

AGENDA PAPER

Item Number: 4
Date of Meeting: 11 August 2015
Subject: Project status update on APES GN 41 *Management Representations* Exposure Draft (APES GN 41 ED)

Action required For discussion For noting For information

Purpose

To provide an update to the Board on the project status of the proposed Guidance Note APES GN 41 *Management Representations* Exposure Draft (APES GN 41 ED) and to seek the Board's preliminary views and comments on the proposed APES GN 41 ED.

Background

APESB determined to develop guidance on management representations for Members in Business at the Board Meeting held on 26 August 2014. The Board also approved the approach to develop the APES GN 41 by focussing on the principles, values and attributes of Management Representations undertaken by a Chief Financial Officer (CFO) or Senior Finance Personnel (SFP).

Development Process

The second APES GN 41 taskforce meeting was held on 27 November 2014 to discuss the potential approaches to address the project's objectives.

Accordingly, Technical Staff prepared a Technical Briefing Paper which specified:

- the professional obligations of a Member in Business who may be employed at the various levels in an organisation; and
- the principles, values and attributes required for a half year and annual financial statements management representations process undertaken by a CFO or SFP.

January 2015 Update

At the 28 January 2015 Board Meeting, the Board was provided with an update of the project's status and was supportive of the project. The Board was of the view that the taskforce should consider the following matters when developing the proposed APES GN 41:

- to focus on the annual management representations processes and thereafter consider other matters; and
- where applicable to incorporate the applicable corporate governance principles and recommendations of the ASX Corporate Governance Council.

August 2015 Update

Three taskforce meetings have been held since January 2015. The taskforce discussed the drafting of the proposed APES GN 41 ED and have agreed on the following key matters:

- i. Scope and application of Management Representations
 - to be expanded beyond a consolidated listed entity to encapsulate all entities (e.g. associates, joint ventures, stapled entities or single entities);
 - to include all Management Representations reporting responsibilities (particularly Written Representations provided to Members in Public Practice); and
 - to focus on the professional and ethical responsibilities of Members in Business rather than the procedures carried out in conducting the Management Representations process.
- ii. Definitions
 - to align definitions with either the IESBA's Code or Australian Auditing Standards (ASAs) where possible.
- iii. Professional obligations of a Member in Business
 - to distinguish between an internal and external management representations process;
 - to clarify that the financial reporting certifications include internal control questionnaires; and
 - to address the declarations provided to board/audit committees in respect of foreign listed entities.
- iv. Management Representations considerations at the entity level
 - to use the term 'entity' as it is sufficiently broad (includes all listed/unlisted entities i.e. single, consolidated, associates, joint ventures or stapled).
- v. Management Representations considerations at the controlling entity level
 - to use the term 'controlling entity' as it denotes the level where all entities' Management Representations are aggregated in a group reporting scenario.
- vi. Management Representations considerations for Board members
 - to provide guidance on how directors, board members or audit committee members oversee the Management Representations process.

Accordingly, the proposed APES GN 41 has been structured in the following manner:

- Section 3 *Fundamental responsibilities of Members in Business* that provides guidance on the Members' mandatory professional obligations and ethical requirements of the Code;
- Section 4 *Professional obligations of a Member in Business in respect of Management Representations* that provides guidance on professional obligations in relation to external Management Representations (e.g. Written Representations) and internal Management Representations (e.g. Financial Reporting Certifications);
- Section 5 *Management Representations considerations at the entity level* that provides guidance for a Member who prepares or who is responsible for Management Representations at the entity level;
- Section 6 *Management Representations considerations at the controlling entity level* that provides guidance for a Member who prepares and/or reviews the group Management Representations at the controlling entity level;

- Section 7 *Management Representations considerations at the board or audit committee level* that provides guidance for a Member who is at the board or audit committee level; and
- Section 8 *Documentation* that provides guidance on the documentation obligations for a Member who is preparing and/or signing Management Representations.

The minutes of the taskforce meetings are provided as agenda items 4 (c) to 4 (e) for the Board's information.

Other Matters

Taskforce member, Mr. David Castle has declared to the taskforce that he has been appointed as a board member of the Companies Auditors and Liquidators Disciplinary Board (CALDB). As the APES GN 41 project is focussed on the Members in Business community, the probability of a conflict of interest arising between Mr. Castle's role as a taskforce member of APES GN 41 and board member of CALDB is likely to be low. However, this will be monitored on an ongoing basis.

Staff Recommendation

The Board note the project status update and provide the Board's views and comments in respect of the following matters:

- the subject matter that is currently included within the proposed APES GN 41 and its appropriateness; and
- whether there are any other subject matter that the taskforce should consider for inclusion.

Material Presented

- Agenda Item 4 (a) Proposed APES GN 41 *Management Representations* Exposure Draft (clean);
- Agenda Item 4 (b) Final minutes of 3rd APES GN 41 taskforce meeting held on 11 May 2015;
- Agenda Item 4 (c) Final minutes of 4th APES GN 41 taskforce meeting held on 30 June 2015; and
- Agenda Item 4 (d) Draft minutes of 5th APES GN 41 taskforce meeting held on 20 July 2015.

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Date: 3 August 2015

Proposed Guidance Note: APES GN 41 Management Representations

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **XX/15**
ISSUED: (XXXX 2015)

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Commenting on this Exposure Draft

This Exposure Draft, APES GN 41 *Management Representations* was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by XX XXXX 2015.**

Comments should be addressed to:

The Chairman
Accounting Professional & Ethical Standards Board Limited
Level 7, 600 Bourke Street
MELBOURNE VIC 3000
AUSTRALIA

APESB would prefer that respondents express a clear overall opinion on whether the proposed Guidance Note, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Guidance Note.

Respondents are asked to submit their comments electronically through the APESB website, using the link www.apesb.org.au/apesb-exposure-drafts-open-for-comment.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the website www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties, comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au. Alternatively, any individual or organisation may obtain one printed copy of this Exposure Draft without charge until **XX XXXX 2015** by contacting:

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Reasons for issuing Exposure Draft xx/15 **[To be updated]**

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Guidance Note APES GN 41 *Management Representations* (APES GN 41) to provide guidance for Members in Business, particularly chief financial officers or senior finance personnel, in understanding the fundamental professional obligations & ethical requirements associated with preparing and/or signing Management Representations to Those Charged with Governance or an external party.

Key requirements and guidance in ED xx/15

The proposed APES GN 41 provides guidance in respect of making Management Representations to Those Charged with Governance or an external party. The proposed Guidance Note includes guidance in respect of:

- Fundamental responsibilities of Members in Business;
- Professional obligations of a Member in Business in respect of Management Representations;
- Management Representations considerations at the entity level;
- Management Representations considerations at the controlling entity level;
- Management Representations considerations at the board or audit committee level; and
- Documentation.

Proposed operative date

It is intended that this Guidance Note will be operative when issued.

APES GN 41 Management Representations

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

ISSUED: xxx 2015

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1. Scope and application

1.1 The primary objectives of APES GN 41 *Management Representations* are to provide guidance to a Member in Business who prepares and/or signs Management Representations in respect of:

- the application of the fundamental professional obligations and ethical requirements of the Code;
- Management Representations considerations at the entity level, controlling entity level and board or audit committee level;
- professional obligations (due to regulatory practice or other conventions) in relation to Written Representations and Financial Reporting Certifications.

APES GN 41 does not set out the procedures or processes to be followed by a Member in order to comply with applicable regulatory or other obligations associated with Management Representations.

1.2 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES GN 41 *Management Representations* (the Guidance Note) which is effective from the date of issue.

1.3 APES GN 41 provides guidance to Members in Business, particularly chief financial officers or senior finance personnel, in understanding the fundamental professional obligations and ethical requirements associated with preparing and/or signing Management Representations to Those Charged with Governance or an external party. This Guidance Note does not prescribe or create any mandatory requirements.

1.4 Members in Business using this Guidance Note should refer to APESB's *Due process and working procedures for the development and review of APESB pronouncements*.

1.5 Members in Business working outside of Australia should follow the guidance in APES GN 41 to the extent to which they are not prevented from doing so by specific requirements of local laws and/or regulations.

1.6 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.

1.7 All references to Professional Standards and Guidance Notes are references to those provisions as amended from time to time.

1.8 Members in Business need to be familiar with relevant Professional Standards and Guidance Notes when performing Professional Activities to Employers.

1.9 In applying the guidance outlined in APES GN 41, Members in Business should be guided not merely by the words but also by the spirit of this Guidance Note and the Member's professional obligation to comply with the requirements of the Code.

1.10 In this Guidance Note, unless the contrary intention appears, words importing the singular include the plural and vice versa, words importing any gender include the other gender, and words importing persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Guidance Note:

Applicable Financial Reporting Framework means the financial reporting framework adopted by management and, where appropriate, Those Charged with Governance in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.

The term *fair presentation framework* means a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

In the context of financial reporting, the term *Compliance Framework* means a financial reporting framework that requires compliance with the requirements of the applicable framework, but does not contain the acknowledgements in (a) or (b) above.
(refer to APES 315)

Assignment means an instruction, whether written or otherwise, by an Employer to a Member in Business relating to the provision of services by a Member in Business. However, consultations with the Employer prior to such instruction are not part of an Assignment.

Code means APES 110 *Code of Ethics for Professional Accountants*.
(refer to APES GN 40)

Employer within the context of this Guidance Note means an entity or person that employs, engages or contracts a Member in Business.
(refer to APES GN 40)

Fraud means an intentional act by one or more individuals among management, Those Charged with Governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. (refer to AUASB Glossary)

Financial Statements mean a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements. For the purposes of this Guidance Note, Financial Report is considered to be an equivalent term to Financial Statements.
(refer to the Code)

Financial Reporting Certification means a declaration provided by the chief executive officer and chief financial officer to Those Charged with Governance in relation to an entity's Financial Statements.
(refer to s295A of the Corporations Act 2001 and Principle 4.2-Corporate Governance page 22)

Group Financial Report means a financial report that includes the financial information of more than one component (*often a legal entity in corporate form*). The term 'Group Financial Report' also refers to combined financial reports aggregating the financial information prepared by components that have no parent but are under common control. (refer to AUASB Glossary)

Group Management means management, or Those Charged with Governance, responsible for the preparation of the Group Financial Report. (refer to AUASB Glossary)

Internal Control means the process designed, implemented and maintained by Those Charged with Governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of Internal Control. (refer to AUASB Glossary)

Management's Expert means an individual or organisation possessing skills, knowledge and experience in a field other than accounting, whose work in that field is used by management of the entity to assist the entity in preparing the Financial Report. (refer to AUASB Glossary)

Management Representations means a written statement by Management provided to Those Charged with Governance or external parties to confirm certain matters or to support evidence. Written Representations in this context do not include the Financial Report, the assertions therein, or supporting books and records.
(refer to AUASB Glossary)

Member means a Member of a Professional Body that has adopted this Guidance Note as applicable to their membership as defined by that Professional Body.
(refer to the Code)

Member in Business means a Member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or Professional Bodies, or a Member contracted by such entities.
(refer to the Code)

Member in Public Practice means a Member, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides Professional Activities. This term is also used to refer to a firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable professional body.
(refer to the Code)

Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported item in financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the Applicable Financial Reporting Framework. Misstatements can arise from error or Fraud.

Where the financial information is prepared in accordance with a fair presentation framework, Misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the Member in Business' judgement, are necessary for the financial information to be presented fairly, in all material respects.
(refer to APES 315)

Outsourcing means an activity where an entity engages a party, on a continuing basis, to perform a business activity that is being, has been, or could be performed by that entity.
(refer to APES GN 30)

Outsourced Service Provider means an entity including a person that is providing services in accordance with an Outsourcing agreement. The Outsourced Service Provider may not be located in the same country as the Member in Business and may not even be a Member.
(refer to APES GN 30)

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
(refer to the Code)

Professional Bodies means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.
(refer to APES GN 40)

Professional Standards means all standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable Professional Body.

(refer to APES GN 40)

Risk means the means the effect of uncertainty on objectives.

(refer to APES 325)

Risk Management Framework means the foundations¹ and organisational arrangements² for designing, implementing, monitoring, reviewing and continually improving risk management throughout the entity.

(refer to APES 325)

Those Charged with Governance means the persons or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

(refer to the Code)

Written Representations means a written statement by management or Those Charged with Governance, provided to an external party, the auditor or audit committee to confirm certain matters or to support other evidence. (refer to AUASB Glossary)

3. Fundamental responsibilities of Members in Business

- 3.1 The Code is the conceptual framework and foundation on which all APESB pronouncements are based. Compliance with and application of the Code is fundamental to the ethical behaviour of Members in Business. Non-compliance with the Code can lead to disciplinary proceedings being initiated by the Professional Body to which the Member belongs.
- 3.2 Members in Business are required to comply with professional obligations and ethical requirements that are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in the Code.
- 3.3 A Member in Business who performs a Professional Activity for the Member's Employer is required to comply with *Part A – General Application of the Code* and *Part C – Members in Business* including Section 100 *Introduction and Fundamental Principles* and applicable laws or regulations. Part C is specific to Members in Business and describes the application of the fundamental principles to some of the more commonly encountered situations that may create threats to a Member's ability to comply with the fundamental principles.

4. Professional obligations of a Member in Business in respect of Management Representations

- 4.1 A Member in Business who provides Management Representations to Those Charged with Governance or external parties on various matters is required to comply with the fundamental principles of the Code.
- 4.2 Members in Business should prepare or present the Management Representations in a manner that is fair and honest, and where applicable in accordance with the Applicable Financial Reporting Framework. This includes:

¹ The foundations include the policy, objectives, mandate and commitment to manage Risk.

² The organisational arrangements include plans, relationships, accountabilities, resources, processes and activities.

- (a) preparing or presenting the Management Representations in accordance with applicable Professional Standards.
 - (b) preparing or presenting Management Representations in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
 - (c) not omitting information with the intention of rendering the Management Representations to be misleading; and
- 4.3 When presenting information, Members in Business are required to comply with section 320 *Presentation of Information* of the Code. Members should consider the purpose of the Management Representations, the context and its users.
- 4.4 Management Representations provided by Members in Business to Those Charged with Governance or external parties include, but are not limited to:

External Management Representations

- (a) Written Representations provided to Members in Public Practice (e.g. external auditors) in respect of annual Financial Statements and half-year Financial Statements^{3 4};
- (b) Management Representations provided to Members in Public Practice in respect of a compilation engagement;
- (c) Management Representations provided to an Employer or Members in Public Practice in respect of a valuation service;
- (d) Management Representations provided to an Employer or Members in Public Practice in respect of a due diligence committees e.g. acquisitions, divestments, restructuring or raising finance from capital and debt markets;
- (e) Management Representations provided to rating agencies or similar organisations who are performing evaluations of the organisation's financial capacity and stability or governance arrangements;
- (f) Management Representations provided to an organisation's financiers or lenders when obtaining finance or in respect of ongoing compliance with loan covenants;

Internal Management Representations

- (g) Financial Reporting Certifications including Internal Control questionnaires; or
 - (h) declarations provided to the board/audit committee of a local or foreign jurisdiction in accordance with the respective jurisdiction's regulations.
- 4.5 Where a Member in Business prepares and/or signs Management Representations, the Member is required to comply with section 330 *Acting with Sufficient Expertise* of the Code. The Member is required to maintain professional knowledge and skill at the level required to ensure the Member's Employers receive competent professional advice. The Member is required to have, or can obtain, sufficient specific training or experience and possess the sufficient time and adequate resources to complete the Management Representations within the reporting deadline. The Member should be knowledgeable of the entity's industry and other subject matters on which they are presenting Management Representations.

³ *Corporations Act 2001*: sections 295A,300A and 312.

⁴ Auditing and Assurance Standards Board. Auditing Standard ASA 580 *Written Representations*: Amended and compiled July 2013: Paragraph Aus 0.1, A26 and Aus A26.1

- 4.6 Where a Member in Business relies on the work of others (e.g. Management's Expert, Outsourced Service Provider or internal personnel) to provide Management Representations, the Member should take reasonable steps to be satisfied that such work enables the Member to fulfil the obligations set out in paragraph 4.2. Where the work of others forms a material part or has a significant impact on the Management Representations, the Member should perform an assessment of the work of others and their expertise including qualifications, competence, integrity, objectivity and capacity to perform the allocated tasks.
- 4.7 Where a Member in Business has determined that the work of others may include a Misstatement or that the Management Representations with which the Member is associated with is misleading, the Member shall take qualitative as well as quantitative factors into consideration when evaluating the significance of the suspected Misstatement or the potential misleading Management Representations. The Member should consider the following:
- (a) making inquiries of the work of others to assess the reliability, accuracy and completeness of Management Representations provided; or
 - (b) performing verification procedures on the relevant matter; and
 - (c) being alert to the fact that reassessment of the suspected Misstatement or potential misleading Management Representations may need to occur on an ongoing basis.
- 4.8 Where a Member in Business is considering disclosing confidential information acquired in the course of providing Professional Activities to an Employer, the Member is required to refer to Section 140 *Confidentiality* of the Code. The Member should also refer to the guidance in section 12 *Disclosure of information and whistleblowing* of APES GN 40.
- 4.9 Where a Member in Business provides confidential information in accordance with a legal obligation of disclosure, the Member should notify the Employer or the relevant third party as soon as practicable, provided that there is no legal prohibition against such notification.
- 4.10 Where an Employer has given a Member in Business permission to disclose confidential information to a third party, it is preferable that this permission is in writing. Where oral permission is obtained, a contemporaneous note should be made and kept on file by the Member recording the relevant details of the Employer's approval.

5. Management Representations considerations at the entity level

- 5.1 A Member in Business who prepares or who is responsible for Management Representations at the entity level should:
- (a) take reasonable steps to maintain information in a manner that:
 - (i) describes clearly the true nature of business transactions, assets or liabilities;
 - (ii) classifies and records information in a timely and proper manner; and
 - (iii) represents the facts accurately and completely in all material respects.
 - (b) communicate the group policies and procedures (including any changes) in respect of financial reporting to the entity's management in a timely manner.
 - (c) oversee or obtain comfort regarding the recruitment and selection process of finance personnel who possess the necessary skills, expertise, competence and knowledge that enables them to perform their tasks with integrity and objectivity.

- (d) implement systems or processes to develop competence of personnel who complete the Management Representations checklist through a variety of methods, including:
 - (i) continuing professional development on Professional Standards, legal obligations and other regulations (e.g. insider trading, corporate governance, applicable accounting, and auditing and assurance standards);
 - (ii) providing work experience in a manner to continuously develop their skills, and
 - (iii) coaching of junior personnel by more experienced personnel.
- 5.2 A Member in Business should encourage personnel to be alert for circumstances and relationships that may be encountered by personnel during the Management Representations process that create or may create threats to compliance with the fundamental principles of the Code that include but are not limited to:
- (a) not knowingly engage in any business transaction or activity that impairs or might impair the entity's and group's good reputation as a responsible corporate citizen;
 - (b) being aware of potential accounting and tax schemes or arrangements which may not be in accordance with applicable legal and regulatory requirements;
 - (c) not knowingly associate with any arrangement which involves documents or accounting entries that are intended to misrepresent a transaction or which is dependent upon its lack of disclosure for its effectiveness; and
 - (d) being aware of ethical issues, legal obligations and other regulations regarding potential insider trading.
- 5.3 A Member in Business should take reasonable steps to create a working environment where personnel are able to make Management Representations with integrity and objectivity regardless of whether the organisational impact/outcome of the Management Representations process is positive or negative.
- 5.4 A Member in Business should report actual or potential Internal Control weaknesses in the entity's Internal Control environment to management or Those Charged with Governance, as appropriate.

6. Management Representations considerations at the controlling entity level

- 6.1 A Member in Business who prepares and/or reviews the group Management Representations at the controlling entity level should establish policies and procedures designed to provide Those Charged with Governance with reasonable confidence that the group Management Representations are appropriate including:
- (a) promoting consistency in the group Management Representations process;
 - (b) assisting and/or supervising the group Management Representations process that comprises among other considerations, the following:
 - (i) monitoring its progress;
 - (ii) considering the ability of the personnel to apply the professional and ethical requirements of the Code;
 - (iii) considering the skills, competency, capabilities and knowledge of the personnel involved and whether they understand group reporting instructions;
 - (iv) guiding personnel to complete the Management Representations;
 - (v) assessing whether it is carried out in accordance with the group policies and procedures;
 - (vi) addressing significant matters or discrepancies arising; and
 - (vii) assessing the completeness of group Management Representations.

- (c) reviewing the group Management Representations process that comprises among other considerations, the following:
 - (i) ensuring personnel with the relevant skills, knowledge and abilities are overseeing the group Management Representations;
 - (ii) performing sufficient enquiries and reviews to ensure that entities (notwithstanding the complex group structures) are in compliance with the group accounting policies and group Management Representations processes;
 - (iii) obtaining reasonable confidence of the validity and reliability of the Management Representations (e.g. sample reviews by internal audit or the Member in Business); and
 - (iv) determining if discrepancies exist between Internal Control matters reported by the internal auditor, external auditor and the entity's Management Representations.
- (d) taking reasonable steps to create an organisational culture and environment of compliance with the applicable group reporting requirements;
- (e) Where a Member in Business identifies Internal Control weaknesses, Fraud, irregularities, suspected non-compliance with laws and regulations or potential issues that may have not been dealt with by management previously, the Member should consider:
 - (i) providing appropriate guidance for personnel to communicate internally within the group in respect of potential next steps including reporting such matters, where material, to Those Charged with Governance;
 - (ii) taking reasonable steps to ensure that the identified issues are being dealt with appropriately by the relevant personnel;
 - (iii) taking reasonable steps to ensure appropriate remedial action is being taken to resolve issues identified by the external auditors and internal auditors (noting issues which may be pervasive in particular); and
 - (iv) documenting and reporting to Those Charged with Governance on how material contentious matters are being resolved such as non-compliance with laws and regulations or risk management issues.

Financial Reporting Certification considerations

- 6.2 A Member in Business should perform an assessment of how the organisation's Internal Control environment and the financial reporting framework support the group's Financial Reporting Certification.
- 6.3 A Member in Business who uses an Internal Control questionnaire or equivalent process as a confirmation process to obtain evidence and reasonable confidence regarding the integrity of the Group Financial Report or to test the operating effectiveness of the Internal Control environment, should consider:
 - (a) tailoring the Internal Control questionnaire so that it is appropriate, relevant and directed at the most significant areas of each entity; and
 - (b) requesting feedback on significant Risks that impact the Group Financial Report.
- 6.4 A Member in Business should consider the roles and responsibilities of all stakeholders in the group financial reporting process or in the group Financial Reporting Certification and where applicable the stakeholders should include Group Management and the audit committee by:
 - (a) regularly performing an assessment of the group Financial Reporting Certification ;

- (b) communicating and explaining to personnel, the requirements and importance of the group Financial Reporting Certification and the role the group Internal Control environment plays; and
 - (c) reviewing the evidence provided by entities' management to support the group Financial Reporting Certification and ensuring its consistency with the overall view of the entity and its operations
- 6.5 A Member in Business who is required to provide a group Financial Reporting Certification to Those Charged with Governance should:
- (a) review Internal Control questionnaires and obtain any necessary clarifications or additional information from entity's management; and
 - (b) be satisfied that the requirements of the relevant laws and regulations^{5 6} are met.
- 6.6 Where the Member in Business who is at controlling entity level is unable to resolve matters that have a material impact on the group Management Representations, the Member should refer those matters to Those Charged with Governance.
- 6.7 Where a Member in Business who is at controlling entity level is implementing a group Risk Management Framework, the Member should take reasonable steps to ensure the group Risk Management Framework:
- (a) identifies and manages Fraud Risk factors, financial reporting Risks and corruption Risks; and
 - (b) considers non-financial reporting processes that will have an impact on the Group Financial Reports, either now or in future e.g. greenhouse gas disclosures, environmental and sustainability reports and information technology matters.

7. Management Representations considerations at the board or audit committee level

- 7.1 A Member in Business who is at the board or audit committee level should assess the entity's or the group's Management Representations process by considering whether the Group Management possesses the requisite:
- (a) leadership capabilities;
 - (b) expertise, experience, training and/or education;
 - (c) adherence and commitment to the fundamental principles of the Code and other applicable Professional Standards;
 - (d) historical performance and any issues of an ethical nature has been reported previously;
 - (e) monitoring of controls and review processes; and
 - (f) documentation and communication of policies and procedures.
- 7.2 A Member in Business who is at the board or audit committee level should evaluate whether the entity's or the group's policies and procedures:
- (a) support a strong ethical culture;
 - (b) establish clearly defined channels for personnel to raise any concerns to management or Those Charged with Governance in a manner that enables personnel to come forward without fear of reprisals;
 - (c) maintain a Risk Management Framework in respect of the provision of quality and ethical Professional Activities that identifies, assesses and addresses material Risks (e.g. governance Risks, business Risks, financial Risks and regulatory Risks); and

⁵ *Corporations Act 2001*: Section 295A.

⁶ ASX Corporate Governance Council. *Corporate Governance Principles and Recommendations*: Recommendation 4.2, Page 22

- (d) implement safeguards in the work environment (e.g. systems of corporate oversight, ethics and conduct programs, recruitment procedures, strong group-wide controls, appropriate disciplinary processes and quality of employee performance) to eliminate or reduce threats of non-compliance with the fundamental principles of the Code.
- 7.3 Where a Member in Business who is at the board or audit committee level is assessing the adequacy, efficiency and effectiveness of the Management Representations process, the Member should consider whether management has adequate processes to monitor the entity's or the group's Internal Control environment and information systems.
- 7.4 Where a Member in Business who is at the board or audit committee level is unable to resolve matters that have a material impact on the Management Representations process, the Member should assess the impact of any deficiencies noted on the entity or the group's Internal Control environment, business processes and the resulting impact on the Group Financial Report.

Financial Reporting Certification considerations

- 7.5 A Member in Business who is at the board or audit committee level that relies on the Financial Reporting Certification to meet the Member's responsibility for the Financial Report, should perform an assessment to determine the quality, reliability and effectiveness of Management Representations.
- 7.6 Where a Member in Business is part of Those Charged with Governance and has received declarations from management that the Financial Reporting Certification process is in accordance with section 295A of the *Corporations Act 2001* or voluntary equivalent, the Member should consider its reasonableness and whether:
- (a) management has reported to the board/audit committee as to the effectiveness of the entity's or the group's strategies to manage material business Risks and the entity's or the group's overall framework and processes adopted to support the Financial Reporting Certification;
 - (b) The entity or the group has developed channels or direct reporting lines for internal auditors and external auditors to provide feedback to the board or audit committee on these business Risks and organisational processes to address these Risks; and
 - (c) corroborated information from other processes and sources to evaluate whether the responses from the Financial Reporting Certification are aligned with the actual circumstances of the group's operations.

8. Documentation

- 8.1 A Member in Business who is preparing and/or signing Management Representations, should prepare working papers that appropriately document the work performed, including the basis, method, calculations, determinations or estimates used in the provision of this Professional Activity to the Member's Employer.
- 8.2 A Member in Business who is at the board or audit committee level should take reasonable steps to ensure that:
- (a) the entity retains relevant documentation in respect of the key matters considered and discussed at the board or audit committee meeting; and
 - (b) the key decisions made at those meetings are appropriately reflected in the minutes of the applicable meeting.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 41.

ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD LIMITED
MINUTES OF THE 3rd MEETING OF THE MANAGEMENT REPRESENTATIONS PROJECT
TASKFORCE

11 May 2015 3.30 p.m. – 5.00 p.m.

APESB Office, Level 7, 600 Bourke Street, Melbourne, Victoria 3000
&
Teleconference

1. Present and Apologies

Present

Mr. Channa Wijesinghe (Chairman), Mr. David Castle, Mr. Geoff Harris, Ms. Kristi Bromley (delegate of Mr. Michael Ford), Dr. Eva Tsahuridu and Mr. Justin Reid.

In Attendance

Mr. Peter Day (APESB Board member) and Ms. Saras Shanmugam.

Apologies

Mr. Alan Lee and Ms. Liz Stamford.

2. Minutes of Previous Meeting

The minutes of the 2nd APES GN 41 *Management Representations* taskforce meeting held by teleconference on 27th November 2014 was accepted with minor editorial amendments.

3. Introduction

The Chairman informed the taskforce that Mr. Michael Ford (Deputy CFO of Commonwealth Bank) is the taskforce member who replaces Mr. Michael Venter due to his relocation to Hong Kong. However as Mr. Michael Ford was unavailable to attend the meeting, he has nominated Ms. Kristi Bromley (Executive Manager of Accounting Policy, Commonwealth Bank) to be his delegate.

4. Discussion drafting of the proposed APES GN 41

The Chairman explained to the taskforce that the proposed APES GN 41 circulated to the taskforce is a preliminary draft and has been drafted based on the Technical Briefing Paper that was presented to the Board at the 28th January 2015 Board Meeting.

A taskforce member queried whether the development of the proposed APES GN 41 was similar to the recent proposed changes to Part C of IESBA Code (proposed Part C of the Code). The Chairman explained that where relevant, some components of the proposed APES GN 41 have been drafted based on the proposed Part C of the Code that addresses presentation of information. The taskforce discussed and agreed that where possible the proposed APES GN 41 should be aligned with the proposed Part C of the Code.

Another taskforce member enquired about the expected timeline of IESBA's proposed changes to Part C of the Code project. The Chairman informed the taskforce that the project is scheduled to progress over the next 2-3 years and the stakeholders' comments period for the current exposure draft closed on 15th April 2015.

The Board member explained to the taskforce that the proposed APES GN 41 will facilitate Members by being able to access one specific document for key related guidance on the Management Representations process without having to refer to multiple APESB pronouncements. It will also remind Members of the Code's tenets since Members in Business (in particular) may not regularly access the Code.

Scope and application

The taskforce discussed paragraph 1.1 in respect of whether the scope and application of the Management Representations process should be expanded beyond a consolidated listed entity. The taskforce agreed that the scope and application of the Management Representations process should include:

- all entities (e.g. associates, joint ventures, stapled entities or single entities);
- all Management Representations reporting responsibilities (particularly Written Representations provided to Members in Public Practice); and
- to replace the term 'by convention' with 'by practice'.

The taskforce also noted the following:

- paragraph 1.3 should include Members' ethical responsibilities when preparing and signing Management Representations rather than solely when signing Management Representations;
- the guidance in paragraph 1.8 should be split into two separate components since it is a requirement for Members to adhere to the Code; and
- to include a reference to Auditing Standard ASA 580 *Written Representations* (ASA 580) in the proposed APES GN 41.

Definitions

A taskforce member enquired whether certain definitions should be aligned with the Australian Accounting Standards. The Chairman explained that for consistency purposes, Accounting Professional and Ethical Standards' definitions are normally aligned with the IESBA Code or the Australian Auditing Standards (ASAs). In addition, the International Auditing and Assurance Standards Board's definitions are more aligned with the International Ethics Standards Board for Accountants (IESBA's) definitions which is the basis of the Australian Code. These definitions may slightly differ from the International Accounting Standards.

Fundamental responsibilities

The Chairman explained that the introductory paragraph of the proposed APES GN 41 is similar to APES GN 40. A taskforce member noted that since the term 'professional behaviour' in paragraph 3.1 is a fundamental principle and thus another suitable term should be considered. The Chairman suggested that the term can be replaced with 'ethical behaviour'.

Professional obligations

The taskforce discussed paragraph 4.4 and agreed on the following:

- proposed APES GN 41 should distinguish between the internal and external management representations processes;
- paragraph 4.4(a):
 - to make references to ASA 580;
 - to check whether Management Representations are made on a voluntary basis for half-year financial statements; and
 - to use footnotes when references are made to legislations e.g. *Corporations Act 2001*;
- paragraph 4.4(b) – to state that the financial reporting certification includes internal control questionnaires; and
- paragraph 4.4(c) – to expand the declarations provided to board/audit committees to encapsulate all foreign jurisdictions rather than specifying US listed entities.

In addition the taskforce noted the following suggestions:

- paragraph 4.3 – to replace the term ‘relevant and faithfully represented’ with ‘fair and honest’;
- paragraph 4.5 – to find a substitute for the word ‘obtain’ as it gives the impression that the Member is still in the process of obtaining the necessary expertise, skills and experience; and
- paragraph 5.5 – consideration to remove the documentation process of an internal control questionnaire since the guidance in respect of documentation is included in section 8.

5. Other matters

The Chairman informed the taskforce that IESBA is expected to expedite the progress of their projects as several IESBA’s board members’ service terms will expire at the end of 2015. Accordingly, IESBA has determined to hold two additional board meetings during 2015.

The Chairman also informed the taskforce that subsequent to APESB’s Board Meeting on 25th May 2015, the current plan is to progress this project by:

- holding two taskforce meetings in June and July 2015; and
- presenting an initial draft of the proposed APES GN 41 for the board’s consideration at the August 2015 Board Meeting.

6. Way Forward

APESB Technical Staff will address taskforce members’ comments and continue drafting the proposed APES GN 41 subsequent to the May 2015 Board Meeting.

7. Other Matters

Taskforce member David Castle informed the taskforce that he has been appointed as a Board Member of the Companies Auditors and Liquidators Disciplinary Board (CALDB). It was noted that due to this project’s focus on the Members in Business community, that there is less likelihood of there being a conflict with David’s role on the CALDB. This issue would also be discussed when APES GN 41 is next tabled at the APESB Board Meeting.

8. Closing of Meeting

The meeting was closed at 5.00 p.m.

ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD LIMITED
MINUTES OF THE 4th MEETING OF THE MANAGEMENT REPRESENTATIONS PROJECT
TASKFORCE

30 June 2015 10.30 a.m. – 11.45 a.m.

APESB Office, Level 7, 600 Bourke Street, Melbourne, Victoria 3000
&
Teleconference

1. Present and Apologies

Present

Mr. Channa Wijesinghe (Chairman), Mr. Geoff Harris, Mr. Alan Lee, Ms. Kristi Bromley (delegate of Mr. Michael Ford), Dr. Eva Tsahuridu, and Ms. Liz Stamford.

In Attendance

Mr. Peter Day (APESB Board member) and Ms. Saras Shanmugam.

Apologies

Mr. David Castle and Mr. Justin Reid.

2. Minutes of Previous Meeting

The minutes of the 3rd APES GN 41 *Management Representations* taskforce meeting held by teleconference on 11th May 2015 was accepted with minor editorial amendments.

3. Discussion on updated draft APES GN 41

The Chairman informed the taskforce that paragraph 1.10 in the proposed APES GN 41 was included based on recommendations by the Board in respect of the revision of other APESB pronouncements at the 25th May 2015 Board Meeting.

Scope and application

A taskforce member noted that the project should focus on the professional & ethical responsibilities of Members in Business rather than how to conduct the Management Representations process. The taskforce discussed and agreed to:

- provide guidance to a Member in Business who prepares and/or signs Management Representations rather than when preparing and signing Management Representations;
- ensure that the second objective in paragraph 1.1 focusses on the fundamental professional & ethical principles the Member in Business needs to consider when preparing or providing Management Representations; and
- remove the phrase 'evaluating aspects of a Management Representations process' in paragraph 1.3.

Definitions

A few taskforce members enquired whether the term 'Financial Statements' should be aligned with the current definition in the Australian Accounting Standards. The Chairman explained that the definition is aligned with the Code and the AUASB standards and is used similarly in other professional & ethical pronouncements.

The taskforce considered to remove the terms 'Group Financial Report' and 'Group Management'. Technical Staff explained that the terms were used in section 6 *Management Representations process at the group or head office level*. The taskforce agreed on the following:

- The proposed definition of Financial Reporting Certification;
- To replace the term 'Relevant Ethical Requirements' with either 'fundamental principles' or 'ethical requirements'; and
- To refer to Management Representations in the plural form throughout the guidance note.

Professional obligations

A taskforce member suggested that paragraph 4.1 should focus on the requirement to comply with the Code's fundamental ethical principles and to remove the phrase '.... the organisation has complied with applicable laws, regulations, policies and procedures'.

A taskforce member enquired as to whether a Member in Business will be able to provide Management Representations without understanding the attributes of a Management Representations process. Other taskforce members were of the view that the proposed APES GN 41 should not be providing guidance on the Management Representations process.

Management Representations process (entity/business unit level)

The taskforce agreed to remove the term 'business unit' since the term 'entity' is sufficiently broad.

Management Representations process (group/head office level)

The taskforce considered the use of the term 'head office' since a corporate centre may not be the same as the head office. The taskforce agreed on the following:

- to replace the term 'head office' with the term 'controlling entity' as it denotes the level where all entities' Management Representations are aggregated;
- to replace the term 'process' in the headers of sections 4,5 and 6 with 'considerations';
- paragraph 6.1 (c) (i) should provide guidance on the appropriate supervision and review considerations as per the Code; and
- paragraphs 6.3, 6.5 (d) and 6.5 (e) should provide guidance on the considerations of a Member's professional & ethical behaviour in the Financial Reporting Certification process.

Management Representations process (board/audit committee level)

A taskforce member noted that that paragraph 7.2 should be stated in the plural form.

4. Other matters

A taskforce member queried on how the documentation processes would work in the case of a Member in Business who is an audit committee member. The Board Member suggested that section 8 *Documentation* could provide guidance on how directors, board members or audit committee members oversee the Management Representations process (e.g. matters considered by the board members or audit committee members will be reflected in the agenda papers considered at the relevant board or audit committee meeting and the decisions will be reflected in the minutes of the applicable meeting).

5. Way Forward

APESB Technical Staff will:

- address taskforce members' comments;
- organise a taskforce meeting on either the third or fourth week of July 2015, and
- present the proposed APES GN 41 at the August 2015 Board Meeting for a preliminary review by the Board.

6. Closing of Meeting

The meeting was closed at 11.45 a.m.

ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD LIMITED
MINUTES OF THE 5th MEETING OF THE MANAGEMENT REPRESENTATIONS PROJECT
TASKFORCE

20 July 2015
11.00 a.m. – 11.40 a.m.

APESB Office, Level 7, 600 Bourke Street, Melbourne, Victoria 3000
&
Teleconference

1. Present and Apologies

Present

Mr. Channa Wijesinghe (Chairman), Mr. Geoff Harris, Mr. David Castle, Mr. Alan Lee, Ms. Kristi Bromley (delegate of Mr. Michael Ford) and Dr. Eva Tsahuridu.

In Attendance

Mr. Peter Day (APESB Board member) and Ms. Saras Shanmugam.

Apologies

Ms. Liz Stamford and Mr. Justin Reid.

2. Minutes of Previous Meeting

The minutes of the 4th APES GN 41 *Management Representations* taskforce meeting held by teleconference on 30th June 2015 was accepted with no amendments.

3. Discussion on updated draft APES GN 41

In response to a taskforce member's query, the Chairman informed the taskforce that based on APESB's drafting conventions, the word 'shall' denotes a mandatory professional obligation whereas the word 'should' denotes guidance.

Scope and application

The taskforce discussed paragraph 1.1 and agreed to:

- remove the word 'statutorily' in the third objective and replace it with the phrase 'regulatory practice or other conventions';
- clarify in the objectives paragraph that APES GN 41 does not purport to set out the processes for meeting regulatory or other requirements; and
- check the terms 'professional and ethical obligations' and 'professional and ethical requirements' with APESB's other pronouncements and use the appropriate term consistently throughout APES GN 41.

Professional obligations

A taskforce member noted that paragraph 4.2 (c) should precede the existing paragraphs 4.2 (a) and 4.2 (b). The taskforce agreed with this suggestion.

Management Representations considerations (entity level)

A taskforce member enquired whether the term 'International Financial Reporting Standards' should be replaced with 'Australian equivalent International Financial Reporting Standards' in paragraph 5.1(d) (i). The taskforce considered the matter and agreed to replace the term with 'applicable accounting and auditing standards' since APES GN 41 may be used by Member in Business working in various jurisdictions.

Management Representations considerations (controlling entity level)

A taskforce member noted that since the term 'personnel' in paragraph 6.1 (b) (ii) comprises both Members in Business and non-Members in Business, the phrase 'comply with fundamental principles of the Code' was inappropriate as it was not applicable to non-Members. The Board Member informed that a Member who is facilitating the Management Representations process should form a judgement as to whether the personnel has the ability to conform with the professional and ethical requirements. The taskforce discussed and agreed to replace the word 'comply' with 'apply' to clarify the guidance.

Management Representations considerations (board/audit committee level)

The taskforce discussed and agreed to:

- improve the clarify of paragraph 7.5 with the following amendment:
'...should perform an assessment to determine ~~the quality, reliability and effectiveness of whether management has obtained~~ Management Representations ~~after conducting sufficient reviews~~';
- replace the word 'sense check' in paragraph 7.6 with either 'evaluate' or 'assess whether'; and
- replace the phrase 'overall view' in paragraph 7.6 with 'actual circumstances'.

Documentation

A taskforce member suggested that paragraph 8.2 should be split into two sentences to improve its clarity. Another taskforce member proposed that the word 'meeting' need not be reiterated in the phrase 'board meeting or audit committee meeting'. The taskforce agreed to both of these suggestions.

4. Way Forward

APESB Technical Staff will:

- update the minor editorials for the taskforce members' review;
- present the proposed APES GN 41 at the August 2015 Board Meeting for a preliminary review by the Board; and
- organise a taskforce meeting at the end August or early September 2015 and provide feedback to the taskforce on the outcome of the Board Meeting.

5. Closing of Meeting

The meeting was closed at 11.40 a.m.