

APESB Standards and Auditor Independence

NIA CPE Live Online

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APESB 
Accounting Professional & Ethical Standards Board

The importance of Professional Ethics



Paper shredder: **\$100**

Debt hidden in off-balance-sheet subsidiaries:
\$500 MILLION

Stock cashed in by executives while encouraging
employees to keep buying: **\$1.3 BILLION**

Sitting it front of a congressional committee and
claiming ignorance of any wrongdoing with a
completely straight face: **PRICELESS**

*There are some things money can't buy.
Integrity is one of them.*

Overview

- APESB background
- APESB Professional Standards issued to date
- APESB 110 – Code of Ethics
 - *Section 290 Independence Assurance Engagements*
- Why Independence is critical?
- APESB Professional Standards
- APESB current projects

APESB Background



APESB

- **Established in February 2006 as an initiative of ICAA & CPA Australia**
- **NIA became a Member in December 2006**
- **Previously professional and ethical pronouncements were developed by the three professional bodies**
- **Members of the three bodies are required to comply and are subject to disciplinary procedures of the relevant professional body**

APESB's Vision

To be recognised by our stakeholders for our leading contribution in achieving the highest level of professional and ethical behaviour in the accounting profession

Board Composition

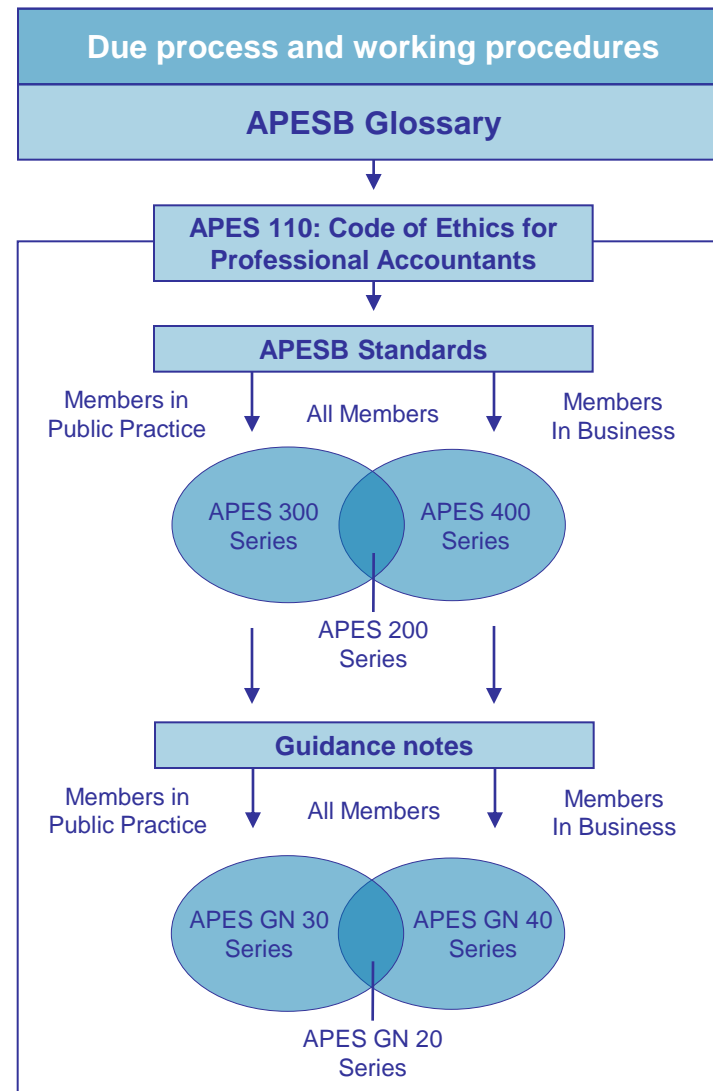
- Independent Chair
- Two Directors CPA Australia
- Two Directors ICAA
- One Director NIA

Structure of APESB pronouncements

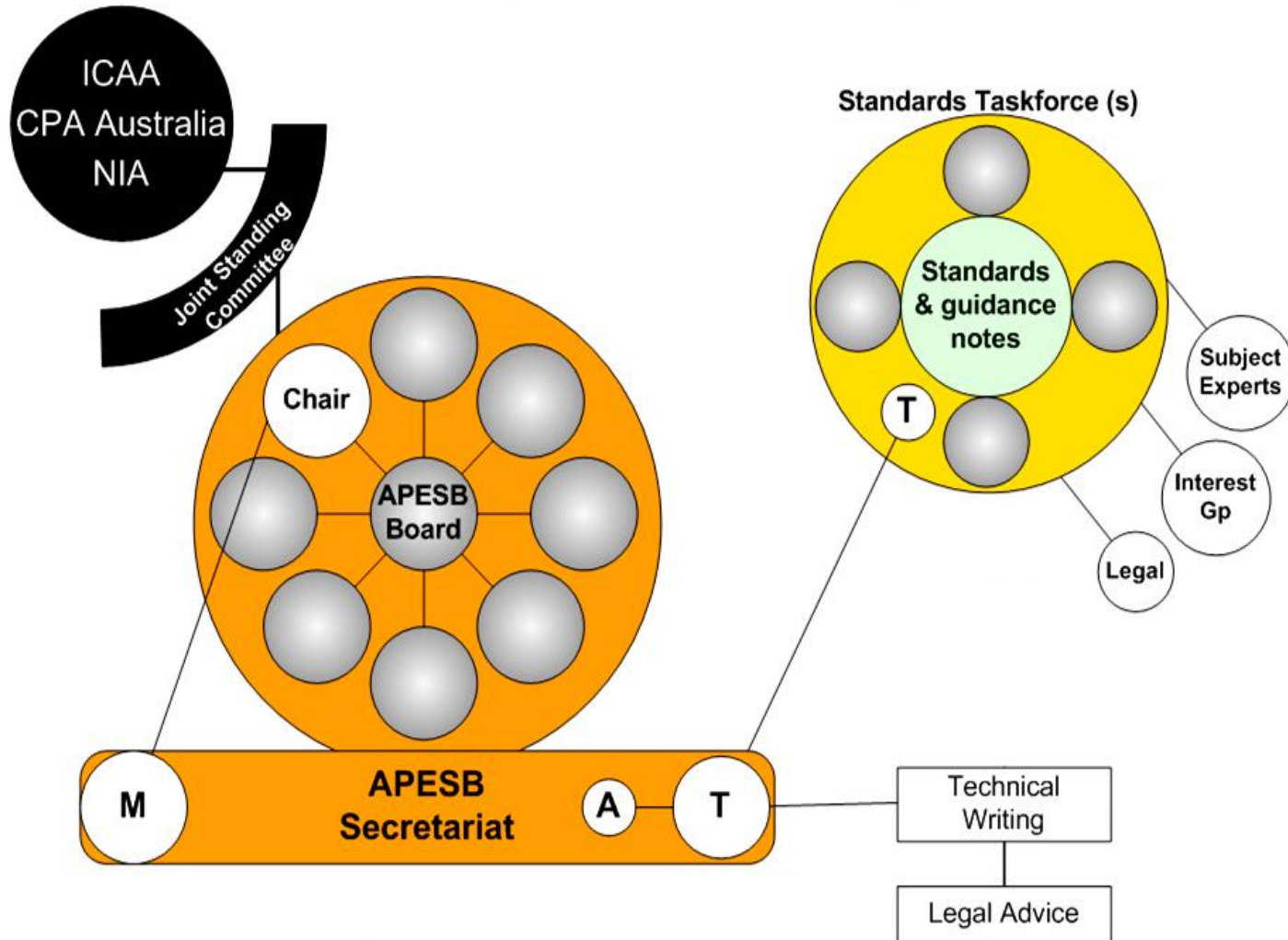
- **Conceptual Framework**
 - Principles based
 - Mandatory for professional accountants

- **Standard**
 - Introduces principles
 - Mandatory requirements in black letter
 - Guidance and/or explanation in grey letter

- **Guidance notes**
 - Do not introduce new principles
 - Guidance on a specific matter on which the Principles are already stated in a Standard
 - Guidance is only in grey letter



APESB Functional Structure



APESB Professional Standards issued to date

APESB Standards issued to date

All members

- APES 110 Code of Ethics
- APES 205 Conformity with Accounting Standards
- APES 210 Conformity with Auditing and Assurance Standards
- APES 215 Forensic Accounting Services
- APES 220 Taxation Services
- APES 225 Valuation Services

APESB Pronouncements to date

Members in Public Practice

- APES 305 Terms of Engagement
- APES 315 Compilation of Financial Information
- APES 320 Quality Control for Firms
- APES 330 Insolvency Services
- APES 345 Reporting on Prospective Financial Information
- APES 350 Due Diligence Committees

APES 110 Code of Ethics for Professional Accountants

APES 110 Code of Ethics

- **Part A: General Application**
- **Part B: Members in Public Practice**
 - *Section 290 Independence for Assurance Engagements*
- **Part C: Members in Business**

APES 110 Code of Ethics

Part A: General Application

- Section 100 – Introduction and Fundamental Principles
- Section 110 - Integrity
- Section 120 - Objectivity
- Section 130 - Professional competence and due care
- Section 140 - Confidentiality
- Section 150 - Professional behaviour

APES 110 Code of Ethics

Part B: Members in Public Practice

- Section 200 – Introduction
- Section 210 – Professional Appointment
- Section 220 – Conflicts of Interest
- Section 230 – Second opinions
- Section 240 – Fees and Other Types of Remuneration
- Section 250 – Marketing Professional Services
- Section 260 – Gifts and Hospitality
- Section 270 – Custody of Client Assets
- Section 280 – Objectivity All Services
- Section 290 – Independence Assurance Engagements

APES 110 Code of Ethics

Part C: Members in Business

- Section 300 – Introduction
- Section 310 – Potential conflicts
- Section 320 – Preparation and Reporting of Information
- Section 330 – Acting with Sufficient Expertise
- Section 340 – Financial Interests
- Section 350 – Inducements

APES 110 - Section 290 Independence

- **Independence requires:**
 - Independence of Mind
 - Independence of Appearance

(S. 290.8 and definitions)

APES 110 - Section 290 Independence

- **Threats to Independence:**
 - Self interest threat
 - Self review threat
 - Advocacy threat
 - Familiarity threat
 - Intimidation threat

(S. 290.28 to 290.28.9)

APES 110 - Section 290 Independence

- **Safeguards**
 - created by the profession, legislation or regulation
 - within the Assurance client
 - within the firms own systems and procedures

(S. 290.28.10 to 290.29)

APES 110 - Section 290 Independence

- **Auditor's responsibility**
 - Identify threats to independence
 - Evaluate whether these threats are clearly insignificant
 - If not, identify and apply appropriate safeguards
- **When safeguards are not available**
 - Eliminate activity or interest creating the threat
 - Refuse to accept or continue the Assurance Engagement

APES 110 - Section 290 Independence

- **Network Firms**
 - Aimed at co-operation
 - Satisfy one of profit sharing, common ownership, common quality control policies and procedures, common business strategy, common brand name or sharing professional resources
- **Application of Framework to specific situations**
 - Financial interests
 - Loans and guarantees
 - Close business relationships
 - Long Association of Senior Personnel (i.e. rotation)

APES 110 - Section 290 Independence

- **Application of Framework to specific situations**
 - Provision of Non-assurance Services
 - Preparing accounting records and financial statements
 - Valuation Services
 - Taxation Services
 - Internal Audit Services
 - Corporate Finance and similar activities
 - Fees and pricing
 - Gifts and hospitality

Why Independence is critical?

Why Independence is critical ?

"NOBODY COOKS LIKE ARTHUR ANDERSEN "
- Joseph F. Bernardino, CEO of Arthur Andersen

 **ANDERSEN GRILL**



Why Independence is critical ?

- Collapse of Arthur Anderson
- Arthur Anderson's problem clients (refer table 1)
- Increased regulations such as CLERP 9 in Australia and Sarbanes & Oxley in the US
- Recent corporate collapses brought on by the global financial crisis (refer table 2)

Table 1: Arthur Anderson's Audit Clients and their problems

AA Client	Problem	Losses to shareholders	Job losses
WorldCom	US \$ 4.3 billion overstatement of earnings	\$ 179.3 billion	17,000
Enron	Inflation of income, assets, bankrupt 2001	\$ 66.4 billion	6,100
Waste Management	Overstatement of income by US \$ 1.1 billion, (1992 -96)	\$ 20.5 billion	11,000
Sunbeam	Overstatement of 1997 income by US \$ 71 million then bankruptcy	\$ 4.4 billion	1,700

Source: "Fall from grace," *Business Week*, 2002

Table 2: Recent Corporate collapses due to the Global Financial Crisis

Company	Problems	Business/Social impact
Lehman Brothers	<ul style="list-style-type: none"> - Derivatives :- MBS and ABS - Downgrading of credit ratings - Toxic commercial real estate assets - High leverage ratios 	<ul style="list-style-type: none"> - Majority of the 26,000 worldwide staff may be made redundant?
Bear Stearns	<ul style="list-style-type: none"> - Derivatives :- MBS and ABS - High leverage ratios - Unrealistic fair value accounting of assets 	<ul style="list-style-type: none"> - Approximately 9,000 employees lost their jobs - Shareholder lawsuits?
ABC Learning	<ul style="list-style-type: none"> - Revenue recognition - Gearing - Weak corporate governance 	<ul style="list-style-type: none"> - 241 unprofitable day care sites for sale - Unemployment - Child care services at risk?
Opes Prime	<ul style="list-style-type: none"> - Cash and share movement irregularities - Failed margin calls 	<ul style="list-style-type: none"> - Losses of AUD 600 million?

Source: www.google.com

APESB Professional Standards



APESB Standards

Structure

- 1: Scope and application
- 2: Definitions
- 3: Fundamental responsibilities of Members
 - Public interest
 - Fundamental principles of the Code such as “*professional competence and due care*”
- 4 onwards: Key principles of the relevant standard

APES 205 Conformity with Accounting Standards

- Replaced APS 1 or NIA BP 3
- Effective 1 July 2008
- Reporting entity concept
- Responsibilities of Members to follow accounting standards when they prepare, present, audit, review or compile:
 - General Purpose Financial Statements
- Responsibilities of Members when they prepare, present, audit, review or compile:
 - Special Purpose Financial Statements

APES 210 Conformity with Auditing and Assurance Standards

- All members must comply with auditing and assurance standards in the conduct of all audit, review, assurance, other assurance engagements and related services
- All members should comply with auditing and assurance guidance in the conduct of all audit, review, assurance, other assurance engagements and related services

APES 215 Forensic Accounting Services

- Formerly APS 11 & GN 2
- Applies to accountants working in public practice as well as business (i.e. ASIC, Police forces etc.)
- Includes mandatory requirements and guidance for Forensic Accounting Services (FAS)
- Extension of scope for Members in Business
- Operative on or after 1 July 2009
- Engagement → Members in Public Practice
- Assignment → Members in Business

APES 215 Forensic Accounting Services

- Where a Professional Service later becomes a FAS then APES 215 applies (Para 1.5)
- Where a FAS other than EWS, later becomes a EWS then section 5 of APES 215 applies (Para 1.6)
 - Key sections:
 - Expert Witness Services (EWS)
 - False or misleading information and changes in opinion
 - Professional fees
 - Appendix - use of the terms “facts”, “assumptions” and “opinions”

APES 215 Forensic Accounting Services

- Key definitions:
 - **Forensic Accounting Services:**
 - Expert Witness Services;
 - Lay Witness Services;
 - Consulting Expert Services; and
 - Investigation Services
 - **Court**
 - **Expert Witness**
 - **Lay Witness**
 - **Consulting Expert**
 - **Professional Services**
 - **Proceedings**
 - **Contingent Fees**
 - **Report**

APES 215 - Expert Witness Services

- **Evaluation of prior and/or existing relationships**
 - Member in Public Practice (para 3.8 and 5.1)
 - Member in Business (para 5.2)
 - Member in Business who is employed by a government agency (para 5.3)
- **A Member's obligations as an Expert Witness (para 5.4)**
- **The Report of an Expert Witness**
 - Relationships with any parties to the Proceedings
 - Significant assumptions
 - Explanation why a significant assumption is likely to be misleading (if any)

APES 220 Taxation Services

- Formerly APS 6 or NIA BP 9
- Applies to accountants working in public practice as well as now scope extended to members in business
- Includes mandatory requirements and guidance for Taxation Services
- Operative on or after 1 July 2008
- Taxation Services to a Client or Employer defined as:
 - preparation of return, notice, statement or similar doc.
 - preparation of tax calculations for financial statements
 - tax planning and other tax advisory
 - assistance in resolving tax disputes

APES 220 Taxation Services

- Preparation and lodgment of returns to Revenue Authorities
- Members must not be involved in tax schemes and arrangements which are not within the law
- Use of estimates in preparation of revenue returns
- Members obligations in respect of false and misleading information
- Professional obligations in respect of Client monies and prohibition against applying tax refunds to settle amounts due unless prior client approval has been obtained
- Preparation of work papers to document the work performed

APES 225 Valuation Services

- Engagement → Members in Public Practice
- Assignment → Members in Business
- Effective for Valuation Engagements or Assignments commencing on or after 1 January 2009
- All members who provide an estimate of value for a business, business ownership interest, security or intangible asset are required to comply with APES 225

APES 225 - Key Definitions

- **Valuation linked to:**
 - Valuation Approaches
 - Valuation Methods
 - Valuation Procedures
- **Three types of Valuation Services:**
 - Valuation Engagements
 - Calculation Engagements
 - Limited Scope Valuation Engagements

APES 225 - Key Definitions

- **Results:**
 - Valuation Engagement & Limited Scope
Valuation Engagement → Conclusion of Value
 - Calculation Engagement → Calculated Value
- **Report**

APES 225 Valuation Services

- Reporting – written and oral
- Use of a glossary of business valuation terms
- Members are referred to the *International Glossary of Business Valuation*
- Refer Appendix for examples of what constitutes a valuation service

APES 225 - Reporting

- Mandatory for Members in Public Practice (para 5.1)
- Guidance for Members in Business (para 5.5)
- Reports can be written (para. 5.2) or oral (para. 5.3)
- Key report disclosures from para. 5.2 are:
 - Usual disclosures – scope, basis, purpose limitations etc.
 - Whether acting independently or not
 - Material assumptions and basis of those assumptions
 - Valuation approaches adopted
 - All qualifications that materially affect the Conclusion of Value or Calculated Value
 - Valuation Services conducted in accordance with the Standard
- Para. 5.4 provides additional disclosures to consider

APES 305 Terms of Engagement

- Members in Public Practice shall document and communicate Terms of Engagement to a Client
- General contents of an Engagement Document including limitation of liability

APES 315 Compilation of Financial Information

- Formerly APS 9 or NIA BP 5
- Applies to members in public practice and is effective for Engagements commencing on or after 1 January 2009
- Scope extended from compilation of financial statements to compilation of financial information
- Independence is not a requirement but when not independent the member needs to disclose
- Objective is to use “accounting expertise” to compile financial information
- Activities which are not within the scope (Para. 4.3)
- Requirement to comply with APES 205 if compiling General Purpose or Special Purpose Financial Statements

APES 315 Compilation of Financial Information

- Defining the terms of Engagement
- Procedures of a compilation engagement
- Misstatements
- Documentation
- Reporting on a Compilation Engagement and Compilation Report format (Paragraph 12.6)
- Communication of significant matters
- Subsequent discovery of facts
- Examples of compilation reports
- Revision done to APES 315 and a new version effective for Engagements commencing on or after 1 January 2010.

APES 320 Quality Control for Firms

- Firms shall establish a system of quality control
- A quality control system must have the following elements
 - Leadership responsibilities for quality
 - Ethical requirements
 - Acceptance and continuance of client relationships and specific engagements
 - Human resources
 - Engagement performance
 - Monitoring
 - Documentation

APES 320 Quality Control for Firms

- APES 320 was effective from 1 July 2006
- A revised version of APES 320 is effective from 1 January 2010
- Some professional bodies have prepared quality control manuals that comply with APES 320

APES 330 Insolvency Services

- Revision to APS 7 which was last revised in 1998
- Applies to members in public practice who provide Insolvency Services
- Effective for Insolvency Services commencing on or after 1 April 2010
- Requirement to only undertake Appointments where Members are independent and can maintain independence
- Expert witness obligations
- Professional fees and expenses
- APES 330 is to be covered in detail in a NIA CPD session to be held in May 2010

APES 345 Reporting on Prospective Financial Information

- Effective from 1 July 2009
- Applies to Members in public practice
- Principles and requirements when undertaking an engagement to prepare a public document on or in connection with prospective financial information.
- Relationships that create threats to fundamental principles
- Provision of other professional services
- Documentation
- Professional obligations in respect of reporting
- Communication with those charged with governance
- Litigation

APES 350 Due Diligence Committees

- Effective from 1 February 2010.
- Applies to Members in public practice.
- Requirements and guidance when providing Professional Services to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person.
- Professional appointments – required to consider potential threats, independence requirements, appropriateness of accepting the role.
- Roles and obligations of Members in a due diligence process in connection with a public document are specified.
- Due Diligence Sign-Off requirements
- An example Due Diligence Sign-Off format is provided in the Appendix

APESB Current Projects

APESB current projects

- APES 310 ED Client Monies – ED to be issued shortly
- APES 230 ED - Financial Advisory Services (rewrite of APS 12)
– Project in progress
- Revision of APES110 Code of Ethics based on *New IFAC Code of Ethics for Professional Accountants*
- APES 325 Risk Management – Project in progress

Questions?

For more information visit:

www.apesb.org.au

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