

APESB Professional and Ethical Standards

Chinese Institute of Certified Public Accountants

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Accounting Professional & Ethical Standards Board

Overview

- History and structure of APESB
- APESB pronouncements to date
- 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*

APESB History

- Established in February 2006 as an initiative of ICAA and CPA Australia
- IPA (previously 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

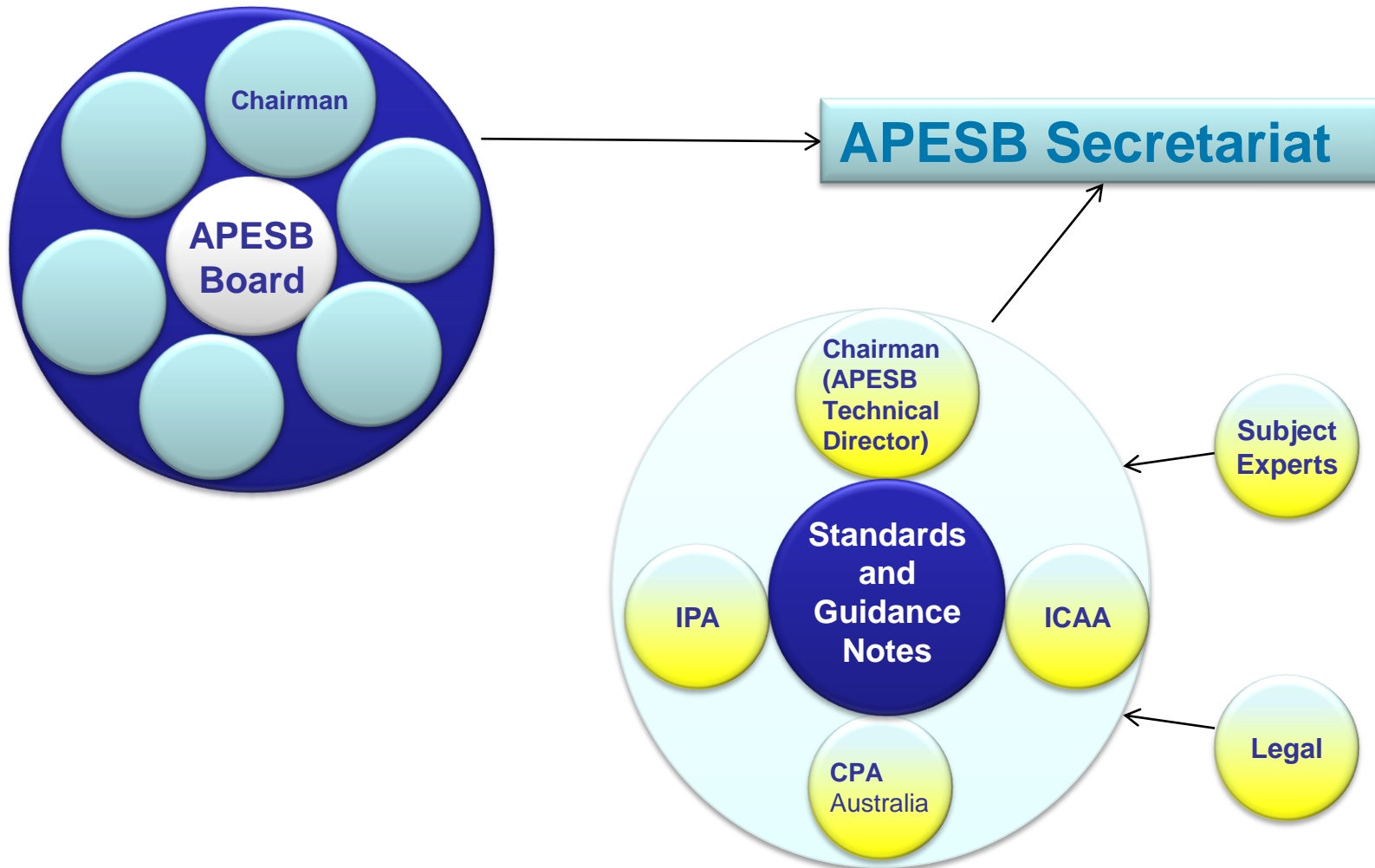
APESB Vision

“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 IPA

APESB Functional Structure

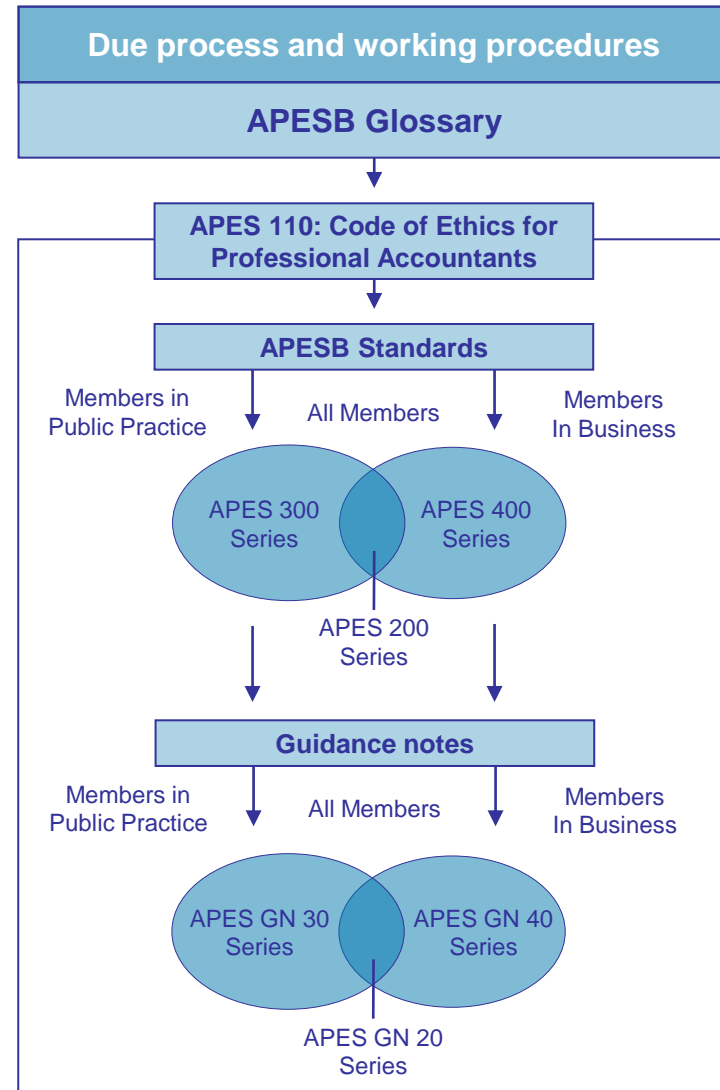


Structure of APESB pronouncements

- **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 on which the Principles are already stated in a Standard
 - Guidance is only in grey letter



APESB Pronouncements to date

All members

- APES 110 Code of Ethics for Professional Accountants
- APES 205 Conformity with Accounting Standards
- APES 210 Conformity with Auditing and Assurance Standards
- APES 215 Forensic Accounting Services
- APES 220 Taxation Services
- APES 225 Valuation Services
- *APES 230 Financial Planning Services**
- *APES GN 20 Scope and Extent of Work for Valuation Services**

* *Projects are currently in progress*

APESB Pronouncements to date

Members in Public Practice

- APES 305 Terms of Engagement
- APES 310 Dealing with Client Monies
- APES 315 Compilation of Financial Information
- APES 320 Quality Control for Firms
- APES 325 Risk Management for Firms
- APES 330 Insolvency Services
- APES 345 Reporting on Prospective Financial Information
- APES 350 Due Diligence Committees
- *APES GN 30 Outsourced Services**

** Projects are currently in progress*

APESB Pronouncements to date

Members in Business

- APES GN 40 Ethical Conflicts in the Workplace

APES 350

Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document (Revised March 2011)

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 May 2011

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 *Corporations 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 the 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 sign a report to Those Charged with Governance on information of a general nature or the due diligence process only 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 the specific procedures to be undertaken with the Client 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

Considerations for a Due Diligence Sign-Off :

- conclusions of Member to be 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 standards

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

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 215 Forensic Accounting Services

Revision of APES 215

- Revised APES 215 proposed to be issued in 2013
- Materials added:
 - Decision tree schematic on the determination whether a professional service constitutes a Forensic Accounting Service
 - Examples for the classification of the type of Forensic Accounting Services provided by Members

APES 225
Valuation Services
(Revised May 2012)

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* (May 2012)
 - APES 110 *Code of Ethics for Professional Accountants* (Dec 2010)

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 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

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 → Conclusion of Value
 - 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 requirements for Members in Public Practice (para 5.2)
- Guidance for Members in Business (para 5.5)
- Reports can be written (para 5.1) 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, Valuation Methods and Valuation Procedures 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 to appendix including schematic and examples

Questions?

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www.apesb.org.au

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