

# Revised APES 215

## *Forensic Accounting Services*

**Forensic & Financial Investigation Discussion Group**

**CPA Australia**

*Melbourne, 26 March 2014*

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Accounting Professional & Ethical Standards Board

# Overview

- **Importance of professional standards and ethics**
- **Background to APES 215 and its revision**
- **Key changes to definitions**
- **Key changes to the mandatory requirements and guidance**
- **Revisions of Appendix 1**
- **Development of Decision Tree diagram**
- **Development of 23 examples**
- ***APES 225 Valuation Services***

# Importance of professional standards and ethics

- 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)
- Inside Job – Official Trailer

<http://www.youtube.com/watch?v=FzrBurlJUNk>

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

Arthur Anderson's Clients	Problems	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

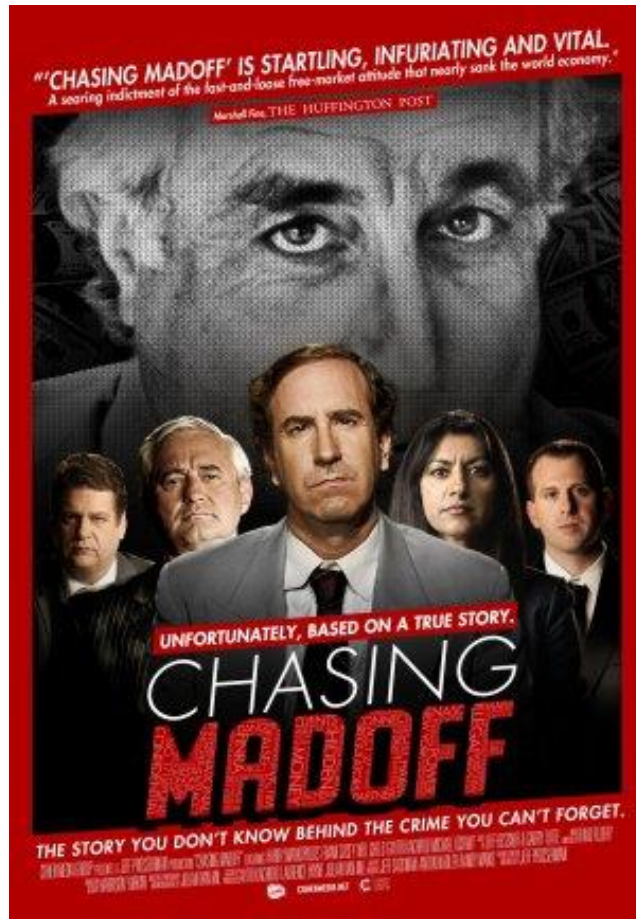
Company	Problems	Business/Social impact
Lehman Brothers	<ul style="list-style-type: none"> <li>- Derivatives : MBS and ABS</li> <li>- Downgrading of credit ratings</li> <li>- Toxic commercial real estate assets</li> <li>- High leverage ratios</li> </ul>	<ul style="list-style-type: none"> <li>- Majority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

Source: [www.google.com](http://www.google.com)

## Background to APES 215 and its revision

- Original APES 215 was based on APS 11 and GN 2
- APES 215 extended the scope to Members in Business from 1 January 2009
- In 2011, stakeholders requested that APESB clarify the application of APES 215 to Members in Business and the different types of *Forensic Accounting Services*
- Revised APES 215 operative on or after 1 April 2014 with early adoption permitted

# Chasing Madoff - Official Trailer



<http://www.youtube.com/watch?v=62L7VxMDg68>

## Key changes to Definitions

- Expert Witness
- Other Evidence
- Professional Activity
- Professional Services
- Professional Bodies



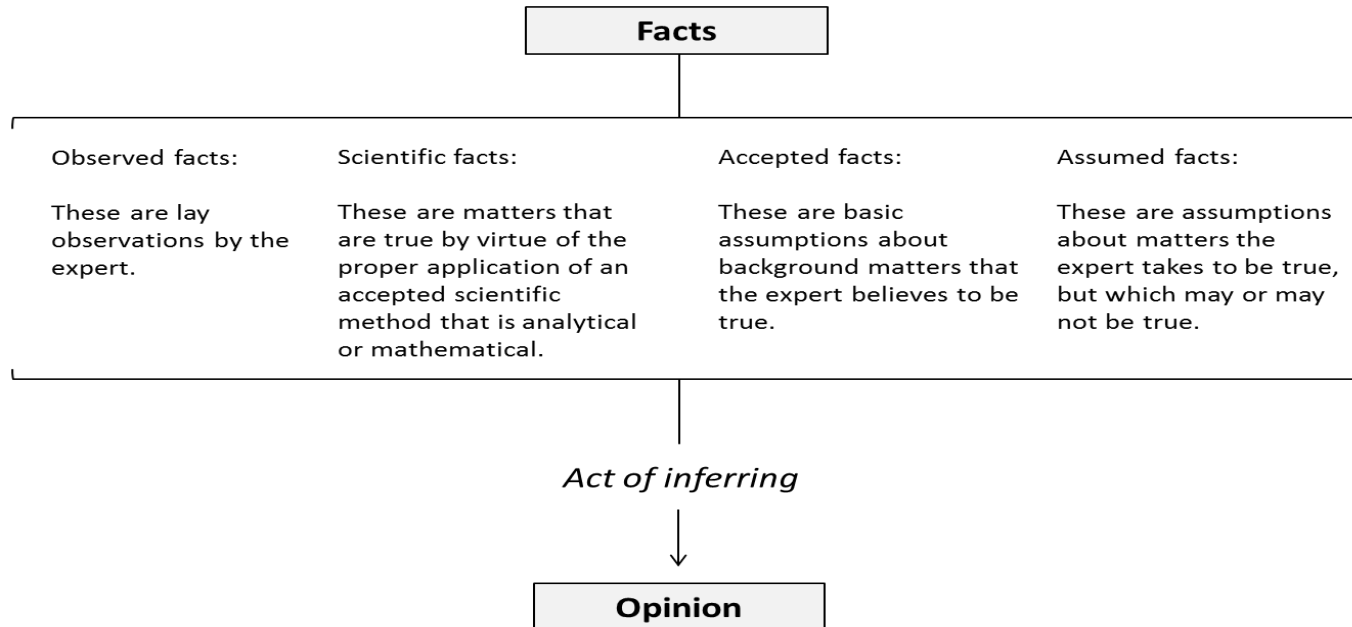
# Key changes to the mandatory requirements and guidance

- Conflicts due to previous services performed by a Member's firm (paragraph 3.5)
- Amendments to the Expert Witness Report (paragraph 5.6)
  - Member's specialised knowledge derived from the Member's training, study or experience (2013) **vs** Member's specialised training, study or experience (2008)
  - Other Evidence: Clarification that expert evidence is either opinion evidence or Other Evidence
- Clarification on what constitutes working papers (paragraph 5.9)

## Revision to Appendix 1

- The Expert Witness Report must communicate significant facts and assumptions upon which the opinions or Other Evidence are based
- Examples are provided to assist Members determine whether a matter is a fact, an assumption or an opinion
- Additional guidance provided to differentiate between facts, assumption and opinions
- **Fact** – Expert Witness has applied specialised knowledge but has not applied any significant degree of judgment
- **Assumption** – ordinary meaning
- **Opinion** – Expert Witness applies a significant degree of expert judgment and draws an inference

## Revision to Appendix 1 (cont.)



*An opinion is an inference drawn from facts. In the context of expert evidence, facts may be classified as observed, scientific, accepted or assumed.*

## A courageous forensic accountant...

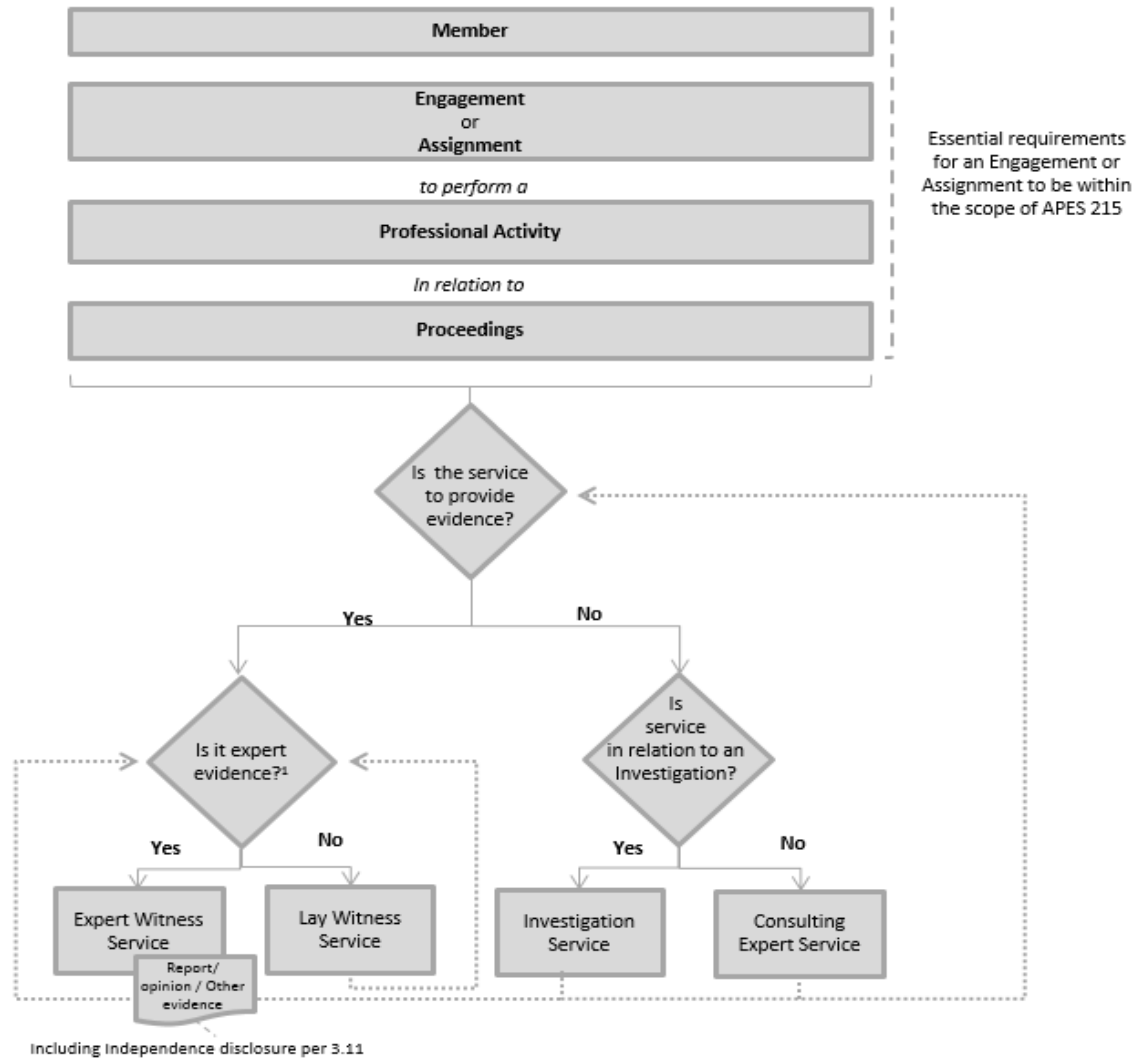
- **Harry Markopolos – Independent Financial Fraud Investigator & Analyst**

[http://www.youtube.com/watch?v=uw\\_Tgu0txS0](http://www.youtube.com/watch?v=uw_Tgu0txS0)

## Appendix 2 - Decision Tree

- Key requirements for a matter to be within the scope of APES 215
  - Member who is engaged or assigned to perform a *Professional Activity*
  - The *Professional Activity* is in relation to a *Proceeding*
- Determination of the type of *Forensic Accounting Service*
  - Depends on whether the service is to provide evidence to the Court
  - Is it in relation to expert evidence or in relation to an investigation?

## Appendix 2 - Decision Tree (cont.)



<sup>1</sup> Whether or not evidence is accepted as expert evidence is an after the fact matter. A Member must comply with the Standard in anticipation that evidence will be treated as expert evidence.

## Appendix 3

# Examples of Forensic Accounting Services

The examples cover a wide range of circumstances such as:

- Professional tribunals
- Dispute meditations
- Investigations by law enforcement/regulatory agency
- Member in Business employed by a company which is being investigated
- Insurance claims
- Family law
- Members providing affidavits
- Members employed by a revenue authority

# Consequences of fraud

## Senator Ackerman on Madoff Fraud

[http://www.youtube.com/watch?v=FOKSkaQoF\\_I](http://www.youtube.com/watch?v=FOKSkaQoF_I)



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MADOFF BEHIND BARS... DAY ONE



# APES 225 Valuation Services

- Revised in May 2012
- Mandatory for the Members of the three Professional Bodies
- 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

## Revision of APES 225 in May 2012

- Materials added:
  - Schematic on the determination whether a professional service constitutes a Valuation Service and which type
  - 8 additional examples of various Valuation Services provided by Members (23 examples in total)

## Next steps...

- For more information,

Visit: [www.apesb.org.au](http://www.apesb.org.au)

- For timely updates, follow the APESB page on

[LinkedIn](#) 

# Q & A session...