVERNANCE AND RESPONSIBILITY

1. The scope of governance

- (a) Define and explain the meaning of corporate Governance.
- (b) Explain, and analyses the issues raised by the Development of the joint stock company as the dominant form of business organisation and the separation of ownership and control over business activity.
- (c) Analyse the purposes and objectives of corporate governance.
- (d) Explain, and apply in context of corporate governance, the key underpinning concepts of:
- fairness
 - openness/transparency
 - independence
 - probity/honesty
 - responsibility
 - accountability
 - reputation
 - judgment
 - integrity
- (e) Explain and assess the major areas of organisational life affected by issues in corporate governance.
- duties of directors and functions of the board (including performance measurement)
 - the composition and balance of the board (and board committees)
 - reliability of financial reporting and external auditing
 - directors' remuneration and rewards
 - responsibility of the board for risk management systems and internal control
 - the rights and responsibilities of shareholders, including institutional investors

- corporate social responsibility and
- business ethics.

(f) Compare, and distinguish between public, private and non-governmental organisations (NGO) sectors with regard to the issues raised by, and scope of, governance.

(g) Explain and evaluate the roles, interests and claims of, the internal parties involved in corporate governance.

- Directors
- Company secretaries
- Sub-board management
- Employee representatives (e.g. trade unions)

(h) Explain and evaluate the roles, interests and claims of, the external parties involved in corporate governance.

- Shareholders (including shareholders' rights and responsibilities)
- Auditors
- Regulators
- Government
- Stock exchanges
- Small investors (and minority rights)
- Institutional investors (see also next point)

(i) Analyse and discuss the role and influence of institutional investors in corporate governance systems and structures, for example the roles and influences of pension funds, insurance companies and mutual funds.

2. Agency relationships and theories

(a) Define and explore agency theory.

(b) Define and explain the key concepts in agency theory.

- Agents
- Principals

- Agency
- Agency costs
- Accountability
- Fiduciary responsibilities
- Stakeholders

(c) Explain and explore the nature of the principal-agent relationship in the context of corporate governance.

(d) Analyse and critically evaluate the nature of agency accountability in agency relationships.

(e) Explain and analyse the following other theories used to explain aspects of the agency relationship.

(i) Transaction costs theory

(ii) Stakeholder theory

3. The board of directors

(a) Explain and evaluate the roles and responsibilities of boards of directors.

(b) Describe, distinguish between and evaluate the cases for and against, unitary and two-tier board structures.

(c) Describe the characteristics, board composition and types of, director (including defining executive and non-executive directors (NED)).

(d) Describe and assess the purposes, roles and responsibilities of NEDs.

(e) Describe and analyse the general principles of

(f) legal and regulatory frameworks within which directors operate on corporate boards:

- legal rights and responsibilities,
- time-limited appointments
- retirement by rotation,
- service contracts,
- removal,
- disqualification
- conflict and disclosure of interests
- insider dealing/trading

(g) Define, explore and compare the roles of the chief executive officer and company chairman.

(h) Describe and assess the importance and execution of, induction and continuing professional development of directors on boards of directors.

(i) Explain and analyse the frameworks for assessing the performance of boards and individual directors (including NEDs) on boards.

(j) Explain the meanings of 'diversity' and critically evaluate issues of diversity on boards of directors.

4. Board committees

(a) Explain and assess the importance, roles and accountabilities of, board committees in corporate governance.

(b) Explain and evaluate the role and purpose of the following committees in effective corporate

- governance:
- Remuneration committees
- Nominations committees
- Risk committees.
- Audit committees

5. Directors' remuneration

(a) Describe and assess the general principles of remuneration.

- purposes
- components
- links to strategy
- links to labour market conditions.

(b) Explain and assess the effect of various components of remuneration packages on directors' behaviour.

- basic salary (i)
- performance related (i)
- shares and share options (ii)
- loyalty bonuses
- benefits in kind
- pension benefits

(c) Explain and analyse the legal, ethical, competitive and regulatory issues associated with directors' remuneration.

6. Different approaches to corporate Governance

(a) Describe and compare the essentials of 'rules' and 'principles' based approaches to corporate governance. Includes discussion of 'comply or explain'.

(b) Describe and analyse the different models of business ownership that influence different governance regimes (e.g. family firms versus joint stock company-based models).

(c) Describe and critically evaluate the reasons behind the development and use of codes of practice in corporate governance (acknowledging national differences and convergence).

(d) Explain and briefly explore the development of corporate governance codes in principlesbased jurisdictions.

- impetus and background
- major corporate governance codes
- effects of

(d) Explain and explore the Sarbanes-Oxley Act (2002) as an example of a rules-based approach to corporate governance.

- impetus and background
- main provisions/contents
- effects of

(e) Describe and explore the objectives, content and limitations of, corporate governance codes intended to apply to multiple national jurisdictions.

Organisation for economic cooperation and development (OECD) Report (2004)
International corporate governance network (ICGN) Report (2005)

7. Corporate governance and corporate social Responsibility

(a) Explain and explore social responsibility in the context of corporate governance.[2]

(b) Discuss and critically assess the concept of stakeholders and stakeholding in organisations and how this can affect strategy and corporate governance.[3]

(c) Analyse and evaluate issues of 'ownership,' 'property' and the responsibilities of ownership in the context of shareholding.[3]

(d) Explain the concept of the organisation as a corporate citizen of society with rights and responsibilities.[3]

8. Governance: reporting and disclosure

(a) Explain and assess the general principles of disclosure and communication with shareholders.

(b) Explain and analyse 'best practice' corporate governance disclosure requirements.

(c) Define and distinguish between mandatory and voluntary disclosure of corporate information in the normal reporting cycle.

(d) Explain and explore the nature of, and reasons and motivations for, voluntary disclosure in a principles-based reporting environment (compared to, for example, the reporting regime in the USA). Explain and analyse the purposes of the annual general meeting and extraordinary general meetings for information exchange between board and shareholders.

(e) Describe and assess the role of proxy voting in corporate governance.

B Internal control and review

1. Management control systems in corporate governance

- (a) Define and explain internal management control
- (a) Explain and explore the importance of internal control and risk management in corporate governance
- (b) Describe the objectives of internal control systems
- (c) Identify, explain and evaluate the corporate governance and executive management roles in risk management (in particular the separation between responsibility for ensuring that adequate risk management systems are in place and the application of risk management systems and practices in the organisation).
- (d) Identify and assess the importance of the elements or components of internal control systems.

2. Internal control, audit and compliance in corporate governance

- (a) Describe the function and importance of internal audit.
- (a) Explain, and discuss the importance of, auditor independence in all client-auditor situations (including internal audit).
- (b) Explain, and assess the nature and sources of risks to, auditor independence. Assess the hazard of auditor capture
- (c) Explain and evaluate the importance of compliance and the role of the internal audit function in internal control.
- (d) Explore and evaluate the effectiveness of internal control systems.

- (e) Describe and analyse the work of the internal audit committee in overseeing the internal audit function.
- (g) Explain and explore the importance and characteristics of, the audit committee's relationship with external auditors

3. Internal control and reporting

- (a) Describe and assess the need to report on internal controls to shareholders.
- (b) Describe the content of a report on internal control and audit.
- (c) Explain and assess how internal controls underpin and provide information for accurate financial reporting.

4. Management information in audit and Internal control

- (a) Explain and assess the need for adequate information flows to management for the purposes of the management of internal control and risk.
- (a) Evaluate the qualities and characteristics of information required in internal control and risk management and monitoring.

C Identifying and assessing risk

1. Risk and the risk management process

- (a) Define and explain risk in the context of corporate governance.
- (b) Define and describe management responsibilities in risk management.
- (c) Explain the dynamic nature of risk assessment.
- (d) Explain the importance and nature of management responses to changing risk assessments.

(e) Explain risk appetite and how this affects risk policy.

2. Categories of risk

(a) Define and compare (distinguish between) strategic and operational risks.

(a) Define and explain the sources and impacts of common business risks.

- market
- credit
- liquidity
- technological
- legal
- health, safety and environmental
- reputation
- business probity
- derivatives

(b) Describe and evaluate the nature and importance of business and financial risks.

(c) Recognise and analyse the sector or industry specific nature of many business risks.

3. Identification, assessment and Measurement of risk

(a) Identify, and assess the impact upon, the stakeholders involved in business risk

(a) Explain and analyse the concepts of assessing the severity and probability of risk events

(b) Describe and evaluate a framework for board level consideration of risk.

(d) Describe the process of and importance of, externally reporting on internal control and risk

(e) Explain the sources, and assess the importance of, accurate information for risk management

(f) Explain and assess the ALARP (as low as reasonably practicable) principle in risk assessment and how this relates to severity and probability

(g) Evaluate the difficulties of risk perception (c) including the concepts of objective and subjective risk perception

(h) Explain and evaluate the concepts of related and correlated risk factors

D Controlling and managing risk

1. Targeting and monitoring of risk

(a) Explain and assess the role of a risk manager in identifying and monitoring risk.

(b) Explain and evaluate the role of the risk committee in identifying and monitoring risk.

(c) Describe and assess the role of internal or external risk auditing in monitoring risk.

2. Methods of controlling and reducing risk

(a) Explain the importance of risk awareness at all levels in an organisation.

(b) Describe and analyse the concept of embedding risk in an organisation's systems and procedures.

(c) Describe and evaluate the concept of embedding risk in an organisation's culture and values.

(d) Explain and analyse the concepts of spreading and diversifying risk and when this would be appropriate.

(e) Identify and assess how business organisations use policies and techniques to mitigate various types of business and financial risks.

3. Risk avoidance, retention and modeling

- (a) Explain, and assess the importance of, risk
- (a) transference, avoidance, reduction and acceptance.
- (b) Explain and evaluate the different attitudes to risk and how these can affect strategy.
- (c) Explain and assess the necessity of incurring risk as part of competitively managing a business organisation.
- (d) Explain and assess attitudes towards risk and the ways in which risk varies in relation to the size, structure and development of an organisation

E Professional values and ethics

1. Ethical theories

- (a) Explain and distinguish between the ethical theories of relativism and absolutism.
- (b) Explain, in an accounting and governance context, Kohlberg's stages of human moral development.
- (c) Describe and distinguish between deontological and teleological / consequentialist approaches to ethics.
- (d) Apply commonly used ethical decision-making models in accounting and professional contexts
- American Accounting Association model
 - Tucker's 5-question model

2. Different approaches to ethics and social responsibility.

- (a) Describe and evaluate Gray, Owen & Adams (1996) seven positions on social responsibility.
- (b) Describe and evaluate other constructions of corporate and personal ethical stance:
- short-term shareholder interests
 - long-term shareholder interests
 - multiple stakeholder obligations
 - shaper of society
- (c) Describe and analyse the variables determining the cultural context of ethics and corporate social responsibility (CSR).

3. Professions and the public interest

- (a) Explain and explore the nature of a 'profession' and 'professionalism'
- (b) Describe and assess what is meant by 'the public interest'
- (c) Describe the role of, and assess the widespread influence of, accounting as a profession in the organisational context
- (d) Analyse the role of accounting as a profession in society
- (e) Recognise accounting's role as a value-laden profession capable of influencing the distribution of power and wealth in society
- (f) Describe and critically evaluate issues surrounding accounting and acting against the public interest

4. Professional practice and codes of ethics

- (a) Describe and explore the areas of behaviour covered by corporate codes of ethics.
- (b) Describe and assess the content of, and principles behind, professional codes of ethics.

- (c) Describe and assess the codes of ethics relevant to accounting professionals such as the IFAC or professional body codes.

5. Conflicts of interest and the consequences of unethical behavior

- (a) Describe and evaluate issues associated with conflicts of interest and ethical conflict resolution
- (b) Explain and evaluate the nature and impacts of ethical threats and safeguards
- (c) Explain and explore how threats to independence can affect ethical behaviour
- (d) Explain and explore 'bribery' and 'corruption' in the context of corporate governance, and assess how these can undermine confidence and trust.
- (e) Describe and assess best practice measures for reducing and combating bribery and corruption, and the barriers to implementing such measures

6. Ethical characteristics of professionalism

- (a) Explain and analyse the content and nature of ethical decision-making using content from Kohlberg's framework as appropriate

- (b) Explain and analyse issues related to the application of ethical behaviour in a professional context

- (c) Describe and discuss 'rules based' and 'principles based' approaches to resolving ethical dilemmas encountered in professional accounting

7. Social and environmental issues in the conduct of business and ethical behaviour

- (a) Describe and assess the social and environmental effects that economic activity can have (in terms of social and environmental 'footprints' and environmental reporting).

- (b) Explain and assess the concept of sustainability and evaluate the issues concerning accounting for sustainability (including the contribution of 'full cost' accounting).

- (c) Describe the main features of internal management systems for underpinning environmental accounting such as EMAS and ISO 14000

- (d) Explain and assess the typical contents of a social and environmental report, and discuss the usefulness of this information to stakeholders.

- (e) Explain the nature of social and environmental audit and evaluate the contribution it can make to the development of environmental accounting.