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APESB issues revised APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (Revised APES 350) to replace the existing APES 350 (Issued March 2011).

Please refer to Appendix 1 of this technical update for details of the revisions. The revised APES 350 will be effective for Engagements commencing on or after 1 October 2015 with early adoption permitted.

The revised standard is available from APESB's website: www.apesb.org.au

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Appendix 1

Revisions to existing APES 350 (March 2011)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* which was originally issued in December 2009 and revised in March 2011.

Paragraph Reference	Revisions
1.1	<p><u>The primary objectives of APES 350 <i>Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document</i> are to specify a Member in Public Practice's professional and ethical responsibilities when providing Professional Services to a Client which consist of participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document, in respect of:</u></p> <ul style="list-style-type: none"> • <u>fundamental responsibilities;</u> • <u>the requirements to take reasonable steps to ensure that the Members' responsibilities specified in the Due Diligence Planning Memorandum are consistent with those set out in the Engagement Document; and</u> • <u>the circumstances in which a Due Diligence Sign-Off, a Materiality Letter or a New Circumstances Statement can be issued, the matters to be included therein and to provide guidance on the form of the reports.</u>
1.4 <u>2</u>	<p>Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 350 <i>Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document (the Standard)</i>, which is effective for Engagements commencing on or after 1 May 2014 <u>October 2015</u> and supersedes APES 350 issued in March 2011. Earlier adoption of this Standard is permitted.</p>
1.2 <u>3</u>	<p>APES 350 sets the standards for Members in Public Practice in the provision of quality and ethical Professional Services to a Client which comprise participating in and/or reporting to a Due Diligence Committee, as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document. The mandatory requirements of this Standard are in bold type (black lettering), preceded or followed by discussion or explanations in normal type (grey lettering). APES 350 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.</p>
1.12	<p><u>In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.</u></p>
2	<p><i>Assurance Engagement</i> means an Engagement in which a Member in Public Practice expresses <u>aims to obtain sufficient appropriate evidence in order to express</u> a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the <u>subject matter information (that is, the outcome of the evaluation or measurement or evaluation of a</u> an <u>underlying</u> subject matter against criteria).</p>

	<p>This includes an Engagement in accordance with the <i>Framework for Assurance Engagements</i> issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards, such as International Standards on Auditing for Assurance Engagements.</p>
	<p>Auditing and Assurance Standards means:</p> <ul style="list-style-type: none"> • In relation to reports for reporting periods commencing on or after 1 July 2006: <ul style="list-style-type: none"> ◊ (a) the AUASB Standards, as defined in <i>ASA 100 Preamble to AUASB Standards, ASA 101 Preamble to Australian Auditing Standards</i> and the <i>Foreword to AUASB Pronouncements</i>, issued by the AUASB, and operative from the date specified in each standard; and ◊ (b) those standards issued by the AuASB which have not yet been revised and reissued (whether as standards or as guidance) by the AUASB, to the extent that they are not inconsistent with the AUASB standards. • In relation to reports for reporting periods commencing prior to 1 July 2006, the Auditing and Assurance Standards issued by the AuASB on behalf of CPA Australia and the Institute of Chartered Accountants in Australia.
	<p>AuASB means the Auditing and Assurance Standards Board which issued Australian Auditing and Assurance Standards up to 30 June 2004, under the auspices of the Australian Accounting Research Foundation, a joint venture of CPA Australia and the Institute of Chartered Accountants in Australia.</p>
	<p>Client means an individual, firm, entity or organisation to whom or to which Professional Services <u>Activities</u> are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.</p>
	<p>Contingent Fee means a fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work <u>services</u> performed <u>by the Firm</u>. A fee that is established by a court or other public authority is not a Contingent Fee.</p>
	<p>DDC Observer means a Member in Public Practice who is engaged by a Client to provide Professional Services as an observer to a Due Diligence Committee but who will not participate as a DDC Member and will not sign or be a party to any collective reports or documents issued by the Due Diligence Committee. As an observer a Member will:</p> <ul style="list-style-type: none"> • attend one or more meetings of the Due Diligence Committee but not undertake any due diligence enquiries or have reporting obligations to the Client or to the Due Diligence Committee; or • attend one or more meetings of the Due Diligence Committee and undertake due diligence enquiries in relation to Financial Information and/or Other Specific Information and provide a report to the Client and/or the Due Diligence Committee. In certain circumstances, depending on factors such as timing and the scope of the Engagement, the Member may prepare a Due Diligence Sign-Off <u>and a New Circumstances Statement</u>.
	<p>Engagement Team means all personnel Partners and staff performing <u>an</u> the Engagement, <u>including and any experts contracted individuals engaged</u> by the Firm in connection with that <u>or a Network Firm who perform procedures on the Engagement. This excludes External Experts engaged by the Firm or a Network Firm.</u></p>

	<u>External Expert</u> means an individual (who is not a Partner or a member of the professional staff, including temporary staff, of the Firm or a Network Firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the Member in obtaining sufficient appropriate evidence.
	<u>Independence</u> means is: (a) Independence of mind – the state of mind that permits the provision <u>expression of an opinion a conclusion</u> without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and . (b) Independence in appearance – the avoidance of facts and circumstances that are so significant <u>that a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Engagement Team's, integrity, objectivity or professional scepticism had has been compromised.</u>
	<u>Member</u> means a member of a p Professional b Body that has adopted this Standard as applicable to their membership as defined by that p Professional b Body.
	<u>Member in Public Practice</u> means a Member, irrespective of functional classification (e.g. audit, tax, or consulting) in a Firm that provides Professional Services. The This term is also used to refer to a Firm of Members in Public Practice and means a practice entity <u>and a participant in that practice entity</u> as defined by the applicable p Professional b Body.
	<u>New Circumstances Statement</u> means <u>the letter or other document issued by a Member in Public Practice who is a DDC Observer, subsequent to the issue of a Due Diligence Sign-Off, which states whether based on procedures conducted by the DDC Observer, anything has come to the DDC Observer's attention that causes the DDC Observer to believe that the Due Diligence Sign-Off requires amendment.</u>
	<u>Professional Activity</u> means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
	<u>Professional Bodies</u> means <u>Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.</u>
	<u>Professional Services</u> means services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services <u>Professional Activities performed for Clients.</u>
	<u>Professional Standards</u> means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable p Professional b Body.
	<u>Subject Matter Information</u> means <u>the outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the Member in Public Practice gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in the Member's report.</u>

	<p>Those Charged with Governance includes those persons accountable for ensuring that <u>means</u> the entity achieves its objectives person(s) or organisation(s) (for example, a corporate trustee) with regard to reliability responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes <u>overseeing the financial reporting, effectiveness and efficiency operations, compliance with applicable laws and reporting to interested parties process.</u> For some entities in some jurisdictions, Those Charged with Governance includes <u>may include</u> management only when it performs such functions personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.</p>
3.6	<p>A Member in Public Practice who is invited by an Assurance Client to provide Professional Services which comprise participating in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person in connection with a Public Document shall consider Section 290 Independence – <u>Audit and Review Engagements</u> or Section 291 Independence – <u>Other Assurance Engagements</u> of the Code, <u>as applicable</u>, to determine whether the proposed Professional Services create threats to the Member’s Independence. Where the Member determines that there is a threat to the Member’s Independence, the Member shall apply appropriate safeguards to eliminate the threat or reduce it to an Acceptable Level. Where appropriate safeguards are not available to reduce the threat to an Acceptable Level, the Member shall decline the Engagement or the relevant part thereof.</p>
3.12	<p>Where the Engagement is an Assurance Engagement, the Member in Public Practice shall comply with Section 290 Independence – <u>Audit and Review Engagements</u> or Section 291 Independence – <u>Other Assurance Engagements</u> of the Code, <u>as applicable</u>.</p>
3.17	<p>In performing a Professional Service, a Member in Public Practice should consider any guidance in respect of such services issued by the pProfessional accounting bBodies and appropriate regulatory authorities.</p>
4.8	<p>A Member in Public Practice who is engaged to provide materiality guidance to a Client and its Due Diligence Committee shall issue a Materiality Letter to the Client and the Due Diligence Committee.</p> <p><i>A form of the Materiality Letter is given <u>set out</u> in Appendix 2.</i></p>
5.1	<p>A Member in Public Practice may be asked to undertake a variety of roles in relation to a due diligence process in connection with a Public Document as:</p> <ul style="list-style-type: none"> a) a DDC Member which typically includes: <ul style="list-style-type: none"> i) attending meetings of the Due Diligence Committee; ii) considering information presented to the Due Diligence Committee; iii) participating in decisions of the Due Diligence Committee; iv) reading and commenting on drafts of the Public Document; v) performing procedures specified in an Engagement Document and preparing a Due Diligence Sign-Off; and vi) signing the Due Diligence Committee’s report, <u>and its new circumstances sign-off</u> to Those Charged with Governance of the Client;

	<p>b) a DDC Observer which typically includes attending <u>may include</u> some or all of:</p> <p>i) <u>attending a few or all</u> meetings of the Due Diligence Committee at the request of the Client and may include;</p> <p>ii) <u>performing procedures specified in an Engagement Document and preparing a Due Diligence Sign-Off;</u> or <u>and</u></p> <p>iii) <u>preparing a New Circumstances Statement.</u></p> <p>c) a Reporting Person reporting to the Client and its Due Diligence Committee on the results of procedures specified in an Engagement Document.</p> <p>A Member in Public Practice may also be asked to undertake Professional Services for, and provide a report to, a Client on Financial Information and/or Other Specific Information relevant to a Public Document, without being a DDC Member, DDC Observer or Reporting Person.</p> <p>Examples of such reports (which could alternatively be prepared as a Reporting Person) are:</p> <ul style="list-style-type: none"> • an assurance report applying relevant Auditing and Assurance Standards on specific Financial Information (usually known as an investigating accountant’s report); and • a tax report on the taxation implications for shareholders of a transaction contemplated in the Public Document; <p>either of which may or may not be prepared for inclusion in the Public Document.</p>
5.9	<p>A Member in Public Practice providing Professional Services to a Client which comprise participation in and/or reporting to a Due Diligence Committee as a DDC Member, DDC Observer or Reporting Person shall bring to the attention of the Client and/or its Due Diligence Committee any significant concerns relating to the matters set out in paragraph 5.7 which come to the attention of the Member in performing the work set out in the Member’s Terms of Engagement. <u>However, a Member shall not report otherwise on the matters set out in paragraph 5.7 as to do so would contravene the requirements in that paragraph.</u></p>
7.3	<p>Where the requirements of paragraph 7.1 have been met and a Member in Public Practice provides a Due Diligence Sign-Off, it shall contain the following:</p> <ol style="list-style-type: none"> a) the name of the party or parties engaging the Member; b) any other addressees of the Due Diligence Sign-Off (typically being the other members of the Due Diligence Committee); c) the date on which the Due Diligence Sign-Off has been issued; d) the purpose for which the Due Diligence Sign-Off has been prepared, including the Public Document and proposed transaction to which it relates; e) whether the Member has prepared the Due Diligence Sign-Off in the capacity of a DDC Member or DDC Observer; f) a statement that the Professional Services were conducted and the Due Diligence Sign-Off was prepared in accordance with this Standard;

	<p>g) the Financial Information and/or Other Specific Information disclosed in the Public Document in relation to which the Member has undertaken procedures to which the Due Diligence Sign-Off relates;</p> <p>h) the scope of work performed in relation to the Financial Information and/or Other Specific information to which the Due Diligence Sign-Off relates;</p> <p>i) any limitations on the scope of work performed;</p> <p>j) the basis on which the statements in the Due Diligence Sign-Off are made, including specific reference to:</p> <ul style="list-style-type: none"> • the scope of work performed; • the materiality guidelines adopted by the Due Diligence Committee; and • the extent, if any, of reliance by the Member on the work of others; <p>k) the conclusions of the Member in the form of negative statements as to whether having performed the scope of work, the Member has become aware of anything to cause the Member to believe that:</p> <ul style="list-style-type: none"> • the Financial Information and/or Other Specific Information [as presented in identified sections of the Public Document] is misleading or deceptive (including by omission) in the form and context in which it appears; and • the due diligence enquiries set out in the Due Diligence Planning Memorandum adopted by the Due Diligence Committee as they relate to the Financial Information and/or Other Specific Information do not constitute all inquiries which are reasonable in the circumstances so far as the Financial Information and/or Other Specific Information is concerned; <p>l) the significant assumptions upon which the conclusions of the Member are based;</p> <p>m) all qualifications to the conclusions of the Member; and</p> <p>n) any restrictions on the use and distribution of the Due Diligence Sign-Off.</p> <p><i>A form of Due Diligence Sign-Off which complies with the requirements of this Standard is set out in Appendix 1. Members in Public Practice should note that this form of Due Diligence Sign-Off may require amendment if the Due Diligence Sign-Off is prepared by a Member as a DDC Observer.</i></p>
<u>7.9</u>	<u>If requested, a Member in Public Practice shall only provide a New Circumstances Statement where the Member is a DDC Observer and has already provided a Due Diligence Sign-Off in relation to the Public Document.</u>
<u>7.10</u>	<u>A Member in Public Practice who is a DDC Member shall not provide a New Circumstances Statement.</u>
<u>7.11</u>	<u>A Member in Public Practice who is a DDC Member does not issue a New Circumstances Statement as the Member has the ability to sign the Due Diligence Committee’s new circumstances sign-off to Those Charged with Governance of the Client where the sign off, is approved and signed concurrently by the other members of the Due Diligence Committee.</u>

<u>7.12</u>	<p><u>A Member in Public Practice shall ensure that a New Circumstances Statement does not:</u></p> <p><u>a) result in any extension of the scope or subject matter of the Due Diligence Sign-Off and only relates to the Financial Information and the Other Specific Information specified in the Due Diligence Sign-Off; or</u></p> <p><u>b) contravene the requirements of paragraph 5.7.</u></p> <p><i>A form of New Circumstances Statement which complies with the requirements of this Standard is set out in Appendix 3.</i></p>
7.10 7.14	The period to which any obligation referred to in paragraph 7.9 13 applies will usually be set out in the Due Diligence Planning Memorandum or relevant legislation.
Appendix 1	Due Diligence Sign-Off – Amended
Appendix 2	Materiality Letter – Amended
Appendix 3	New Circumstances Statement – Added
Appendix 4	Summary of revisions to the previous APES 350 (Issued March 2011) – Added