

Development of Professional and Ethical Standards in Australia

Hong Kong Institute of Certified Public Accountants

Hong Kong

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Overview

- History and structure of APESB
- Structure of APESB pronouncements
- APESB pronouncements to date
- APES 110 *Code of Ethics for Professional Accountants*
- APESB's amendments to the IESBA Code
- APES 215 *Forensic Accounting Services*
- APES 225 *Valuation Services*
- APES 330 *Insolvency Services*
- APES 230 *Financial Planning Services*

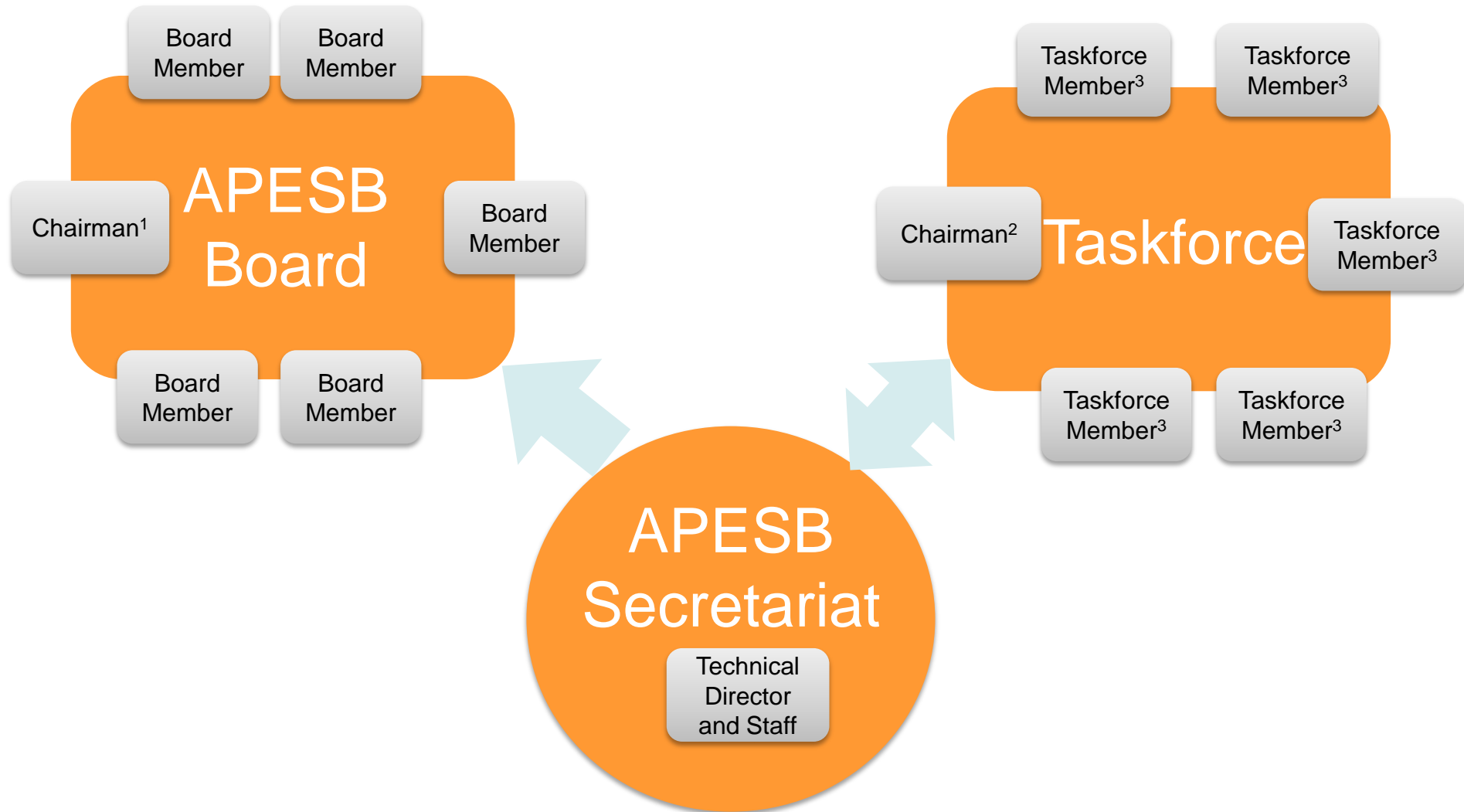
APESB History

- Established in February 2006 as an initiative of ICAA and CPA Australia
- IPA (previously NIA) became a member in December 2006
- Previously professional and ethical pronouncements were developed by the three major professional accounting bodies
- Members of these bodies are required to comply with APESB pronouncements and are subject to disciplinary procedures of the relevant professional body or ASIC (auditors and liquidators)
- To date APESB has released 15 Standards, 2 Guidance Notes, with 1 more pronouncement at Exposure Draft stage

Board Composition

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

APESB Functional Structure

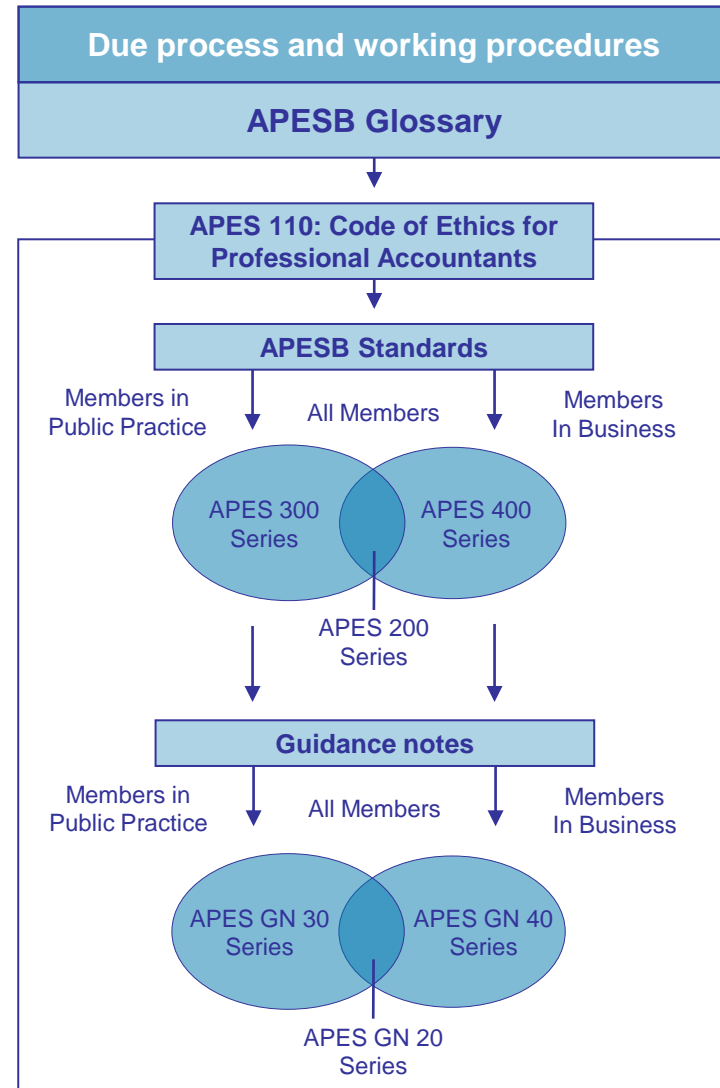


Structure of APESB pronouncements

- **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 Pronouncements to date

All members

- APES 110 *Code of Ethics for Professional Accountants*
- 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*
- APES 230 *Financial Planning Services*
- APES GN 20 *Scope and Extent of Work for Valuation Services**

* *Project currently in progress*

APESB Pronouncements to date

Members in Public Practice

- APES 305 *Terms of Engagement*
- APES 310 *Dealing with Client Monies*
- APES 315 *Compilation of Financial Information*
- APES 320 *Quality Control for Firms*
- APES 325 *Risk Management for Firms*
- APES 330 *Insolvency Services*
- APES 345 *Reporting on Prospective Financial Information Prepared in Connection with a Disclosure Document*
- APES 350 *Participation by Members in Due Diligence Committees in connection with a Public Document*
- APES GN 30 *Outsourced Services*

APESB Pronouncements to date

Members in Business

- APES GN 40 *Ethical Conflicts in the Workplace*

APES 110
Code of Ethics for Professional Accountants

APES 110 *Code of Ethics* for *Professional Accountants*

- Based on the IESBA Code
- APES 110:
 - the framework within which APESB develops all of its professional standards and guidance notes
 - has the same style, paragraph numbering, etc. as the IESBA Code
 - has 3 main categories:
 - Part A: General Application
 - Part B: Members in Public Practice
 - Part C: Members in Business

APESB's amendments to the revised IESBA Code

- Scope & application section added
- Addition of Australian paragraphs with prefix AUST
- Additional defined terms: AASB, Administration, AUASB, Auditing and Assurance Standards, Australian Accounting Standards and Member
- Replaced “Professional Accountants” with “Members”
- Defined terms in title case

APESB's amendments to the revised IESBA Code

- Tailored definitions of: Audit Engagement, Engagement Team, Financial Statements, Firm, Member in Public Practice and Review Engagement
- Prohibitions in respect of Accounting, Bookkeeping & Taxation Services provided to Public Interest Entities
 - Provision of accounting and bookkeeping services and preparation of tax calculations for Audit Clients which are Public Interest Entities are prohibited even in emergency situations

Amendments to APES 110

Code of Ethics for Professional Accountants

- Legislative references
 - Where more stringent independence requirements are imposed by the *Corporations Act 2001*, a footnoting system to warn readers has been adopted in the revised APES 110
- Inadvertent violations of the Code
 - IESBA Code recognises that inadvertent violations of independence requirements do occur in practice
 - The revised APES 110 introduces additional mandatory AUST requirements that:
 - Unless the inadvertent violation of independence is trivial and inconsequential, the Firm must document and discuss the matter with Those Charged with Governance of the entity
 - Subsequently IESBA commenced a project to address this matter

Amendments to APES 110

Code of Ethics for Professional Accountants

- IESBA approved amendments to the IESBA Code in March 2013 in relation to:
 - a breach of a requirement of the Code;
 - conflicts of interest; and
 - definition of ‘Engagement Team’
- APESB recently commenced a project to incorporate these amendments to APES 110

Recent Auditor Independence developments

- Australian Corporations Law amendments have resulted in:
 - For Listed Entities, the 5 year audit partner rotation period being extended by two years subject to approval of the audit committee
 - Audits firms must publish audit transparency reports
 - Additional powers given to the Australian Securities and Investments Commission (ASIC) to report on audit deficiencies in respect of audit firms as well as to communicate with Those Charged with Governance of the Clients
- AUASB's *ASA 102 Compliance with Ethical Requirements when performing Audits, Reviews and Other Assurance Engagements* makes the Code legally binding on auditors who perform Corporations Act audits
- APESB approved an additional AUST paragraph to the Code to address the risk of referral source dependence in May 2013 (AUST 290.220.1)

Public Interest Entities (PIEs)

- APESB has issued additional guidance on what entities are likely to be PIEs in Australia (effective from 1 January 2013)
 - Banks, Superannuation Entities (i.e. Entities that manage retirement savings), Insurance and Life Insurance companies who are regulated by the Australia Prudential Regulatory Authority (APRA)
 - Disclosing entities (Listed entities and others who have publicly tradeable debt or equity instruments)
 - Other issuers of debt and equity instruments to the public

APES 215
Forensic Accounting Services

APES 215 *Forensic Accounting Services*

Scope and application

- Effective for Engagements or Assignments commencing on or after 1 July 2009
- Where a Professional Service later becomes a Forensic Accounting Service (FAS) then APES 215 applies (paragraph 1.5)
- Where a FAS other than an Expert Witness Service (EWS), later becomes an EWS then section 5 of APES 215 applies (paragraph 1.6)
- Key sections:
 - Expert Witness Services
 - False or misleading information and changes in opinion
 - Professional fees
 - Appendix – use of the terms “facts”, “assumptions” and “opinions”

APES 215 *Forensic Accounting Services*

Expert Witness Services

- Evaluation of prior and/or existing relationships
 - Member in Public Practice (paragraph 3.8 and 5.1)
 - Member in Business (paragraph 5.2)
 - Member in Business who is employed by a government agency (paragraph 5.3)
- A Member's obligations as an Expert Witness (paragraph 5.4)
- The Report of an Expert Witness (paragraph 5.6)
 - The instructions received, limitations on the scope, and the details of the Member's expertise
 - Relationships with any parties to the Proceedings
 - Significant assumptions
 - Explanation why a significant assumption is likely to be misleading (if any)
 - A list of documents and sources of information relied upon

APES 215 *Forensic Accounting Services*

Revision of APES 215

- Revised APES 215 is proposed to be issued in 2013
- Additional guidance provided in respect of:
 - Decision tree schematic on the determination whether a professional service constitutes a Forensic Accounting Service and the type of Forensic Accounting Service
 - In excess of 20 examples on how to determine the type of Forensic Accounting Service and thus the requirements of APES 215 that are applicable to a particular circumstance

APES 225
Valuation Services
(Revised May 2012)

APES 225 *Valuation Services*

Scope and application

- APES 225 was originally issued in 2008
- The revised APES 225 is effective for Valuation Engagements or Assignments commencing on or after 1 September 2012
 - 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

Valuation Report

- Mandatory requirements for Members in Public Practice (paragraph 5.2)
- Guidance for Members in Business (paragraph 5.5)
- Reports can be written (paragraph 5.1) or oral (paragraph 5.3)

APES 225 *Valuation Services*

Valuation Report (continued)

- Key report disclosures from paragraph 5.2 are:
 - Usual disclosures – scope, basis, purpose, limitations, etc.
 - Whether acting independently or not
 - Material assumptions and basis of those assumptions
 - Valuation Approaches, Valuation Methods and Valuation Procedures adopted
 - All qualifications that materially affect the Conclusion of Value or Calculated Value
 - Valuation Services are conducted in accordance with the Standard
 - Paragraph 5.4 provides additional disclosures to consider

APES 225 *Valuation Services*

Use of a glossary of business valuation terms

- When issuing a Valuation Report define the terms used therein
- Members are referred to the *International Glossary of Business Valuation*

What constitutes a Valuation Service

- Appendix includes schematic diagram and illustrative examples

APES 330
Insolvency Services
(Revised Nov 2011)

APES 330 *Insolvency Services*

Scope and application

- APES 330 was originally issued in 2009 and was effective for Insolvency Services commencing on or after 1 April 2010
- The revised APES 330 (revised in 2011) is effective for Insolvency Services commencing on or after 1 April 2012

Professional Independence

- Mandatory requirements for Members in Public Practice
- Duties of independence, impartiality and avoidance of conflict (paragraph 4.3)
- A Member shall provide a '*Declaration of Independence and, Relevant Relationships and Indemnities*' in respect of an Insolvency Service (excluding an Appointment as a Controller) (paragraph 4.19)
- The Declaration shall be provided in the first communication to the creditors and tabled at the first meeting of the creditors

APES 330 *Insolvency Services*

Professional Independence (continued)

- Content of the '*Declaration of Independence and, Relevant Relationships and Indemnities*' (paragraph 4.20)

Expert Witness Obligations

- The Report of an Expert Witness (paragraph 7.3)
 - Limitations on the scope and details of the Member's expertise
 - Relationships with any parties to the Proceedings
 - Significant assumptions
 - Explanation why a significant assumption is likely to be misleading (if any)
 - A list of documents and sources of information relied upon

APES 330 *Insolvency Services*

Professional Fees and Expenses

- A Member shall be remunerated by way of Professional Fees in accordance with Section 240 *Fees and other Types of Remuneration* of the Code, subject to the limitations in paragraph 4.18
- Contingent Fee arrangements for Insolvency Services (paragraph 8.8 and 8.9)
 - Similar to the Insolvency Practitioners Association of Australia (IPA) Code, APES 330 allows contingent fees in limited circumstances

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 in Paragraphs 8 and 9, which are effective from 1 July 2015
- Remuneration requirements
 - Two-tier approach to charging professional fees and receiving Third Party Payments
 - APESB's strong preference is for Members to adopt the Fee for Service approach
 - However, APES 230 permits alternative remuneration methods other than Fee for Service, where the Client has the capacity to provide Informed Consent, subject to compliance with additional safeguards

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).

Questions?

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www.apesb.org.au

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