

September 2008



## **Basis for Conclusions: APES 210 Conformity with Auditing and Assurance Standards (Formerly APES 410)**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

## **BASIS FOR CONCLUSIONS:**

### **APES 210 Conformity with Auditing and Assurance Standards (Formerly APES 410)**

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board (APESB). This document has been reviewed and approved by the Board of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of APES 210. However, the basis for conclusions **does not** form part of APES 210 *Conformity with Auditing and Assurance Standards* and is not a substitute for reading the standard.

### **Background**

Accounting Professional & Ethical Standards Board Limited (APESB) has issued the Standard APES 210: *Conformity with Auditing and Assurance Standards* to take effect from 30 September 2008. APES 210 sets out mandatory requirements for members to comply with auditing and assurance standards when they conduct assurance assignments or assurance engagements. Additionally, APES 210 provides guidance that members should follow auditing and assurance guidance statements.

Key changes in APES 210 compared to the former APES 410 are:

- updated to reflect the new drafting conventions of the APESB which were developed subsequent to the issue of APES 410; and
- reference to APES 110 : *Code of Ethics for Professional Accountants* (“the Code”).

APESB issued an exposure draft of the proposed standard in June 2008, with a comment deadline of July 4, 2008. APESB received submissions from a variety of respondents, including professional accounting bodies, firms and individual members. In response to the comments received, APESB made a number of changes to ED 03/08 in finalising the text of APES 210. The following summarises the more significant issues raised by respondents, and how APESB addressed them.

### **Scope and application (Paragraph 1.2 and 1.3<sup>1</sup>)**

Paragraph 1.2 of ED 03/08 essentially stated that members whether in public practice or in business, must comply with auditing and assurance standards. It also stated that a member in business who undertakes work which comes within the scope of an assurance engagement was deemed to be a member in public practice for the purpose of the standard.

<sup>1</sup>Paragraph numbering reflects the numbering in APES 210 and may not reflect ED 03/08.

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Respondents to the ED commented that this deeming feature of the proposed standard was problematic and that this could cause confusion among members. Respondents stated that the main premise of APES 410 was to create a professional obligation on all members to comply with auditing and assurance standards and that this approach should be retained in APES 210.

According to the Code, whether a member is in public practice or in business is determined by the professional relationship created by the member. The two kinds of professional relationships a member can create are either a client relationship (i.e. a member in public practice) or employment/contractor relationship (i.e. a member in business). Thus it is the type of professional relationship that ultimately determines whether the member is in public practice or in business.

For example, if a member is generally employed in a commercial organisation he or she is a member in business. However, if this member then agrees to perform the audit of a financial report (i.e. an assurance engagement) of the local social club or charity in his or her spare time, then for that purpose the member is a member in public practice. A new paragraph 1.3 was inserted in APES 210 to clarify this principle.

Excluding the new paragraph 1.3, the other paragraphs in the scope and application were amended to reflect the applicability to all members. This has resulted in consequential amendments in section 4 and 5 of the standard.

Respondents noted that it was not clear whether members in business who undertake internal audit work were captured by APES 210 and thus had to comply with applicable auditing and assurance standards. The general intent of APES 210 (similar to the former APES 410) is for members of the professional accounting bodies to comply with auditing and assurance standards. APESB has previously defined work done by a member in business for an employer as an assignment. To improve the clarity of APES 210, APESB has introduced a new definition of *assurance assignment* in section 2, and consequently paragraph 1.2 has been redrafted to state that a member who undertakes an assurance assignment has similar obligations to a member conducting an assurance engagement (i.e. comply with auditing and assurance standards). In practice the auditing and assurance standards applicable to internal audit work is very limited. However, where there are applicable auditing and assurance standards, APES 210 creates the professional obligation for members in business who conduct internal audit work to comply with them.

**Definitions (Paragraph 2)**

The revised approach to how the standard is to apply to all members means that the definitions of audit engagement, financial statements, related services engagement, and review engagement which were included in ED 03/08 are no longer required. The definitions of assignment, assurance assignment, professional services, professional standards are now included in APES 210.

**Auditing and Assurance Standards (Paragraphs 4.1 and 4.2)**

The purpose of section 4 of APES 210 is to stipulate members' responsibilities to comply with auditing and assurance standards. ED 03/08 stated that members in public practice must comply with auditing and assurance standards. As noted above the change referred to in paragraph 1.2 resulted in redrafting of section 4 to make it applicable to all members.

**Auditing and Assurance Guidance (Paragraph 5.1)**

The purpose of section 5 of the standard is to stipulate members' responsibilities to follow auditing and assurance guidance. ED 03/08 stated that members in public practice should follow auditing and assurance guidance. As noted above the change referred to in paragraph 1.2 resulted in the redrafting of section 5 to make it applicable to all members.