

Professional & Ethical Standards Developments in Australia

IESBA NSS Meeting

New York

29 May 2013

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Overview

- Background of APESB
- Guidance Note on Outsourced Services (APES GN 30)
- Financial Planning Services (APES 230)
- Revision of Valuation Services (APES 225)
- Amendment to APES 110 to address Self-Managed Superannuation Fund (SMSF) Auditor Independence issue

Background of APESB

- Established in February 2006 as an initiative of CPA Australia and the Institute of Chartered Accountants in Australia (ICAA)
- The Institute of Public Accountants (previously National Institute of Accountants) became a member in December 2006
- Previously professional and ethical pronouncements were developed by the two professional accounting bodies (CPA Australia and ICAA)
- APESB is an independent, national body that sets the code of ethics and professional standards by which members of Australia's three major professional accounting bodies must abide
- To date APESB has released 15 Standards, 2 Guidance Notes, with 1 more pronouncement at Exposure Draft stage

APES GN 30
Outsourced Services

APES GN 30 Outsourced Services

- Issued in March 2013
- APES GN 30 *Outsourced Services* provides guidance to Members in Public Practice to manage risks associated with Outsourced Services
- Includes guidance in respect of:
 - Maintaining confidentiality of Client information
 - Ensuring quality control of the Outsourced Service provided
 - Appropriate level of disclosure of the nature and extent of use of Outsourced Services in the delivery of a Professional Service to the Client
 - Matters to be disclosed in the Service Level Agreement (SLA)

APES GN 30 Outsourced Services

- **Scope of APES GN 30**

- Applies to the utilisation and provision of Outsourced Services
- Applies to the utilisation of cross border teams and Network Firms in the delivery of Professional Services
- Excludes Engagements subject to *ASA 600 Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*

- **Key Definitions**

- Outsourcing
- Outsourcing Agreement
- Outsourced Service
- Outsourced Service Provider
- Material Business Activity

APES GN 30 Outsourced Services

- **Communication with the Client**
 - Disclose Outsourced Service arrangements to the Client
 - Should obtain the Client's written consent to use Outsourced Services in the delivery of Professional Services
- **Management of risks associated with Outsourced Services**
 - Development and documentation of Outsourcing Policy Framework for managing risks associated with Outsourcing
 - Matters to be addressed by the Outsourcing Policy Framework
 - Perform appropriate Due Diligence assessments prior to the engagement of the Outsourced Service Provider

APES GN 30 Outsourced Services

- **Terms of the Outsourcing Agreement**
- **Performance of the Outsourcing Agreement**
 - Transfer process and knowledge
 - Monitor and manage performance
 - Renew, renegotiate and terminate
 - Client monies
- **Documentation**

APES GN 30 Outsourced Services

- **Appendix 1**

- Provides nine examples to assist Members in Public Practice with the determination of whether a particular Professional Service is an Outsourced Service
- Takes into consideration whether the Outsourced activity is a Material Business Activity

- **Appendix 2**

- Provides guidance in respect of the subject matters to be included in an Outsourcing Service Level Agreement (SLA):
 - Terms of the Outsourcing Agreement
 - The required service levels and performance requirements
 - Transition process
 - Pricing model
 - Management of Client information
 - Audit and monitoring procedures
 - Details of liability and indemnity insurance
 - Dispute resolution mechanisms
 - Conditions for SLA termination

APES GN 30 Outsourced Services

For more information:

- APES GN 30 Guidance Note

<http://www.apesb.org.au/attachments/APES%20GN30%20Guidance%20Note.pdf>

- APES GN 30 Basis for Conclusions

<http://www.apesb.org.au/attachments/APES%20GN%2030%20Basis%20for%20Conclusions.pdf>

APES 230
Financial Planning Services

APES 230 Financial Planning Services

- Issued in April 2013
- Effective date of 1 July 2014
 - Except for professional fees and Third Party Payments requirements (i.e. remuneration requirements) in Paragraphs 8 and 9, which are effective from 1 July 2015

APES 230 Financial Planning Services

- **Scope of APES 230**
 - Applies higher professional requirements than the Australian Government's *Future of Financial Advice (FoFA)* reforms in the *Corporations Act 2001*
 - Applies to all services performed by a Member in a financial planning practice
 - Includes personal financial advice in respect of loans procurement, mortgage broking and financial planning advice-related tax considerations (these are not addressed in the *FoFA* framework)
- **Retail versus wholesale Client**
 - Captures all Clients
 - No distinction between retail and wholesale Clients in order to maintain a single standard of Professional Service to all Clients
 - Australian Government's *FoFA* framework only applies to retail Clients

APES 230 Financial Planning Services

- **Definitions**
 - Best Interests of the Client
 - Third Party Payments
 - Fee for Service
 - Informed Consent
 - Soft Dollar Benefits

- **Best Interests of the Client obligations in *FoFA* to apply to all Clients**
 - ASIC released Regulatory Impact Statement and Regulatory Guides in respect of the administration of the *FoFA* legislation:
 - Regulation Impact Statement – *Future of Financial Advice: Best interests duty and related obligations*
 - RG 245 on *Fee Disclosure Statements*
 - RG 246 on *Conflicted remuneration*

APES 230 Financial Planning Services

- **Remuneration methods for financial advice**

Members who provide Financial Planning Services may either:

- a) charge Clients on a Fee for Service basis; or
- b) charge Clients a fee based on Funds under Management (FUM) provided that the following safeguards are applied:
 - obtaining written Informed Consent from the Client prior to commencement of the Financial Planning Service;
 - making an annual disclosure to the Client; and
 - thereafter obtaining written consent from the Client on a biennial basis.

APES 230 Financial Planning Services

- **Remuneration methods for loans and insurance products**

Members who provide Financial Planning Services may either:

- a) charge Clients on a Fee for Service basis; or
- b) when the Member is to receive Third Party Payments, the following safeguards must be applied:
 - obtaining written Informed Consent from the Client prior to commencement of the Financial Planning Service;
 - disclosing three comparative quotes where available;
 - making annual disclosures to the Client on the estimated and actual amount of Third Party Payments received; and
 - where applicable, disclosing to the Client the impact of any proposed changes to existing life insurance and other risk contracts and loans (i.e. to address the risk of 'churning').

APES 230 Financial Planning Services

- **Commissions on life insurance and mortgages on existing contracts (trailing income)**
 - Members are allowed to continue receive Third Party Payments for contracts and loans entered into prior to 1 July 2014, provided they do not subsequently provide any further Financial Planning Services in respect of those contracts and loans.
- **Informed Consent**
 - Key safeguard against conflicted remuneration
 - An established legal principle that requires a higher standard than simple disclosure
- **Members in Business**
 - Provides flexibility to Members in Business due to the fact that such Members may not be in a position to determine or change the policies and procedures of their employer

APES 230 Financial Planning Services

For more information:

- APES 230 Standard
<http://www.apesb.org.au/attachments/1-APES%20230%20Financial%20Planning%20Services.pdf>
- APES 230 Basis for Conclusions
<http://www.apesb.org.au/attachments/1-APES%20230%20Basis%20for%20Conclusions.pdf>

APES 225
Valuation Services
(Revised May 2012)

APES 225 Valuation Services

- Originally issued in July 2008 and Revised in May 2012
- Effective for Valuation Engagements or Assignments commencing on or after 1 September 2012
- Key revisions to APES 225:
 - Clarifying and providing guidance on the three types of Valuation Engagements
 - Appendix 1: Minor editorials to the original 15 examples, development of a Schematic Diagram and 8 additional examples

For more information:

- APES 225 Standard
<http://www.apesb.org.au/attachments/Revised%20APES%20225.pdf>
- APES 225 Basis for Conclusions
<http://www.apesb.org.au/attachments/1-APES%20225%20Basis%20for%20Conclusions.pdf>

Auditor Independence requirements

Amendments to APES 110

Code of Ethics for Professional Accountants

- APESB has issued an amending standard in respect of the existing APES 110 *Code of Ethics for Professional Accountants (the Code)* in May 2013
- The amendments to the Code include:
 - A new AUST paragraph (AUST 290.220.1) to address circumstances where auditors may be receiving multiple referrals from a single source. APESB has identified that this is a risk in the Self-Managed Superannuation Fund (SMSF) sector and it is likely to be relevant in other sectors as well

For more information:

- Amendments to the Definition and Auditor Independence Requirements in APES 110
<http://www.apesb.org.au/uploads/1apes110-exposure-draft-submissions/amendments-to-def-s-and-auditor-independence-req-s-in-apes-110-may-2013.pdf>

Questions?

For more information visit:

www.apesb.org.au

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