

TH23 Accounting professional and ethical standards update

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Technical Director, Accounting Professional and Ethical Standards Board (APESB)

Big issues
small world



Chartered Accountants
1 Business
FORUM 2010

Overview

- > APESB background
- > APES 350 Participation by members in public practice in due diligence committees in connection with a public document
- > APES 215 Forensic Accounting Services
- > APES 225 Valuation Services
- > APES 220 Taxation Services



APESB Background



APESB

- > Established in February 2006 as an initiative of ICAA and 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 with APESB pronouncements 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*



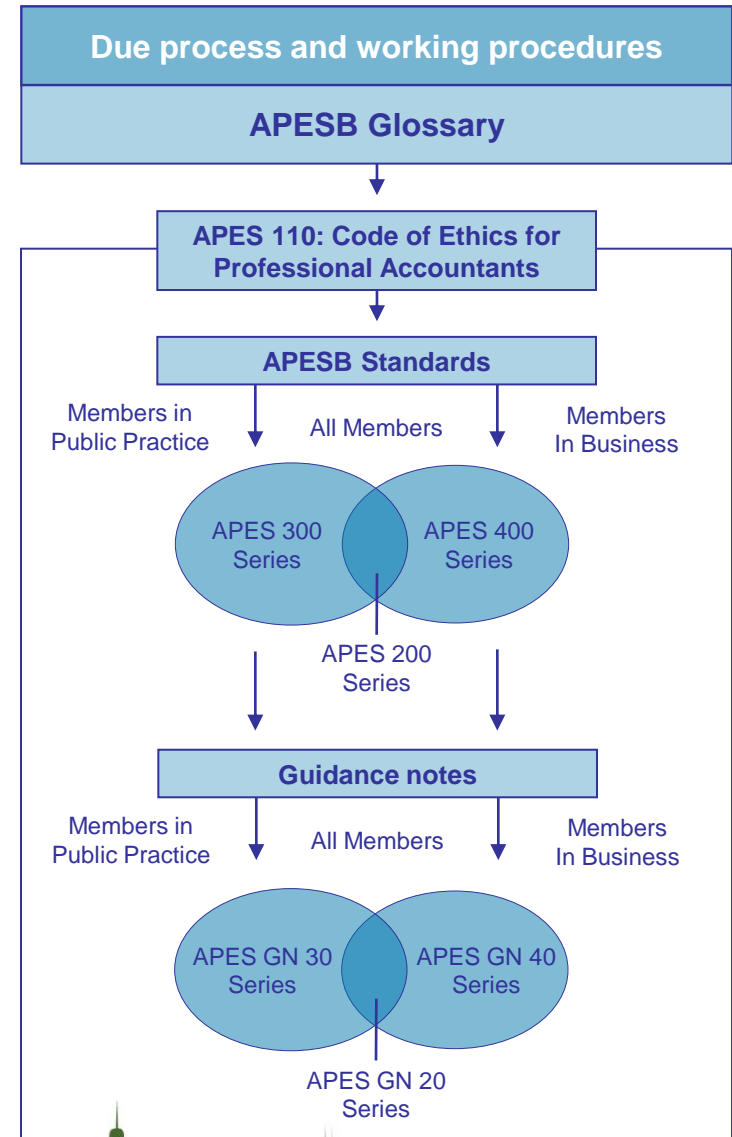
Board Composition

- > 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 related to the Principles already stated in a Standard
 - > Guidance is only grey letter



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



APES 350 Due Diligence Committees

- > A unique Australian Standard due to the due diligence defence in Australian Corporations Law
- > Applicable to Members in Public Practice/Firms
- > Applicable when providing Professional Services which comprise reporting to a Due Diligence Committee (DDC) as a DDC Member, DDC Observer or Reporting Person
- > A DDC Member or DDC Observer role can be performed in isolation or in conjunction with the Reporting Person role
- > Effective for Engagements commencing on or after 1 February 2010



APES 350 Due Diligence Committees

Key Definitions

- > DDC Member – participates in the DDC’s decisions, signs all collective reports and documents issued by the DDC, and prepares a DDC Sign-Off
- > DDC Observer – does not sign the collective reports or participate in the capacity of a DDC Member (limited role and may not involve formal reporting)
 - attend one or more meetings
 - may or may not undertake DD enquiries & provide a report to the DDC
- > Due Diligence Sign-Off – written communication of conclusions arising from DD procedures performed



APES 350 Due Diligence Committees

Key Definitions cont.

- > Public Document – disclosure document, product disclosure document statement or other documentation provided in relation to a scheme of arrangement under Part 5.1 of the *Corporations Act* or a takeover or compulsory acquisition under Chapter 6 of the *Corps Act 2001*

- > Reporting Person – Member engaged to provide professional services and report on a specific issue or area of enquiry
 - may also be a DDC Member or DDC Observer



APES 350 Due Diligence Committees

Professional Appointments

- > Member shall consider threats to compliance with the fundamental principles and apply appropriate safeguards to reduce to them to an acceptable level
- > When providing services to Assurance Clients, Member shall consider s290 *Independence* of APES 110 to determine whether there are threats to independence
- > When providing services to audit clients, Members shall also comply with independence requirements of the *Corporations Act 2001*



APES 350 Due Diligence Committees

Professional Engagement

- > Document terms of Engagement in accordance with APES 305
- > Where the Due Diligence Planning Memorandum (DDPM) extends responsibilities beyond the Engagement Document, the Engagement Document shall be amended to ensure the Member's responsibilities are:
 - > Consistent with the Engagement Document and requirements of APES 350
- > Professional obligations of the Member cannot be determined by the DDPM as it is not a document the Member controls



APES 350 Due Diligence Committees

Materiality guidance

- > when providing such guidance Members must comply with Auditing and Assurance standards

Member's Roles and Responsibilities

- > Specify the financial and/or other specific information that the Member has performed procedures on
- > Not report on matters outside the Member's expertise
- > A Member shall only sign a report to Those Charged with Governance on information of a general nature or the due diligence process as a DDC Member when it is approved and signed by other members of the DDC



APES 350 Due Diligence Committees

Roles & Responsibilities – cont.

- > Agree specific procedures in relation to verification processes
- > DDC Observers to assess scope of procedures and assess whether they will be in a position to provide a DDC Sign-Off

Reporting

Contents of a Due Diligence Sign-Off :

- > conclusions of Member provided in negative assurance form
- > Member's responsibilities in respect of draft documents
- > DDC Sign-off pro forma in Appendix 1



APES 350 Due Diligence Committees

Some of the key elements of a DDC Sign-Off are:

- > identification of the proposed transaction and the purpose of the sign-off
- > the financial information and other specific information disclosed in the public document in relation to which the member has undertaken procedures
- > any limitations on the scope of work performed
- > the basis upon which the statements in the DDC Sign-off are made
- > the extent of the member's assurance whether the financial and other specific information as presented in the identified sections are misleading or deceptive
- > the significant assumptions
- > any restrictions on the use and distribution of the DDC Sign-Off; and
- > a statement that that the professional services were performed and the DDC Sign-Off was prepared in accordance with APES 350 and other applicable

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APES 215 Forensic Accounting 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 an Expert Witness Service (EWS), later becomes a EWS then section 5 of APES 215 applies (Para 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

> Key definitions:

> Forensic Accounting Services:

- > Expert Witness Services;**
- > Lay Witness Services;**
- > Consulting Expert Services; and**
- > Investigations Services**

> Court

> Expert Witness

> Lay Witness

> Consulting Expert

> Professional Services

> Proceedings

> Contingent Fees

> Report



APES 215 Forensic Accounting Services

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 obligation as an Expert Witness (para 5.4)
- > The Report of an Expert Witness (para 5.6)
 - > The instruction received, limitation on the scope, 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

False or misleading information and changes in opinion

- > Shall not knowingly or recklessly make false or misleading statements
- > A Member subsequently becoming aware that information is false or misleading
 - > Promptly inform the legal representative of the Client, Employer or the Court as appropriate
 - > Consider issuing a supplementary report



APES 215 Forensic Accounting Services

Professional fees

- > Member in Public Practice
 - > Fees will be computed in accordance with s.240 *Fees and other Types of Remuneration* of the Code
 - > Not enter into a Contingent Fee arrangement for an Expert Witness Service or Engagements that require Independence

- > Member in Business
 - > Not receive contingent remuneration for an Expert Witness Service



APES 215 Forensic Accounting Services

Quality control

- > Member in Public Practice – comply with APES 320 *Quality Control for Firms*
- > Member in Business – utilise a system of quality control
- > Proper documentation of working papers
- > Maintain chain of custody



APES 215 Forensic Accounting Services

Use of the terms “facts”, “assumptions” and “opinions”

- > Examples are provided to assist Members determine whether a matter is a fact, an assumption or an opinion
- > Judged based on the particular facts and circumstances
- > **Fact** - Expert Witness has applied specialised knowledge but has not applied any significant degree of judgement
- > **Assumption** – ordinary meaning
- > **Opinion** – Expert Witness applies a significant degree of expert judgment and draws an inference



APES 225 Valuation Services

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APES 225 Valuation Services

Australian perspective

- > ATO
 - > Market Value Guidelines (2002)

- > ASIC
 - > RG 111: Contents of experts reports (Oct 2007)
 - > RG 112: Independence of experts (Oct 2007)

- > APESB
 - > APES 225 *Valuation Services* (July 2008)
 - > APES 110 *Code of Ethics for Professional Accountants* (June 2006)



APES 225 Valuation Services

International perspective

- > CICBV
 - > Standards 110, 120 and 130

- > IVSC
 - > International Valuation Standards

- > ICANZ
 - > Independent Business Valuation Engagements (2001)

- > AICPA
 - > Standards for Valuation Services (June 2007)



APES 225 Valuation Services

Scope and application

- > Engagement → Members in Public Practice
- > Assignment → Members in Business
- > Mandatory for the Members of the three Professional Bodies
- > 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 Valuation Services

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 Valuation Services

Key Definitions cont.

> Results:

- > Valuation Engagement & Limited Scope**
- > Valuation Engagement → Conclusion of Value**
- > Calculation Engagement → Calculated Value**

> Valuation Report:

- > Written or oral communication containing a Conclusion of Value or a Calculated Value**



APES 225 Valuation Services

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)



APES 225 Valuation Services

Reporting cont.

- > 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 225 Valuation Services

Use of a glossary of business valuation terms

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

What constitutes a valuation service

- > Refer appendix for examples



APES 220 Taxation Services

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APES 220 Taxation Services

- > Formerly APS 6
- > 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



APES 220 Taxation Services

- > Taxations Services to a Client or Employer defined as:
 - > preparation of return, notice, statement or similar document
 - > 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
 - > returns shall be prepared in accordance with information provided by Client, their instructions and tax law
- > Members must not be involved in tax schemes and arrangements which are not within the law
- > Use of estimates in preparation of revenue returns
 - > Shall not prepare or be associated with such estimates unless use is generally accepted or impractical to obtain exact data
- > Members obligations in respect of false and misleading information



APES 220 Taxation Services

- > 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



QUESTIONS?



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