

September 2015



Exposure Draft 03/15 Revision of APESB pronouncements

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1. Explanatory Memorandum to Exposure Draft 03/15 Revision of APESB pronouncements

1.1 Introduction

The aim of this Explanatory Memorandum is to provide stakeholders with the background, development process and rationale of Accounting Professional & Ethical Standards Board Limited's (APESB's) Exposure Draft 03/15 *Revision of APESB pronouncements* (the Exposure Draft) issued on 10 September 2015.

The majority of the proposed revisions to the APESB pronouncements identified in this Exposure Draft are due to amendments made to APES 110 *Code of Ethics for Professional Accountants* (2013) and are consequential or editorial in nature.

The Explanatory Memorandum has been prepared by Technical Staff of APESB and approved by the Board of Directors of APESB. The Explanatory Memorandum **does not** form part of the Exposure Draft and is not a substitute for reading it in full.

1.2 Summary of APESB Pronouncements

This Exposure Draft comprises proposed amendments to the following pronouncements:

Pronouncement	Name of professional standard
APES 215	<i>Forensic Accounting Services</i>
APES 225	<i>Valuation Services</i>
APES 320	<i>Quality Control for Firms</i>

1.3 Key proposed amendments

The marked-up version of each pronouncement in the Exposure Draft (refer to **Appendix 3**) reflects the proposed changes incorporated into the existing pronouncement and addresses the following key matters:

(i) **Objectives**

In accordance with APESB's revised drafting conventions, an introductory objectives paragraph (paragraph 1.1) has now been developed and included in each of these pronouncements.

(ii) **Effective date of pronouncements**

The effective date in paragraph 1.2 proposes that each applicable standard will be operative from 1 April 2016 and that earlier adoption of the standard is permitted.

(iii) Revision of definitions due to amendments to APES 110 Code of Ethics for Professional Accountants (Code)

In November 2013, APESB released amendments to the Australian Code to align it with amendments to the International Code issued by the *International Ethics Standards Board for Accountants* (IESBA). As part of the annual review process of the pronouncements identified in the Exposure Draft, APESB has determined to revise section 2 *Definitions* for each pronouncement to ensure consistency with the revised Code (refer to **Appendix 1 Summary of proposed revisions in section 2 Definitions**).

(iv) Inclusion of an interpretation paragraph in section 1 Scope and application

An interpretation paragraph has been included in section 1 *Scope and application* which clarifies the use of similar words which should have equal application (i.e. singular includes plural, one gender includes another and words referring to persons includes corporations or organisations).

(v) Impact of the merger of Institute of Chartered Accountants Australia (ICAA) with the New Zealand Institute of Chartered Accountants (NZICA)

The Board noted that due to the merger of ICAA and NZICA, the definition of 'Professional Bodies' requires an amendment as the existing APESB pronouncements refer to ICAA which is now Chartered Accountants Australia and New Zealand (CA ANZ).

Members of the professional accounting bodies and other stakeholders should also note that, as specified in the *scope and application* of each pronouncement, the applicable APESB pronouncement is subject to laws and regulations of the applicable jurisdiction (whether it is Australia or another country). Furthermore where the Member is working in a foreign jurisdiction, the Member will also be subject to the laws and regulations of that jurisdiction which may have higher or different requirements than APESB pronouncements.

(vi) Enhancement of professional engagement requirements in APES 225

During the APES 225 taskforce meeting held on 13 July 2015, a taskforce member noted that there were practical issues encountered by Members in Public Practice in respect of paragraph 4.2 (a) of APES 225 and its application when the Member performs services on a retainer arrangement. The taskforce member proposed amendments that would provide flexibility to cater for these arrangements. Accordingly paragraphs 4.1 and 4.2 (a) have been updated to clarify this matter and consequential amendments were made to section 2 *Definitions*.

An issue on the APES 225 Issues Register was in respect of obtaining representations from relevant parties as evidence to support the Valuation Service performed by a Member in Public Practice. Accordingly, paragraphs 4.6 and 4.7 have been proposed in the exposure draft to address this issue.

(vii) Matters raised by respondents in APESB's Issues Register

APESB has also taken the opportunity to address minor editorial matters noted on the Issues Register in respect of these pronouncements.

Appendix 2 provides a summary of the proposed revisions in Exposure Draft 03/15.

2. Request for comments on Exposure Draft

2.1 Commenting on this Exposure Draft

APESB invites stakeholders to provide comments on these proposed revisions to the pronouncements identified in ED 03/15.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 16 October 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 revisions to the proposed pronouncements (refer to the marked-up version of each pronouncements in *Appendix 3* of the Exposure Draft), are 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 pronouncements.

Stakeholders are encouraged to provide their views and comments on the proposed revisions as well as whether there are any additional consequential impacts of these revisions that APESB needs to consider in its deliberations in finalising these revised pronouncements.

Respondents are asked to submit their comments electronically through the APESB website, using the link <http://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 technical difficulties, comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

2.2 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 **16 October 2015** by contacting:

Accounting Professional & Ethical Standards Board Limited
Level 7
600 Bourke Street
Melbourne Victoria 3000
Australia
E-mail: enquiries@apesb.org.au
Phone: (03) 9670 8911
Fax: (03) 9670 5611

Appendix 1

Summary of proposed revisions in section 2 *Definitions*

The summary provides an overview of the proposed revisions of the definitions in the existing pronouncements to primarily align it with APES 110 *Code of Ethics for Professional Accountants* (2013):

Amendments to Definitions as per the Code	APES 215	APES 225	APES 320
Assignment	√	√	-
Assurance Engagement	-	-	√
Client	-	√	√
Contingent Fee	√	√	-
Engagement	√	-	-
Engagement Quality Control Review	-	-	√
Engagement Team	-	-	√
Firm	√	√	-
Independence	√	√	√
Member	-	√	√
Member in Business	-	√	-
Member in Public Practice	√	√	√
Network	-	-	√
Network Firm	-	-	√
Professional Bodies	√	-	√
Professional Services	-	√	√
Professional Standards	√	-	-
Relevant Ethical Requirements	-	-	√

Additions to Definitions	APES 215	APES 225	APES 320
Engagement Document	-	√	-
Professional Activity	-	√	√
Professional Bodies	-	√	-
Professional Standards	-	√	-

Appendix 2

Summary of proposed revisions in Exposure Draft

The summary provides an overview of the proposed revisions in the Exposure Draft and how they impact the existing pronouncements:

Summary of proposed amendments	APES 215	APES 225	APES 320
Objectives paragraph 1.1 & effective date paragraph 1.2	√	√	√
Interpretation paragraph (section 1)	√	√	√
Amendments to section 2 (refer Appendix 1)	√	√	√
Other minor editorials:			
Paragraph 1.3	√	√	√
Paragraph 1.6	-	√	-
Paragraph 1.8	-	√	-
Paragraph 5.6	√	-	-
Paragraph 4.1	-	√	-
Paragraph 4.2	-	√	-
Paragraph 4.4	-	√	-
New paragraphs in respect of representations:			
Paragraph 4.6	-	√	-
Paragraph 4.7	-	√	-

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Proposed Standard: APES 215 Forensic Accounting Services

[Supersedes APES 215 Forensic Accounting Services issued in December 2013]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **03/15**
ISSUED: September 2015

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APES 215 Forensic Accounting Services

[Supersedes APES 215 Forensic Accounting Services issued in December 2013]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

REVISED: [Month/Year]

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1. Scope and application

- 1.1 The primary objectives of APES 215 *Forensic Accounting Services* are to specify a Member's professional and ethical responsibilities when the Member provides Forensic Accounting Services in respect of:
- fundamental responsibilities;
 - the types of Forensic Accounting Services that can be provided to a Client or Employer;
 - applicable Independence requirements;
 - relationships and the provision of other Professional Activities that create threats or conflicts of interest with respect to the Member's ability to comply with the fundamental principles;
 - the obligations of a Member who provides an Expert Witness Service and the required disclosures in the Member's Report; and
 - applicable quality control and documentation obligations.
- 1.42 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 215 *Forensic Accounting Services* (**the Standard**), which is effective for Engagements or Assignments commencing on or after 1 April ~~2014~~2016 and supersedes APES 215 issued in December 2013. Earlier adoption of this Standard is permitted.
- 1.23 APES 215 sets the standards for Members in the provision of quality and ethical Forensic Accounting Services. The mandatory requirements of this Standard are in **bold-type** ~~(black lettering)~~, preceded or followed by discussion or explanations in normal type ~~(grey lettering)~~. APES 215 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.34 **Members in Australia shall follow the mandatory requirements of APES 215 when they provide Forensic Accounting Services.**
- 1.45 **Members outside of Australia shall follow the mandatory requirements of APES 215 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.56 **Where a Professional Activity which, when it commenced was not a Forensic Accounting Service, later becomes such a service, the Member shall comply with the requirements of this Standard from that time onwards.**
- 1.67 **Where a Member is undertaking a Forensic Accounting Service, other than an Expert Witness Service, which later becomes an Expert Witness Service, the Member shall comply with the requirements of section 5 of this Standard from that time onwards.**
- 1.78 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Forensic Accounting Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.89 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.910 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.4011 In applying the requirements outlined in APES 215, Members should be guided not merely by the words but also by the spirit of the Standard and the Code.

1.12 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Standard:

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

Client means an individual, firm, entity or organisation to whom Professional Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Consulting Expert means a Member who has been engaged or assigned to provide a Consulting Expert Service.

Consulting Expert Service means a Professional Activity provided in the context of Proceedings, other than an Expert Witness Service, a Lay Witness Service or an Investigation Service. It includes acting as an adviser, an arbitrator, mediator, member of a professional tribunal, expert in an expert determination, referee or in a similar role.

Contingent Fee means a fee calculated on a predetermined basis relating to the outcome ~~or result~~ of a transaction or the result of the ~~work-services~~ performed by the Firm. A fee that is established by a Court or other public authority is not a ~~e~~**C**ontingent ~~f~~**F**ee.

Court means any body described as such and all other bodies exercising judicial or quasi-judicial functions and includes professional disciplinary tribunals, industrial and administrative tribunals, statutory or parliamentary investigations and inquiries, royal commissions, arbitrations and mediations.

Employer means an entity or person that employs, engages or contracts a Member in Business.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of ~~Professional s~~**Professional Services** by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

Expert Witness means a Member who has been engaged, assigned or otherwise obligated to provide an Expert Witness Service. As an Expert Witness, the Member may express opinions or provide Other Evidence to the Court based on the Member's specialised knowledge derived from the Member's training, study or experience on matters such as whether technical or Professional Standards have been breached, the amount of damages, the amount of an account of profits, or the amount of a claim under an insurance policy. Generally all opinion evidence is expert evidence if it is wholly or substantially based on the specialised knowledge derived from the Member's training, study or experience, however not all expert evidence is opinion evidence. Expert evidence may be opinion or Other Evidence.

Expert Witness Service means a Professional Activity provided in the context of Proceedings to give expert evidence in a Report or, in certain circumstances, orally.

Firm means:

- (a) A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) An entity that controls such parties, through ownership, management or other means;
- (c) An entity controlled by such parties, through ownership, management or other means; or
- (d) An Auditor-General's office or department.

Forensic Accounting Services means Expert Witness Services, Lay Witness Services, Consulting Expert Services and Investigation Services.

Independence ~~means~~ is:

- (a) Independence of mind - the state of mind that permits the ~~provision~~ expression of an ~~opinion~~ conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism; ~~and~~
- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, ~~having knowledge of all relevant information, including any safeguards applied,~~ would be likely to reasonably conclude, weighing all the specific facts and circumstances, that a Firm's, or a ~~Member's~~ of the engagement team's, integrity, objectivity or professional scepticism has been compromised.

Investigation Service means a Professional Activity to perform, advise on, or assist with an investigation, whether in the context of Proceedings, or in connection with allegations of, or concerns regarding conduct that may be illegal, unethical or otherwise improper in respect of which the Member has a reasonable expectation that the matter will be brought before a Court.

Lay Witness means a Member who has been engaged, assigned or otherwise obligated to provide a Lay Witness Service.

Lay Witness Service means a Professional Activity provided in the context of Proceedings to provide evidence other than expert evidence, whether orally or in the form of a Report or both. This service involves the Member giving evidence on matters within the Member's professional knowledge that are directly observed or perceived by the Member.

Member means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.

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.

Member in Public Practice means a Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides Professional Services. ~~The~~ 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.

Other Evidence means evidence which does not provide an opinion, but which requires the application of the Expert Witness's specialised knowledge derived from the Expert Witness's training, study or experience. An example might be where a Member provides a summary of the sales by month by product by geography based on the information contained within a series of invoices and a general ledger. Whilst it may be a matter of fact as to what sales were made, the extraction and summary of this information is facilitated by the Member's specialised knowledge. Another example requiring specialised knowledge might be where a Member sets out the accounting standards that are relevant to particular types of transactions without actually expressing an opinion as to whether the actual treatment is in line with those standards.

Proceedings means a matter before a Court, a matter which the Member has a reasonable expectation will be brought before a Court or a matter in which the Member is undertaking Professional Activities to help a Client or Employer make an assessment as to whether a matter should be brought before a Court.

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

Professional Bodies means ~~the Institute of Chartered Accountants Australia~~ Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Professional Services means Professional Activities performed for Clients.

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

Report means a written report, affidavit or written statement that is for the purpose of communicating expert evidence or lay evidence in Court.

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

3. Fundamental responsibilities of Members

3.1 A Member providing a Forensic Accounting Service shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and with relevant law.

Public interest

3.2 In accordance with Section 100 *Introduction and Fundamental Principles* of the Code, a Member shall observe and comply with the Member's public interest obligations when providing a Forensic Accounting Service.

3.3 When engaged to perform a Forensic Accounting Service, a Member shall be and be seen to be free of any interest which may be regarded as being incompatible with the fundamental principles of Section 110 *Integrity* and Section 120 *Objectivity* of the Code.

3.4 Members in Public Practice shall comply with Section 220 *Conflict of Interest* and Section 280 *Objectivity – All Services* of the Code.

- 3.5 When a Member is requested to perform an Expert Witness Service and the Member or the Member's Firm has previously provided a Forensic Accounting Service other than an Expert Witness Service, the Member shall consider whether the Member is able to perform the Expert Witness Service in an objective manner.

Professional Independence

- 3.6 When a Member in Public Practice is engaged to perform a Forensic Accounting Service which requires Independence or when the Member purports to be independent in performing a Forensic Accounting Service, the Member shall comply with Independence as defined in this Standard.
- 3.7 A Member in Public Practice shall determine whether the circumstances of the Forensic Accounting Service make the Engagement an Assurance Engagement under the *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB).
- 3.8 Where a Forensic Accounting Service is an Assurance Engagement, the Member in Public Practice shall comply with Section 290 *Independence – Assurance Engagements* of the Code.
- 3.9 If a Member in Public Practice is asked to provide a Professional Service to a Client where:
- (a) the Member or the Member's Firm is providing or has provided an Expert Witness Service to the Client; or
 - (b) the Member or the Member's Firm is providing or has provided an Expert Witness Service to a different Client,

and the proposed Professional Service is related to the Expert Witness Service, and the Member determines that a reasonable and informed third party having knowledge of all the relevant information, including safeguards applied, would regard the objectives of the proposed Professional Service to be undertaken as being inconsistent with the objectives of the Expert Witness Service, then the Member shall decline the Engagement or the relevant part thereof.

- 3.10 There is no requirement, at law, that an Expert Witness be free of any relationship with parties to Proceedings. For example, there is no legal prohibition on a Member in Public Practice acting as an Expert Witness for a Client for whom the Member provides other Professional Services.
- 3.11 A Member who is providing an Expert Witness Service shall disclose all matters in the Member's Report that would assist the Court to assess the degree of the Member's Independence.

Professional competence and due care

- 3.12 A Member providing a Forensic Accounting Service shall maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 *Professional Competence and Due Care* of the Code.
- 3.13 Forensic Accounting Services generally require a Member to have specialised knowledge derived from the Member's training, study or experience. Before accepting an Engagement or Assignment to provide a Forensic Accounting Service, a Member should exercise professional judgement to determine if the Member is competent to provide the requested Forensic Accounting Service having regard to the specialised knowledge derived from the Member's training, study or experience.

- 3.14 In accordance with **Section 330 *Acting with Sufficient Expertise*** of the Code, a Member in Business shall only undertake Assignments for which the Member has, or can obtain, sufficient training or expertise and shall not intentionally mislead an Employer as to the level of expertise or experience possessed, nor shall a Member fail to seek appropriate expert advice and assistance when required.
- 3.15 Where a Forensic Accounting Service or part thereof requires the consideration of matters that are outside a Member in Public Practice's professional expertise, the Member shall seek expert assistance or advice from a suitably qualified third party on those matters or decline all, or that part of, the Forensic Accounting Service. Where the Member relies upon the advice of a third party, the Member shall disclose in any Report issued by the Member the name and qualifications of the third party and the area in the Report where the third party advice has been obtained.
- 3.16 Where a Member performs a Forensic Accounting Service that involves acting as an investigator or as a decision-maker (as might be the case for certain Consulting Expert Services, such as acting as an arbitrator, mediator or referee), the Member may be required to observe some or all of the rules of procedural fairness (which collectively are referred to as "natural justice"). If a Member is not certain of the Member's legal obligations then the Member should consider taking legal advice.

Confidentiality

- 3.17 In accordance with **Section 140 *Confidentiality*** of the Code, a Member who acquires confidential information in the course of professional work for a Client or Employer shall not use that information for any purpose other than the proper performance of that professional work.
- 3.18 Subject to legislative requirements, where a Client or Employer has given a Member 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 Client's or Employer's permission.

4. Professional Engagement matters

- 4.1 A Member in Public Practice shall document and communicate the Terms of Engagement in accordance with APES 305 *Terms of Engagement*.
- 4.2 A Member in Public Practice who is approached by a potential Client to undertake a Forensic Accounting Service shall comply with Section 210 *Professional Appointment* of the Code.

5. Expert Witness Services

- 5.1 If a Member in Public Practice is asked to provide an Expert Witness Service to a Client where:
- (a) the Member or the Member's Firm is providing or has provided another Professional Service to the Client; or
 - (b) the Member or the Member's Firm is providing or has provided another Professional Service to a different Client,

and the proposed Expert Witness Service is related to the other Professional Service, and the Member determines that a reasonable and informed third party having knowledge of all the relevant information, including safeguards applied, would regard the objectives of the proposed Expert Witness Service to be undertaken as giving rise to a conflict with the objectives of the other Professional Service, then the Member shall decline the Engagement or the relevant part thereof.

5.2 Subject to paragraph 5.3, if a Member in Business is asked to provide an Expert Witness Service to the Member's Employer where:

- (a) the Member or another employee of the Member's Employer has provided, or is providing, another service to the Employer which is related to the proposed Expert Witness Service; or
- (b) the Member's Employer has an interest in the outcome of the Proceedings (whether as a party or otherwise),

and the Member determines that a reasonable and informed third party having knowledge of all the relevant information, including safeguards applied, would regard the objectives of the proposed Expert Witness Service to be undertaken as giving rise to a conflict with the objectives of the other service, or if the Member's objectivity is impaired as a result of the Employer's interest in the outcome of the Proceedings, then the Member shall decline the Assignment or the relevant part thereof.

5.3 Paragraph 5.2 does not apply to a Member in Business who is employed by a government agency, where that agency has a statutory function of regulation, investigation, or law enforcement.

5.4 A Member who is acting as an Expert Witness shall comply with the following:

- (a) the paramount duty to the Court which overrides any duty to the Client or Employer;
- (b) a duty to assist the Court on matters relevant to the Member's area of expertise in an objective and unbiased manner;
- (c) a duty not to be an advocate for a party; and
- (d) a duty to make it clear to the Court when a particular question or issue falls outside the Member's expertise.

5.5 A Member who is acting as an Expert Witness should comply with evidentiary and procedural requirements relating to Expert Witnesses.

The Report of an Expert Witness

5.6 Subject to any legal requirements or restrictions, a Member providing an Expert Witness Service shall clearly communicate in any Report:

- (a) the instructions received, whether oral or written;
- (b) any limitations on the scope of work performed;
- (c) a statement of the Member's training, study or experience that are relevant to the matters on which the Member is providing expert evidence;
- ~~(c)~~(d) whether any of the opinions, findings or conclusions of the Member are not based wholly or substantially on the Member's specialised knowledge derived from training, study and or experience;

- ~~(d)~~**(e)** the relationships, if any, the Member or the Member's Firm or the Member's Employer has with any of the parties to the Proceedings (including any of the matters referred to in paragraphs 3.9, 5.1, or 5.2) that may create a threat or a perceived threat to the Member's obligation to comply with the fundamental principles of the Code or the Member's paramount duty to the Court, and any appropriate safeguards implemented;
- ~~(e)~~**(f)** the extent, if any, of reliance by the Member on the work of others;
- ~~(f)~~**(g)** the opinions formed, or Other Evidence given, by the Member;
- ~~(g)~~**(h)** whether an opinion or Other Evidence is provisional rather than concluded, and, if so, the reasons why a concluded opinion or concluded Other Evidence has not been provided;
- ~~(h)~~**(i)** the significant facts upon which the opinions or Other Evidence are based;
- ~~(i)~~**(j)** the significant assumptions upon which the opinions or Other Evidence are based and the following matters in respect of each significant assumption:
 - (i) whether the Member was instructed to make the assumption or whether the Member chose to make the assumption; and
 - (ii) if the Member chose to make the assumption, then the reason why the Member made that choice;
- ~~(j)~~**(k)** if the Member considers that an opinion or Other Evidence may be misleading because a significant assumption is likely to mislead, then a statement to that effect and an explanation of why the assumption is likely to mislead;
- ~~(k)~~**(l)** where applicable, that the Member's opinion or Other Evidence is based upon another person's report;
- ~~(l)~~**(m)** the reasoning by which the Member formed the opinions or arrived at the Other Evidence, including an explanation of any method employed and the reasons why that method was chosen;
- ~~(m)~~**(n)** a list of all documents and sources of information relied upon in the preparation of the Report;
- ~~(n)~~**(o)** any restrictions on the use of the Report; and
- ~~(o)~~**(p)** a statement that the Expert Witness Service was conducted in accordance with this Standard.

5.7 In providing an Expert Witness Service, a Member should consider whether APES 225 *Valuation Services* is applicable to the Engagement or Assignment. APES 225 requires, amongst other things, that a Member make certain disclosures in a Report.

5.8 If a Member is not certain whether a matter is a significant assumption or an opinion, the Member should consult the legal representative of the Member's Client or Employer.

5.9 Working papers document the work performed by the Member and the process by which the Member arrived at an opinion or Other Evidence that may or may not be used in a Report. A working paper is not considered a Report unless it was specifically designed to communicate expert evidence to the Court.

6. False or misleading information and changes in opinion

6.1 A Member shall not knowingly or recklessly make a statement or cause another to make a statement in or in connection with a Forensic Accounting Service that, by its content or by an omission, is false or misleading.

6.2 If a Member who was engaged or assigned to provide an Expert Witness Service becomes aware that an opinion expressed or Other Evidence given by the Member in a Report or in oral evidence was based on information that was false, misleading or contained material omissions and that situation has not been subsequently disclosed in a Report or in oral testimony, the Member shall promptly inform, as appropriate, the legal representative of the Client, the Employer or the Court of the situation. The Member shall also consider whether it is necessary to issue a supplementary Report.

7. Quality control

7.1 A Member in Public Practice shall comply with the requirements of APES 320 *Quality Control for Firms*.

7.2 A Member in Business who undertakes a Forensic Accounting Service should utilise a system of quality control that includes appropriate policies and procedures dealing with elements of quality control including but not limited to:

- (a) Leadership responsibilities for quality within the Employer;
- (b) Ethical requirements;
- (c) Human resources;
- (d) Assignment performance; and
- (e) Monitoring.

7.3 A Member performing a Forensic Accounting Service shall prepare working papers that appropriately document the work performed, including the basis on which, and the method by which, any calculations, determinations or estimates used in the provision of the Forensic Accounting Service have been made.

7.4 A Member should be aware that working papers generated as part of undertaking a Forensic Accounting Service may be required to be furnished to other parties or the Court as evidence. Where appropriate, a Member should maintain the chain of custody, including origin, possession and disposition of documents and other material, particularly originals, relevant to the Engagement or Assignment.

8. Professional fees

8.1 A Member in Public Practice providing a Forensic Accounting Service shall be remunerated for such service by way of professional fees computed in accordance with Section 240 *Fees and other Types of Remuneration* of the Code.

8.2 A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for:

- (a) an Expert Witness Service; or
- (b) a Forensic Accounting Service, other than an Expert Witness Service, that requires Independence or where the Member purports to be independent.

- 8.3 A Member in Business shall not enter into a contingent remuneration arrangement or receive contingent remuneration for an Expert Witness Service.**

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 215.

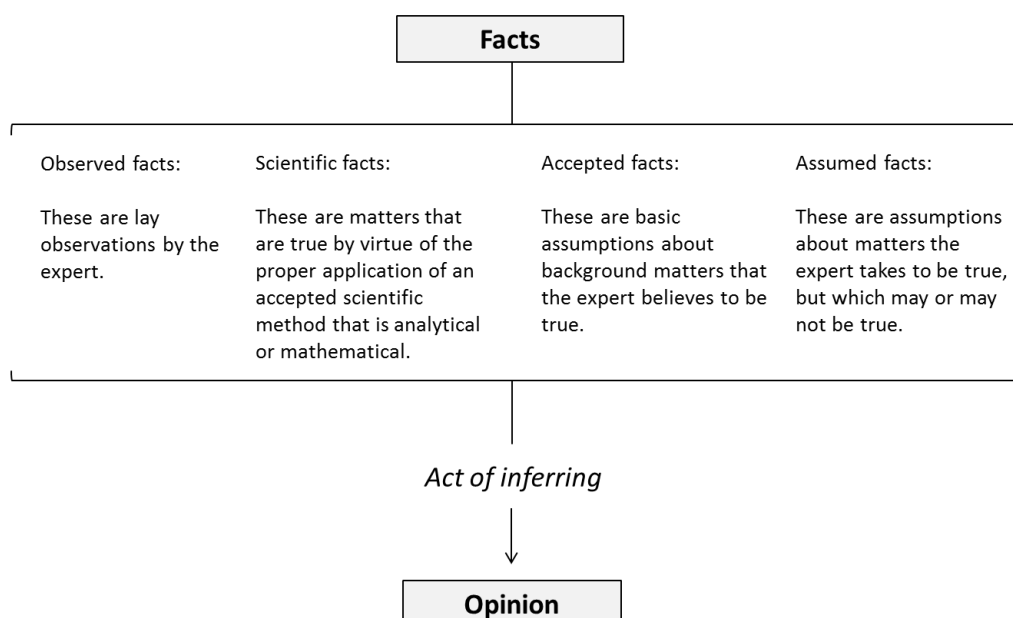
Appendix 1

Facts, assumptions, and opinions

This Appendix contains some examples to assist a Member determine whether a matter is a fact, an assumption or an opinion for the purposes of APES 215. Members are cautioned that the determination of whether a matter is a fact, an assumption or an opinion under this Standard is a matter of professional judgement, based on the particular facts and circumstances. The examples contained in this Appendix are provided for illustrative purposes only. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether a matter is a fact, an assumption or an opinion.

Classification of facts for expert evidence

An opinion is an inference drawn from facts. In the context of expert evidence, facts may be classified as observed, scientific, accepted, or assumed.¹



Observed facts and scientific facts are both based on observations by the expert witness. They differ in that observed facts are lay observations but scientific facts are expert observations. Observed facts are lay observations because they are based on perceptions by the expert witness using one or more of the five senses, but are not based on the application of the expert witness's expertise. An example would be the observation by a land valuer of the presentation of a property. On the other hand, scientific facts are based on the expertise of the expert witness but do not involve any significant degree of expert judgement. It has been said that scientific facts are true by virtue of the proper application of an accepted scientific method that is analytical or mathematical. An example might be a complex financial calculation by a Member that is based on the application of specialised knowledge but that does not amount to an opinion. This would occur where the results of the calculation flow mathematically or analytically without requiring inferences or questions of judgement if the underlying financial records are proved and if the calculation is done correctly. Under APES 215, both observed facts and scientific facts are facts.

¹ See *ASIC v Rich* [2005] NSWSC 149 and, in particular, paragraphs 186, 187, 260 to 263, and 270 to 272. See also chapter 15 of J. D. Heydon, *Cross on Evidence*, 9th edition, LexisNexis Australia, 2012.

Accepted facts and assumed facts both involve assumptions. Accepted facts are basic assumptions about background matters that the expert believes are true. An example would be a basic assumption about the workings of the market economy. Another example would be a basic assumption about the dating of information or the provenance of documents. On the other hand, assumed facts are assumptions about matters that may or may not be true but which the expert witness assumes are true for the purpose of forming his or her opinion. An example, in a contractual dispute involving a claim for lost profits, would be an assumption about the selling price of a product but for the alleged breach of contract. If the expert witness's opinion depends upon accepted facts or assumed facts then those facts must be proved or admitted in order for the expert witness's opinion to be given weight. Under APES 215, both accepted facts and assumed facts are assumptions, although whether any particular accepted fact or assumed fact is a *significant* assumption will depend on the circumstances.

Examples

The Member has been asked to calculate the cost of goods sold expense for a period based on balances for opening stock, purchases and closing stock that have already been agreed by the parties. In calculating the expense the Member applies specialised knowledge derived from the Member's training, study or experience using a well-accepted method which is not controversial (i.e. that cost of goods sold expense is equal to opening stock plus purchases less closing stock). However, the calculation does not require the Member to apply any significant degree of expert judgement. In this case the figure calculated by the Member is a fact rather than an opinion (i.e. because it is in the nature of a scientific fact). On the other hand, if the Member were instructed to assume a figure for the cost of goods sold expense then that would be an assumption.

The Member has been asked to quantify the lost profits that would have been earned by a business but for a breach of duty. Among other things, this may require the Member to choose a figure for the sales revenue that the business would have earned but for the breach of duty. The question of what would have happened to sales revenue but for the breach requires the Member to consider a situation that is hypothetical rather than real and which, therefore, cannot be a question of fact. If in assessing the figure for sales revenue the Member applies specialised knowledge derived from the Member's training, study or experience and a significant degree of expert judgement then the Member will be expressing an opinion. On the other hand, if the Member were instructed to assume a figure for the sales revenue then that would be an assumption.

The Member uses the Capital Asset Pricing Model (CAPM) to determine a discount rate for the valuation of a business using the discounted cash flow method. The Member must choose a figure for the beta, which is an input to the CAPM. In the normal course, the Member will choose a beta after having gathered relevant information and having performed relevant analyses. In assessing the figure for beta the Member will apply specialised knowledge derived from the Member's training, study or experience and a significant degree of expert judgement. Therefore, the Member will be expressing an opinion. On the other hand, if the Member were instructed to assume a figure for the beta then that would be an assumption.

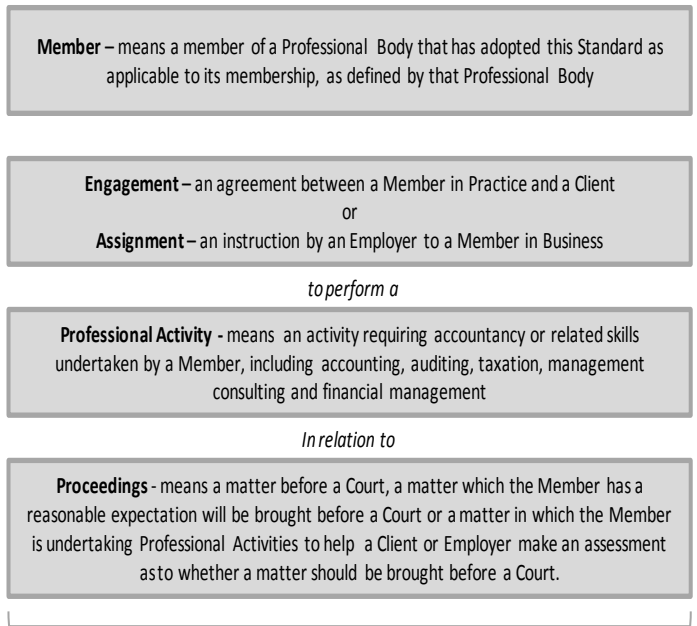
Appendix 2

Decision Tree to determine the type of Forensic Accounting Service

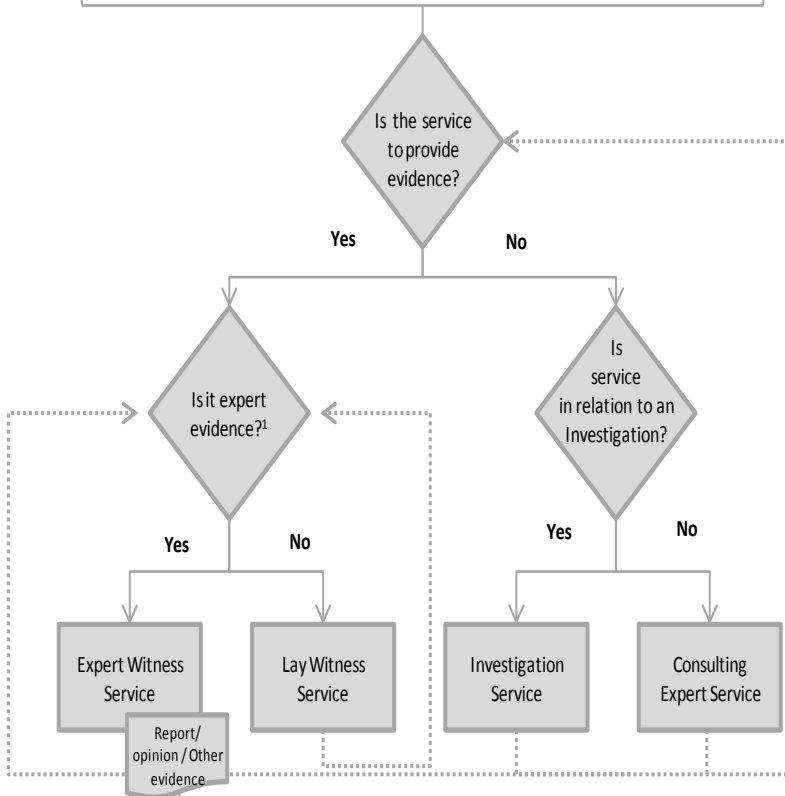
This Appendix contains a decision tree schematic to assist or determine whether a particular service is a Forensic Accounting Service for the purposes of APES 215 and, if so, whether the Engagement or Assignment is an Expert Witness, Lay Witness, Consulting Expert or Investigation Service. Each type of Forensic Accounting Service carries professional obligations specific to its purpose and therefore it is important for Members to make this determination.

Members are cautioned that the determination of whether a particular service is a Forensic Accounting Service under this Standard is a matter of professional judgement, based on the particular facts and circumstances.

The critical determination is whether a particular Forensic Accounting Service is an Expert Witness Service. Subsequently whether evidence is deemed admissible by the Court is a matter for the Court. However, this is likely to happen after the Forensic Accounting Service has been wholly or substantially provided by the Member. The important step is for the Member to assess, both initially and during the Engagement or Assignment, whether it is a Forensic Accounting Service and, if so, which one. If the Member determines that it is an Expert Witness Service, a subsequent decision to not admit the evidence from that Expert Witness Service does not change the nature of the Forensic Accounting Service. It is the intention to give expert evidence that is relevant and in turn creates the obligation for a Member to comply with the requirements of this Standard.



Essential requirements for an Engagement or Assignment to be within the scope of APES 215



The Member may provide expert evidence to the Court, including expressing opinions or providing Other Evidence, based on the Member’s specialised training, study or experience.

The Member may provide evidence other than expert evidence in the context of a Proceeding.

The Member may provide Investigation Services whether or not in the context of Proceedings.

Consulting Expert Service encompasses all Professional Services in the context of Proceedings excluding Expert Witness, Lay Witness and Investigation Services.

Including Independence disclosure per 3.11

¹ 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

This Appendix analyses some examples to assist a Member determine the type of Forensic Accounting Services provided by a Member for the purposes of APES 215.

Members are cautioned that the determination of the type of Forensic Accounting Service provided by a Member under this Standard is a matter of professional judgement, based on the particular facts and circumstances. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES 215 and applying the Standard to the particular circumstances to determine the type of Forensic Accounting Service provided by a Member. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration to determine the type of Forensic Accounting Service.

No	Nature	Conclusion
1	Participation in a professional tribunal	Consulting Expert
2	Dispute mediator	Consulting Expert
3	Adviser to investigation by law enforcement/regulatory agency	Consulting Expert (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
4	Prepare a Report for a company in a dispute	Expert Witness
5	Prepare a Report for a regulatory body on a listed company's compliance with accounting standards	Expert Witness
6	Member employed by/engaged by a law enforcement/regulatory body to provide a summary of complex transactions for Proceedings	Expert Witness
7	Member employed by/engaged by a law enforcement/regulatory body to provide a summary of a flow of funds for Proceedings	Expert Witness
8	Member employed by a company under investigation subpoenaed to provide a factual witness statement	Lay Witness
9	Member employed by a company under investigation subpoenaed to provide a factual witness statement and subsequently asked to apply expertise	Expert Witness
10	Member employed by a company under investigation subpoenaed to provide an opinion on the appropriate accounting for a chart of transactions	Expert Witness
11	<i>Insurance Claim</i> - Provision of loss adjusting services requiring accounting skills	Consulting Expert (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
12	<i>Insurance Claim</i> -Provision of advice requiring accounting skills	Consulting Expert (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
13	Member requested to determine amount of restitution or payment on a fraud or compensation matter	Consulting Expert (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
14	<i>Family Law</i> – Appointed by the Court to provide a Report including opinion evidence	Expert Witness
15	<i>Family Law</i> – Engaged to provide consulting advice related to another accounting expert's opinion	Consulting Expert (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
16	<i>Family Law</i> – Engaged, as a neutral party, to mediate between two accounting experts who have provided expert opinions to the Court	Consulting Expert

No	Nature	Conclusion
17	Member employed by a company investigating a potential criminal offence or civil matter	Investigation Service
18	Member requested to testify facts of purchases made on construction project account	Lay Witness (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
19	Member requested to provide an affidavit in respect of processes the Member undertook as part of a forensic investigation, specifically in relation to the collection and securing of computer forensic evidence	Lay Witness (unless the Member is or is likely to provide an opinion or Other Evidence to the Court)
20	Member requested to give evidence in relation to the Member's observations of a staff member who has been charged with theft of company equipment/property	Lay Witness
21	Member requested to give evidence in relation to observations of a motor vehicle accident in which the Member was involved	Lay Witness
22	Member employed by a revenue authority undertaking an investigation into a taxpayer's affairs	Expert Witness
23	Member is employed by a regulatory agency tasked with the review of a trust account in which alleged irregularities have occurred	Expert Witness

Example 1 Participation in a professional tribunal

Facts: The Member has been asked to be a member of a professional tribunal handling a disciplinary matter involving an auditor. Professional tribunals typically include disciplinary bodies of the Professional Bodies and statutory boards involved in the review of auditors and liquidators. As a member of the professional tribunal, the tribunal will be relying on the Member's specialised knowledge derived from the Member's training, study or experience in providing informed input to allow the tribunal to determine the issues to be raised and decided upon before the tribunal.

Analysis: **Consulting Expert** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance in respect of a Proceeding, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to be a tribunal member in part because of the Member's specialised knowledge derived from the Member's training, study or experience.

Example 2 Dispute mediator

Facts: The Member has been asked to be a mediator in a dispute between two parties over lost profits that would have been earned by a business but for a breach of duty. As a mediator, the Member will be neutral and impartial and will assist the parties identify the issues, such as the accounting treatment of transactions, consider options and negotiate solutions. The parties must reach their own agreement and the mediator will not make any decisions about the dispute.

Analysis: **Consulting Expert** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to mediate the Proceeding, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to be the mediator in this matter in part because of the Member's specialised knowledge derived from the Member's training, study or experience in accounting.

Example 3 Adviser to investigation by law enforcement/regulatory agency

Facts: The Member has been asked to be an adviser to an investigation being conducted by a law enforcement/regulatory agency. The Member's specialised knowledge derived from the Member's training, study or experience in accounting will be used in providing advice (written and/or oral) to members of the investigation team on accounting issues and transactions that are, or are intended to be, investigated. The Member can act as an adviser to the investigation even when Proceedings are contemplated or have commenced. It is not envisaged that the Member will be required to provide evidence and/or a report in the Proceedings (if any) arising from the investigation.

Analysis: **Consulting Expert** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the investigation, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to assist in the investigation in part because of the Member's specialised knowledge derived from the Member's training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely, to give expert evidence (an opinion or Other Evidence) in this matter, then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 4 Prepare a Report for a company in a dispute

Facts: The Member has been asked by a company involved in a dispute, or the company's legal advisers, to prepare a Report to quantify the lost profits that would have been earned by a business but for a breach of duty or a breach of contract. It is highly likely that the Report will be produced in Court in relation to legal action that is contemplated or has been commenced by the company. It is also highly likely that the Member will have to give evidence in the Court about matters covered in the Report. The Member's specialised knowledge derived from the Member's training, study or experience in accounting will be used in assessing the issues in dispute and preparing the Report. The Report will express opinions about the lost profits that would have been earned by a business but for a breach of duty.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the Court through the provision of written and/or oral evidence. As it is not lay evidence (i.e. the Member is not simply describing what the Member observed or did), it is considered expert evidence (whether or not it involves the expression of opinions).

Example 5 Prepare a Report for a regulatory body on a listed company's compliance with accounting standards

Facts: The Member has been asked by a regulatory body to prepare a Report on whether certain accounting standards have been complied with by a listed company. The Report will be produced in Court in relation to legal action that has been commenced by the regulatory body against directors of the company. It is also highly likely that the Member will have to give evidence in Court about matters covered in the Report. The Member's specialised knowledge derived from the Member's training, study or experience in accounting will be used in assessing the accounting standards in issue and preparing the Report. The Report will express opinions about the accounting standards that were used and whether the accounting standards were or were not complied with.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the Court through the provision of written and/or oral evidence. It is not lay evidence as the Member is expressing opinions on a matter in which the Member has specialised knowledge derived from the Member's specialist training, knowledge and experience.

Example 6 Member employed by/engaged by a law enforcement/regulatory body to provide a summary of complex transactions for Proceedings

Facts: The Member is employed by a law enforcement/regulatory body and has been asked to prepare a chart or summary that summarises a number of complex transactions and related accounting journals and ledger entries. The chart or summary will be produced by the Member in Court in relation to legal action that has been commenced by the law enforcement/regulatory body. The chart or summary is likely to aid the comprehension of material that is to be produced for the Court. The Member offers no opinions in the chart or summary that has been prepared.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the Court, through the chart/summary of transactions. As it is not lay evidence (i.e. the Member is not simply describing what the Member observed or did), it is considered expert evidence (even though it may not involve the expression of opinions).

Example 7 Member employed by/engaged by a law enforcement/regulatory body to provide a summary of a flow of funds for Proceedings

Facts: The Member is employed by a law enforcement/regulatory body and has been asked to prepare a chart or summary that summarises the flow of funds/money through various bank accounts and trace the use of these funds/money. The chart or summary will be produced by the Member in Court in relation to legal action that has been commenced by the law enforcement/regulatory body. The chart or summary is likely to aid the comprehension of material that is to be produced for the Court. The Member offers no opinions in the chart or summary.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the Court, through the chart/summary of transactions. As it is not lay evidence (i.e. the Member is not simply describing what the Member observed or did), it is considered expert evidence (even though it may not involve the expression of opinions).

Example 8 Member employed by a company under investigation subpoenaed to provide a factual witness statement

Facts: The Member is or was employed by a company that has been the subject of an investigation by a law enforcement/regulatory body which has subsequently asked or subpoenaed the Member to provide a witness statement covering the Member's involvement in and observations of specific transactions and activities of the company without drawing on the Member's specialised knowledge derived from the Member's training, study or experience.

Analysis: **Lay Witness** – the Member is not using the Member's specialised knowledge derived from the Member's training, study or experience to provide assistance to the law enforcement/regulatory body, and hence to the Court, through the Member's observations made. As the Member is simply describing what the Member observed or did, it is not considered expert evidence.

Example 9 Member employed by a company under investigation subpoenaed to provide a factual witness statement and subsequently asked to apply expertise

Facts: The Member is or was employed by a company that has been the subject of an investigation by a law enforcement/regulatory body which has subsequently asked or subpoenaed the Member to provide a witness statement covering the Member's involvement in and observations of specific accounting transactions and activities of the company without drawing on the Member's specialised knowledge derived from the Member's training, study or experience. Upon examination during the Court proceedings the Member is asked to provide an opinion to aid the Court in understanding accounting records presented as evidence.

Analysis: Expert Witness – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the Court, in support of the Member's observations made. Since the Member has subsequently been asked to provide an opinion on a matter in which the Member has specialised knowledge derived from the Member's training, study or experience, it is not lay evidence.

When the Member is asked to provide an opinion or Other Evidence in Court proceedings, then it would become an **Expert Witness Service** from that time.

Example 10 Member employed by a company under investigation subpoenaed to provide an opinion on the appropriate accounting for a chart of transactions

Facts: Similar facts to Example 8, but the Member is required to give the Member's opinions on what the reasons for the transactions were and/or whether they were in accordance with generally accepted accounting practice.

Analysis: Expert Witness – the Member is using specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the law enforcement/regulatory body, and hence to the Court, through the chart/summary of transactions. As it is not lay evidence (i.e. the Member is not simply describing what the Member observed or did), it is considered expert evidence (even though it may not involve the expression of opinions).

Example 11 Insurance Claim – Provision of loss adjusting services requiring accounting skills

Facts: The Member is assigned to provide loss adjusting services in respect of an insurance claim that involve use of the Member's specialised knowledge derived from the Member's training, study or experience in accounting. The Member is to assess the claim value with respect to both material damage and business interruption in accordance with the insurance policy.

Analysis: Consulting Expert - the Member is using specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to one party in the matter (i.e. the insurance company or the insured), but is not (at least initially) engaged to give evidence (expert or lay) in the Proceedings. It is to be presumed that the Member has been chosen to assist because of the Member's specialised knowledge derived from the Member's training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely to be asked, to provide an opinion or Other Evidence to the Court in the matter, then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 12 Insurance Claim – Provision of advice requiring accounting skills

Facts: The Member has been asked to determine the appropriate amount of compensation a claimant is entitled to under an income protection (or similar) insurance policy or statutory scheme. The Member's specialised knowledge derived from the Member's training, study or experience will be used in providing advice (written and/or oral) to the Employer, statutory agency or insurance company on the claimant's entitlements. It is not envisaged that the Member will be required to provide evidence and/or a report to the Court in the Proceedings (if any) arising from the assessment.

Analysis: Consulting Expert – the Member is using specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the investigation, but is not giving evidence (expert or lay) in the Proceedings. It is to be presumed that the Member has been chosen to undertake the assessment in part because of the Member's specialised knowledge derived from the Member's training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely, to give an opinion or Other Evidence in this matter then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 13 Member requested to determine amount of restitution or payment on a fraud or compensation matter

Facts: The Member has been asked to determine the amount of restitution or overpayment in a fraud or compensation matter based on the evidence obtained up until that time. The Member's specialised knowledge derived from the Member's training, study or experience will be used in providing advice (written and/or oral) to members of the investigation team on the amount of restitution or overpayment. It is not envisaged that the Member will be required to provide evidence and/or a report to the Court in the Proceedings (if any) arising from the review/assessment.

Analysis: Consulting Expert – the Member is using specialised knowledge derived from the Member's training, study or experience in accounting to provide assistance to the investigation, but is not giving evidence (expert or lay) in the Proceedings. It is to be presumed that the Member has been chosen to undertake the assessment in part because of the specialised knowledge derived from the Member's training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely, to give an opinion or Other Evidence in this matter then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 14 Family Law – Appointed by the Court to provide a Report including opinion evidence

Facts: The Member is appointed by the Court following representations by the parties' solicitors to provide a report for both parties to the dispute including opinion evidence on valuation and accounting matters.

Analysis: Expert Witness – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience to provide a written report as a joint expert to the Court. It is not lay evidence as the Member is expressing opinions and/or providing Other Evidence on a matter or matters in which the Member has specialised knowledge derived from the Member's training, study or experience.

Example 15 Family Law – Engaged to provide consulting advice related to another accounting expert’s opinion

Facts: The Member is asked by one of the parties to a matrimonial dispute to provide consulting advice (as a “shadow”) in relation to another accounting expert’s opinion. When asked, the Member is not expected to file a report giving the Member’s opinion to the Court, but merely to assist the instructing party and their solicitor.

Analysis: Consulting Expert – the Member is using the Member’s specialised knowledge derived from the Member’s training, study or experience in accounting to provide assistance to one party to the dispute, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to assist because of the Member’s specialised knowledge derived from the Member’s training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely, to be asked to provide an opinion or Other Evidence to the Court in the matter, then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 16 Family Law – Engaged, as a neutral party, to mediate between two accounting experts who have provided expert opinions to the Court

Facts: The Member is asked by the solicitors for both parties to a matrimonial dispute to mediate between two accounting experts who have provided expert opinions on the valuation of business assets with the parties to the dispute present at the mediation. As a mediator the Member will be neutral and impartial and will assist the parties identify the issues between the two expert valuers, consider options and negotiate solutions. The parties must reach their own agreement and the mediator will not make any decisions about the dispute.

Analysis: Consulting Expert – the Member is using the Member’s specialised knowledge derived from the Member’s training, study or experience in accounting to provide assistance to mediate the Proceedings, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to be the mediator in this matter in part because of the Member’s specialised knowledge derived from the Member’s training, study or experience in accounting.

Example 17 Member employed by a company investigating a potential criminal offence or civil matter

Facts: The Member is asked by the Member’s Employer to undertake or assist in investigating a potential criminal offence or civil matter with the intention of identifying the facts, determine the financial implications/overpayment/amount inappropriately obtained and ultimately assisting the Employer to understand the situation and make a fully informed decision on what action should be taken. It is not envisaged that the Member will be required to provide evidence and/or a report to the Court in the Proceedings (if any) arising from the investigation.

Analysis: Investigation Service – the Member is using specialised knowledge derived from the Member’s training, study or experience in accounting in the investigations to assist the Employer in understanding the matter and assist in determining what action should be taken, but is not giving evidence (expert or lay) in the Proceedings. The Member has been chosen to investigate this matter in part because of the Member’s specialised knowledge derived from the Member’s training, study or experience in accounting.

However, if during this process, it is decided that the Member either is, or is likely to be asked, to provide an opinion or Other Evidence to the Court in the matter, then it would become an **Expert Witness Service** from that time.

Example 18 Member requested to testify facts of purchases made on construction project account

Facts: The Member is employed as a project accountant on a construction project. The Member has been asked by the Member's Employer to appear in Court to provide a statement on the total amount of purchases made on account for a recently completed construction project which is in legal dispute. The Member's participation is restricted to providing a factual representation of the purchases processed by the Member in the project accounting ledger and the fact that the Member observed the construction project in progress. It is not envisaged that the Member will be required to provide an opinion and/or Other Evidence and/or provide a report to the Court in the Proceedings. The terminology used in the Member's statement is expressed in a manner that the Court can understand without technical accounting assistance.

Analysis: Lay Witness – the Member is not using specialised knowledge derived from the Member's training, study or experience in accounting in the statement to assist the Court in understanding the matter and assist in determining what action should be taken, and is not giving expert evidence in the Proceedings. The Member has been chosen to participate in this matter only due to the Member's employment on the project team.

However, if during this process, it is decided that the Member either is, or is likely, to be asked to provide an opinion or Other Evidence in Court proceedings, then it would become an **Expert Witness Service** from that time.

Example 19 Member requested to provide an affidavit in respect of processes the Member undertook as part of a forensic investigation, specifically in relation to the collection and securing of computer forensic evidence

Facts: A Member has been engaged to assist with the identification, collection and secure storage of electronic evidence held by an organisation. The Member provides an affidavit/statement detailing the actions and steps taken to perform the above engagement. The Member has been subpoenaed to Court to give this evidence.

Analysis: Lay Witness – the Member is not using the Member's specialised knowledge derived from the Member's training, study or experience in accounting in the statement to assist the Court in understanding the matter nor is the Member assisting the Court in determining what action should be taken. The Member has been chosen to participate in this matter only because of the Member's skills in electronic evidence retrieval, without any analysis or examination of the underlying evidence collected.

However, if at any stage during this process, it is decided that the Member either is, or is likely to have the additional responsibility of providing an opinion or Other Evidence in relation to the summarising or charting of that evidence collected using specialised knowledge derived from the Member's training, study or experience then it would become an **Expert Witness Service** from that time. Where, during the conduct of an Engagement, the scope of work changes significantly, a Member in Public Practice should amend and reissue the Terms of Engagement, particularly where it will result in an Expert Witness Service.

Example 20 Member requested to give evidence in relation to the Member's observations of a staff member who has been charged with theft of company equipment/property

Facts: The Member is employed as an accountant by an accounting firm. The Member was present when another staff member allegedly took a laptop, mobile phone and other company equipment from the office to their home and was involved in some discussion surrounding the alleged theft with the staff member who has been charged. The Member has provided a witness statement/affidavit about the Member's observations and discussions with the accused and has been subpoenaed to Court to provide evidence about this matter. The Member's participation is restricted to providing a factual account of the Member's observations and discussions leading up to and after the alleged theft.

Analysis: **Lay Witness** – the Member is not using specialised knowledge derived from the Member's training, study or experience in accounting in the statement/affidavit to assist the Court in understanding the matter nor is the Member assisting the Court in determining what action should be taken. The Member has been chosen to participate in this matter solely because of what the Member had witnessed.

Example 21 Member requested to give evidence in relation to observations of a motor vehicle accident in which the Member was involved

Facts: The Member is employed as an accountant and was involved in a motor vehicle accident where the Member was driving a vehicle and was not at fault for the accident. The at-fault driver has been charged with criminal offences as a result of the motor vehicle accident. The Member has provided a witness statement/affidavit setting out the Member's observations and knowledge of the circumstances surrounding the motor vehicle accident. The Member has been subpoenaed to Court to give this evidence.

Analysis: **Lay Witness** – the Member is not using specialised knowledge derived from the Member's training, study or experience in accounting in the statement/affidavit to assist the Court in understanding the matter nor is the Member assisting the Court in determining what action should be taken. The Member has been chosen to participate in this matter only because of the Member's involvement in the motor vehicle accident and what the Member had witnessed.

Example 22 Member employed by a revenue authority undertaking an investigation into a taxpayer's affairs

Facts: The Member is employed by a government revenue authority and is undertaking a review of a taxpayer's affairs in connection with a Proceeding, and with a view to providing a report on the findings to the Court. The work is likely to result in an assessment or amended assessment for the taxpayer as there are alleged breaches of the applicable tax legislation.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting and taxation knowledge to formulate the report and the conclusions contained therein to the Court. In this situation the Member will be expressing an opinion or providing Other Evidence about the interpretation of the relevant legislation, its application to the factual findings concerning specific items of the review and whether the alleged breaches result in an unidentified liability (or overpayment). It is not lay evidence as the Member is expressing opinions and/or providing Other Evidence on matters in which the Member has specialised knowledge derived from the Member's training, study or experience.

Example 23 Member is employed by a regulatory agency tasked with the review of a trust account in which alleged irregularities have occurred

Facts: The Member is employed in a regulatory agency and is undertaking a review of a trust account in which alleged irregularities have occurred. The Member is tasked with performing a review and providing a report on the findings to the Court.

Analysis: **Expert Witness** – the Member is using the Member's specialised knowledge derived from the Member's training, study or experience in accounting to formulate the report to the Court. It is not lay evidence, as the Member will be expressing opinions and/or providing Other Evidence on matters in which the Member has specialised knowledge derived from the Member's training, study or experience.

Appendix 4

Summary of revisions to the previous APES 215 (Issued December ~~2008~~2013)

APES 215 *Forensic Accounting Services* originally issued in December ~~2008~~2013 has been revised by APESB in ~~December 2013~~ XX 2015. A summary of the revisions is given in the table below.

Table of revisions*

Paragraph affected	How affected
<u>1.1</u>	<u>Added</u>
<u>1.2 – Paragraph 1.1 of existing APES 215 relocated</u>	<u>Amended</u>
<u>1.3</u>	<u>Amended</u>
<u>1.12</u>	<u>Added</u>
<u>2 – Definition of Assignment</u>	<u>Amended</u>
<u>2 – Definition of Contingent Fee</u>	<u>Amended</u>
<u>2 – Definition of Engagement</u>	<u>Amended</u>
<u>2 – Definition of Firm</u>	<u>Amended</u>
<u>2 – Definition of Independence</u>	<u>Amended</u>
<u>2 – Definition of Member in Public Practice</u>	<u>Amended</u>
<u>2 – Definition of Professional Bodies</u>	<u>Amended</u>
<u>2 – Definition of Professional Standards</u>	<u>Amended</u>
<u>5.6</u>	<u>Amended</u>
<u>Appendix 4</u>	<u>Amended</u>

* Refer Technical Update 2013/32015/xx

Proposed Standard: APES 225 Valuation Services

[Supersedes APES 225 Valuation Services issued in July 2008 and revised in May 2012]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT
ISSUED:

03/15
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APES 225 Valuation Services

[Supersedes APES 225 Valuation Services issued in July 2008 and revised in May 2012]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

REVISED: [Month/Year]

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1. Scope and application

- 1.1 The primary objectives of APES 225 *Valuation Services* are to specify a Member's professional and ethical responsibilities when the Member provides a Valuation Service to a Client or Employer in respect of:
- fundamental responsibilities;
 - the types of Valuation Services that can be provided to a Client or Employer;
 - matters a Member in Public Practice must address in the Terms of Engagement;
 - matters to be disclosed in a Valuation Report and the nature and extent of evidence required to support the Valuation Report; and
 - quality control and documentation requirements.
- 1.24 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 225 *Valuation Services* (**the Standard**), which is effective for Valuation Engagements or Assignments commencing on or after 1 ~~September 2012~~ April 2016 and supersedes APES 225 issued in May 2012. Earlier adoption of this Standard is permitted.
- 1.32 APES 225 sets the standards for Members in the provision of quality and ethical Valuation Services. The mandatory requirements of this Standard are in **bold-type (black lettering) type**, preceded or followed by discussion or explanations in **normal type (grey lettering) type**. APES 225 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.43 **Members in Australia shall follow the mandatory requirements of APES 225 when they provide Valuation Services.**
- 1.54 **Members outside of Australia shall follow the mandatory requirements of APES 225 when they provide Valuation Services, to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.65 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.76 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.87 All references to Professional Standards and guidance notes are references to those provisions as amended from time to time.
- 1.98 In applying APES 225 Members should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.10 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Standard:

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

Calculated Value means an estimate of value of a business, business ownership interest, security or intangible asset that results from a Calculation Engagement. A Calculated Value may either be a single amount or a range.

Calculation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member and the Client or Employer agree on the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will employ. A Calculation Engagement generally does not include all of the Valuation Procedures required for a Valuation Engagement or a Limited Scope Valuation Engagement.

Client means an individual, Firm, entity or organisation to whom or to which Valuation ServicesProfessional Activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

Code means APES 110 *Code of Ethics for Professional Accountants*.

Conclusion of Value means an estimate of value of a business, business ownership interest, security or intangible asset that results from a Valuation Engagement or a Limited Scope Valuation Engagement. A Conclusion of Value may either be a single amount or a range.

Contingent Fee means a fee calculated on a predetermined basis relating to the outcome ~~or result~~ of a transaction or the result of the work-services performed by the Firm. A fee that is established by a court or other public authority is not a Contingent Fee.

Employer means an entity or person that employs, engages or contracts a Member in Business.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Engagement Document means the document (i.e. letter, agreement or any other appropriate means) in which the Terms of Engagement are specified in a written form.

Firm means:

- (a) ~~a~~A sole practitioner, partnership, corporation or other entity of professional accountants;
- (b) ~~a~~An entity that controls such parties, through ownership, management or other means;
- (c) ~~a~~An entity controlled by such parties, through ownership, management or other means;
- or
- (d) ~~a~~An Auditor-General's office or department.

Independence means—is:

- (a) Independence of mind - the state of mind that permits the ~~provision-expression of an~~ opinion ~~a conclusion~~ without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and

- (b) Independence in appearance - the avoidance of facts and circumstances that are so significant ~~that~~ a reasonable and informed third party, ~~having knowledge of all relevant information, including any safeguards applied,~~ reasonably be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Engagement team's, integrity, objectivity or professional scepticism ~~had~~ has been compromised.

Limited Scope Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted. The scope of work is limited or restricted where the Member is not free, as the Member would be but for the limitation or restriction, to employ the Valuation Approaches, Valuation Methods and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time, and it is reasonable to expect that the effect of the limitation or restriction on the estimate of value is material. A limitation or restriction may be imposed by the Client or Employer or it may arise from other sources or circumstances. A limitation or restriction may be present and known at the outset of the Engagement or Assignment or may arise or become known during the course of a Valuation Engagement. A Limited Scope Valuation Engagement may also be referred to as a "restricted-scope valuation engagement" or an "indicative valuation engagement".

Member means a member of a ~~P~~professional ~~B~~body that has adopted this Standard as applicable to their membership, as defined by that ~~P~~professional ~~B~~body.

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 ~~p~~Professional ~~b~~Bodies, or a Member contracted by such entities.

Member in Public Practice means a Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides Professional Services. ~~The~~ 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 ~~P~~professional ~~B~~body.

Premise of Value means an assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation; e.g. going concern or liquidation.

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

Professional Bodies means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.

Professional Services means ~~services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services~~ Professional Activities performed for Clients.

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

Terms of Engagement means the terms and conditions that are agreed between the Client and the Member in Public Practice for the Engagement.

Valuation means the act or process of determining an estimate of value of a business, business ownership interest, security or intangible asset by applying Valuation Approaches, Valuation Methods and Valuation Procedures. A Valuation does not involve the verification of information in respect of the business, business ownership interest, security or intangible asset being valued.

Valuation Approach(es) means a general way(s) of determining an estimate of value of a business, business ownership interest, security, or intangible asset using one or more Valuation Methods.

Valuation Engagement means an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time. Where a Member has entered into a Valuation Engagement but during the course of performing the Valuation Engagement the Member becomes aware of a limitation or restriction that, if it had been known at the time the Engagement or Assignment was entered into, would have made the Engagement or Assignment a Limited Scope Valuation Engagement then the Valuation Engagement will become a Limited Scope Valuation Engagement.

Valuation Method(s) means, within Valuation Approaches, a specific way(s) to determine an estimate of value of a business, business ownership interest, security or intangible asset.

Valuation Procedures means the act, manner and technique of performing the steps of a Valuation Method.

Valuation Report means any written or oral communication by the Member containing a Conclusion of Value or a Calculated Value.

Valuation Service means a service provided by a Member to a Client or Employer in performance of a Valuation Engagement, Limited Scope Valuation Engagement or a Calculation Engagement.

3. Fundamental responsibilities of Members

- 3.1 A Member providing a Valuation Service shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant law.**
- 3.2 Members in Public Practice shall comply with Section 220 *Conflict of Interest* and Section 280 *Objectivity – All Services* in the Code.**

Public interest

- 3.3 In accordance with Section 100 *Introduction and Fundamental Principles* of the Code, a Member shall observe and comply with the Member's public interest obligations when providing a Valuation Service.**

Professional Independence

- 3.4 When engaged to perform a Valuation Service which requires Independence or purports to be independent, the Member in Public Practice shall comply with Independence as defined in this Standard.**
- 3.5 A Member in Public Practice shall not act as an advocate in respect of a Valuation Service which requires Independence or purports to be independent.**

Professional competence and due care

- 3.6 A Member providing a Valuation Service shall maintain professional competence and take due care in the performance of the Member's work in accordance with Section 130 *Professional Competence and Due Care* of the Code.**

- 3.7 Where a Valuation Service requires the consideration of matters that are outside a Member's professional expertise, the Member shall seek expert assistance or advice from a suitably qualified third party on those matters outside of the Member's professional expertise or decline the Valuation Service. The Member shall disclose in any Valuation Report or other relevant communications the extent of the reliance upon the advice of such a third party.
- 3.8 When planning to use the work of a suitably qualified third party, a Member shall assess the professional competence and objectivity of the third party, the engagement terms of the third party and on completion the appropriateness and reasonableness of the work performed.
- 3.9 In undertaking a Valuation Service, a Member should consider the contents of any guidance in respect of Valuation matters issued by the professional accounting bodies and appropriate regulatory authorities.

Confidentiality

- 3.10 In accordance with Section 140 *Confidentiality* of the Code, a Member who acquires confidential information in the course of professional work for a Client or Employer shall not use that information for any purpose other than the proper performance of professional work for that Client or Employer.
- 3.11 Unless the Member has a legal obligation of disclosure, a Member shall not convey any information relating to a Client's or Employer's affairs to a third party without the Client's or Employer's permission.
- 3.12 Where a Client has given a Member in Public Practice 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 Client's approval.
- 3.13 Where a Member provides confidential information in accordance with a legal obligation of disclosure, the Member shall notify the Client, Employer or relevant third party as soon as practicable, provided that there is no legal prohibition against such notification.

4. Professional Engagement and other matters

- 4.1 A Member in Public Practice shall document and communicate **to the Client in an Engagement Document** the Terms of Engagement to provide the Valuation Service in accordance with APES 305 *Terms of Engagement*.
- 4.2 A Member in Public Practice shall **document the following in the Engagement Document include the following in the Terms of Engagement:**
- (a) a statement as to which type of Engagement the Member has been engaged to perform **(if that has been determined at the date of the Engagement Document)**;
 - (b) the definitions of a Valuation Engagement, a Limited Scope Valuation Engagement and a Calculation Engagement;

- (c) for a Valuation Engagement, a statement that if the Member becomes aware during the course of performing the Valuation of a limitation or restriction that could have a material impact on the estimate of value, then the Engagement will become a Limited Scope Valuation Engagement;
 - (d) for a Calculation Engagement, a statement as to which Valuation Approaches, Valuation Methods and Valuation Procedures the Member has been engaged to perform;
 - (e) for a Valuation Service which requires Independence or purports to be independent, a statement confirming the Member's Independence and the Member's compliance with the Independence requirements of this Standard; and
 - (f) a statement that the Valuation Service will be conducted in accordance with this Standard.
- 4.3 A Member in Public Practice who is approached by a potential Client to undertake a Valuation Service shall comply with the requirements of Section 210 *Professional Appointment* of the Code.
- 4.4 A Member in Public Practice who has **engaged** the services of a third party in connection with the performance of a Valuation Service, such as a valuer of property, plant and equipment, shall not disclose the opinion or the name of that third party without the prior consent of that party unless the Member has a legal obligation of disclosure.
- 4.5 A Member shall gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to provide reasonable grounds that the Valuation Report and the conclusions therein are properly supported. When determining the extent and quality of evidence necessary the Member shall exercise professional judgement, considering the nature of the Valuation, the type of Valuation Service and the use to which the Valuation Report will be put.
- 4.6 Where a Member in Public Practice has relied on information provided by the Client, its management, or a third party (the "relevant party"), the Member should consider providing the draft Valuation Report or extracts thereof to the relevant party (but only with the consent of the Client and subject to the Terms of Engagement) requesting a written representation that:
- (a) the relevant party has reviewed the draft Valuation Report or extracts thereof;
 - (b) the facts upon which the draft Valuation Report is based are correct and no material, relevant facts have been omitted;
 - (c) the historical, financial information upon which the draft Valuation Report is based is complete, accurate, and reliable;
 - (d) the assumptions upon which the draft Valuation Report is based are reasonable; and
 - (e) there are no matters which in the opinion of the relevant party that have not already been brought to the Member's attention.
- 4.7 Where a Member relies on a representation made by a relevant party, the Member is making an assumption that the matter represented is true, unless the Member has independently gathered sufficient and appropriate evidence to provide reasonable grounds that the matter represented is supported.

5. Reporting

5.1 Generally when a Member in Public Practice provides a Valuation Service, the Member should prepare a written Valuation Report. However, this Standard recognises that a Member may issue a Valuation Report orally where instructed to do so by the Member's Client or where there are circumstances that would justify issuing a Valuation Report orally rather than in writing.

5.2 Where a Member in Public Practice prepares a written Valuation Report in respect of a Valuation Service, the Valuation Report shall clearly communicate:

- (a) The name of the party engaging the Member;**
- (b) A description of the business, business ownership interest, security or intangible asset being valued;**
- (c) The date at which the value has been determined;**
- (d) The date on which the Valuation Report has been issued;**
- (e) The purpose for which the Valuation Report has been prepared;**
- (f) The name and qualifications of the Member(s) responsible for the Valuation;**
- (g) The scope of the Valuation, including any limitations or restrictions;**
- (h) The Premise of Value adopted in the Valuation (e.g. going concern premise or liquidation premise);**
- (i) Whether the Valuation was undertaken by the Member acting independently or not;**
- (j) The Valuation Approach(es), Valuation Method(s) and Valuation Procedures adopted in determining the estimate of value and a description of how they were applied;**
- (k) The specific information on which the Member has relied and the extent to which it has been reviewed (e.g. the documents reviewed, the individuals interviewed, the facilities visited, the reports of other experts relied upon, and management representations);**
- (l) A description of the material assumptions applied in the Valuation and the basis for those assumptions;**
- (m) A Conclusion of Value for a Valuation Engagement or a Limited Scope Valuation Engagement, or a Calculated Value for a Calculation Engagement;**
- (n) All qualifications that materially affect the Conclusion of Value or Calculated Value;**
- (o) For a Limited Scope Valuation Engagement, that if a Valuation Engagement had been performed the results may have been different;**
- (p) For a Calculation Engagement, that if a Valuation Engagement had been performed the results may have been different;**
- (q) Where a Member has prepared a Valuation Report requiring Independence or purporting to be independent, that the compensation to be paid to the Member is not contingent on the conclusion, content or future use of the Valuation Report; and**
- (r) That the Valuation Service was conducted in accordance with this Standard.**

- 5.3** Where a Member in Public Practice communicates the Valuation Report orally, the Member shall communicate the elements noted in paragraph 5.2, as appropriate in the circumstances, and document the oral communication, the reasons for issuing an oral report and the work performed in accordance with this Standard and the Firm's policies and procedures established under *Documentation of APES 320 Quality Control for Firms*.
- 5.4** In addition to the minimum requirements of a Valuation Report set out in paragraph 5.2, the Member in Public Practice shall consider including the following information in a Valuation Report, as appropriate:
- (a) A description of other Valuation Approaches or Valuation Methods considered and the reasons why they were not considered relevant for the Valuation;
 - (b) Sufficient details of the Valuation calculations to allow a reader to understand how the Member determined the Conclusion of Value or Calculated Value;
 - (c) A summary of relevant financial information; and
 - (d) A summary of the relevant industry.
- 5.5** A Member in Business who undertakes a Valuation Service should prepare a Valuation Report taking into consideration the requirements and guidance of paragraphs 5.1 to 5.4 of this Standard, as appropriate, and to the extent practicable.
- 6. Documentation**
- 6.1** A Member performing a Valuation Service shall prepare working papers that appropriately document the work performed, including the basis on which, and the method by which, any calculations, determinations or estimates used in the provision of the Valuation Service have been made.
- 7. Use of a glossary of business valuation terms**
- 7.1** When issuing a Valuation Report, a Member shall clearly define the Valuation terms used.
- 7.2** Members are encouraged to use as far as practicable terms that are in general use for Valuation Services. Members are referred to the *International Glossary of Business Valuation Terms* which are included in the valuation standards of the American Institute of Certified Public Accountants and the Canadian Institute of Chartered Business Valuators.
- 8. Professional fees**
- 8.1** A Member in Public Practice providing Valuation Services shall be remunerated for such services by way of professional fees computed in accordance with Section 240 *Fees and other Types of Remuneration* of the Code.
- 8.2** A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Valuation Service which requires Independence or purports to be independent.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 225.

Appendix 1

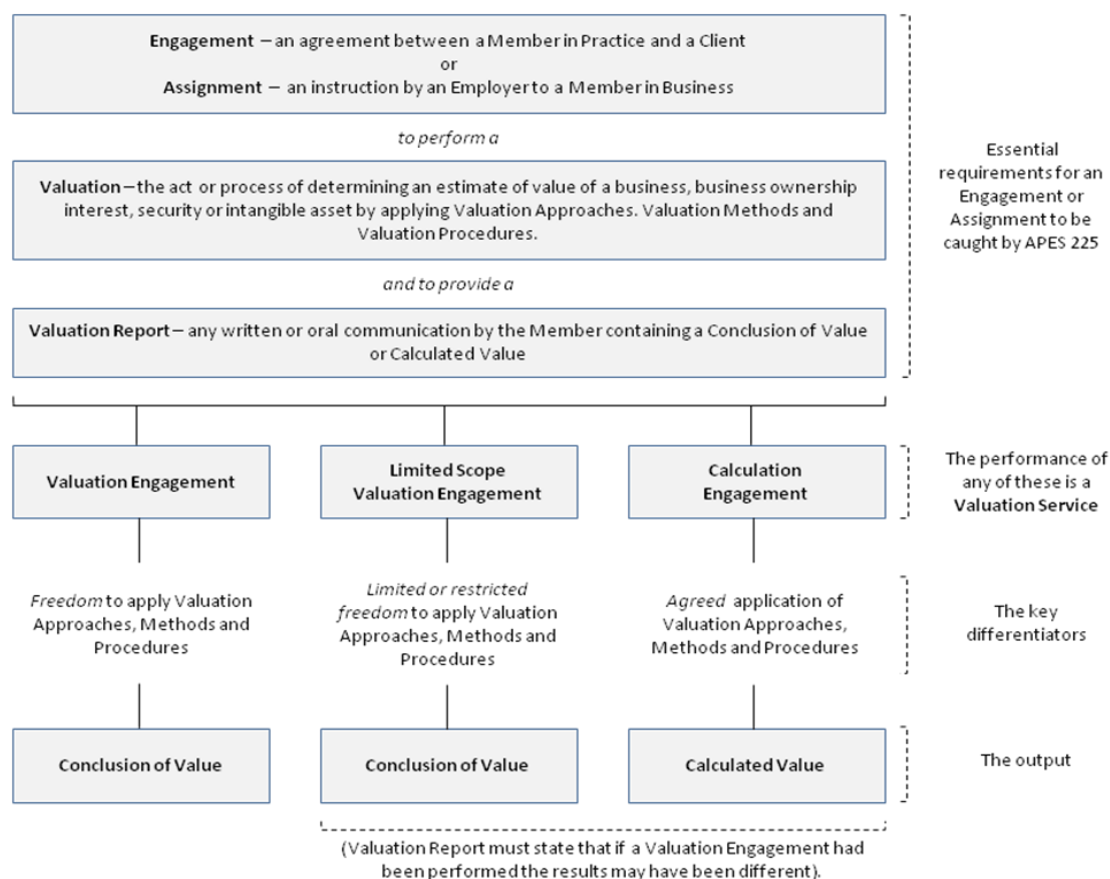
Schematic and Examples

This Appendix contains a schematic and some examples to assist or determine whether a particular service is a Valuation Service for the purposes of APES 225 and, if so, whether the Engagement or Assignment is a Valuation Engagement, Limited Scope Valuation Engagement, or Calculation Engagement.

Members are cautioned that the determination of whether a particular service is a Valuation Service under this Standard is a matter to be judged based on the particular facts and circumstances. The examples contained in this Appendix are provided for illustrative purposes only and are not intended to be, and cannot be, all inclusive. The examples are not a substitute for reading the full text of APES 225 and applying the Standard to the particular circumstances to determine whether the Member is providing a Valuation Service. In all of the examples presented below it is assumed that there are no unmentioned facts which would be relevant to the consideration as to whether the service provided is a Valuation Service.

Schematic

The following schematic provides an overview of what constitutes a Valuation Service and what differentiates the three types of Engagement or Assignment.



Examples

No	Title	Conclusion
1	Valuation of equity for capital gains tax	Valuation Engagement
2	Valuation of equity where industry not analysed	Limited Scope Valuation Engagement
3	Valuation Engagement becomes Limited Scope Valuation Engagement	Limited Scope Valuation Engagement
4	Valuation of equity for capital gains tax where Valuation date is eight years ago and information lost	Limited Scope Valuation Engagement
5	Valuation of equity for capital gains tax where records are sparse	Valuation Engagement
6	Valuation of equity for capital gains tax with limited time	Limited Scope Valuation Engagement
7	Valuation of shareholding for capital gains tax with assumption on the value of all equity	Limited Scope Valuation Engagement
8	Valuation of shareholding for capital gains tax with assumptions on the value of all equity and percentage discounts for the lack of control and marketability	Calculation Engagement
9	Valuation of Employer's intangible assets for tax consolidation	Valuation Engagement
10	Limited scope Valuation for mergers and acquisitions advice	Limited Scope Valuation Engagement
11	Estimate of price for advice on sale of a company	Not a Valuation Service
12	Limited scope Valuation of Employer's business for potential sale	Limited Scope Valuation Engagement
13	Limited scope Valuation for estate planning advice	Limited Scope Valuation Engagement
14	Valuation assumptions for estate planning advice	Not a Valuation Service
15	Independent expert report for takeover offer	Valuation Engagement
16	Independent expert report for scheme of arrangement	Valuation Engagement
17	Independent expert report for the compulsory acquisition of securities	Valuation Engagement
18	Audit procedures on Valuation assertions	Not a Valuation Service
19	Audit procedures on Client's Valuations	Not a Valuation Service
20	Limited scope Valuation of Employer's business	Limited Scope Valuation Engagement
21	Opinion as receiver and manager on realisable value of business	Not a Valuation Service
22	Opinion as expert witness on lost profits	Not a Valuation Service
23	Opinion as expert witness on value of business	Valuation Engagement

Example 1 Valuation of equity for capital gains tax

Facts: A Member in Public Practice is engaged to perform a Valuation as at today's date of the issued share capital of a company for the purpose of capital gains tax and to provide a written report to the Client. There is no restriction or limitation placed on the Member in choosing the appropriate procedures or approach to use.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement.

Example 2 Valuation of equity where industry not analysed

Facts: The facts are the same as for Example 1 except that the scope of work is limited in that the Member is instructed not to perform any analysis of the industry within which the business of the company operates. In the absence of this instruction the Member would have considered it appropriate to perform an analysis of the industry. The lack of analysis on the industry would reasonably be considered to have a material impact on the estimate of value.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation where the scope of work is limited or restricted, and to provide a Valuation Report, which constitutes a Limited Scope Valuation Engagement.

Example 3 Valuation Engagement becomes Limited Scope Valuation Engagement

Facts: The facts are the same as for Example 1 except that after agreeing the Terms of Engagement, which provides for a Valuation Engagement, during the course of performing the Valuation the Member becomes aware of a limitation. The Member intended to value the equity in the company using the income approach and for that purpose intended to estimate the company's expected future cash flows. The Member made relevant enquiries of the Client for the purpose of estimating the expected future cash flows. However, the Client decided not to respond to the Member's enquiries but instead instructed the Member to adopt the Client's existing forecast of cash flows so as to contain professional costs.

Analysis: This is a Valuation Service. The Member was initially engaged to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement. The Client's subsequent instruction to adopt the Client's existing forecast of cash flows amounts to a limitation on the scope of work because it restricts the Member's freedom to employ the Valuation Procedures that are reasonable and appropriate taking into consideration all relevant facts and circumstances of the Engagement and the instruction could have a material impact on the estimate of value. Accordingly, from that moment the Engagement ceased to be a Valuation Engagement and became a Limited Scope Valuation Engagement.

Example 4 Valuation of equity for capital gains tax where Valuation date is eight years ago and information lost

Facts: The facts are the same as for Example 1 except that the valuation date is eight years ago and there is less information available now due to the subsequent destruction of many documents in accordance with the company's document retention policy and the departure of key staff. Despite this, there are some relevant documents, including financial statements for the three years up to the valuation date. The relative lack of information means that the Member is not able to choose the Valuation Approaches and Valuation Methods that the Member would otherwise consider appropriate, and is not able to apply Valuation Procedures to the extent to which the Member would otherwise consider appropriate.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report. A hypothetical seller and a hypothetical buyer standing at the valuation date eight years ago would have had more information available to them than the Member has now for the purpose of performing a Valuation at a date eight years ago. The scope of work is limited or restricted because the relative lack of information restricts the Member's freedom to choose and apply Valuation Approaches, Valuation Methods and Valuation Procedures. Accordingly, the Engagement is a Limited Scope Valuation Engagement.

Example 5 Valuation of equity for capital gains tax where records are sparse

Facts: The facts are the same as for Example 1 except that the company maintains records that are very sparse (albeit compliant with legal requirements).

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report. The sparse nature of the company's records does not amount to a limitation or restriction on scope because a hypothetical seller and a hypothetical buyer do not have any better information available to them. The fact of the sparse records is a characteristic of the company being valued and, therefore, is something that will be reflected in the estimate of value. The Engagement is a Valuation Engagement.

Example 6 Valuation of equity for capital gains tax with limited time

Facts: The facts are the same as for Example 1 except that the Member is required to deliver a Valuation Report within a period of time that is too short to allow the Member to perform all of the Valuation Procedures that the Member otherwise considers appropriate.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report. The scope of work is limited or restricted because the short timeframe restricts the Member's freedom to choose and apply Valuation Procedures. Hence the Engagement is a Limited Scope Valuation Engagement.

Example 7 Valuation of shareholding for capital gains tax with assumption on the value of all equity

Facts: A Member in Public Practice is engaged to perform a Valuation of a shareholding in a company for the purpose of capital gains tax and to provide a written report to the Client. The Member is instructed to assume a particular figure for the value of all of the issued share capital of the company.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted in that the Member is instructed to assume the value of all of the issued share capital. Otherwise the Member is free to apply the Valuation Approaches, Valuation Methods and Valuation Procedures the Member considers appropriate in determining an estimate of value of the shareholding. This freedom means the engagement is not a Calculation Engagement. The Engagement is a Limited Scope Valuation Engagement because the scope of work is limited or restricted.

Example 8 Valuation of shareholding for capital gains tax with assumptions on the value of all equity and percentage discounts for the lack of control and marketability

Facts: The facts are the same as for Example 7 except that in addition to being instructed to assume a particular figure for the value of all of the issued share capital of the company, the Member is instructed to assume particular percentage discounts for the lack of control and marketability associated with the shareholding.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and provide a Valuation Report where the scope of work is limited or restricted in that the Member is instructed to assume the value of all of the issued share capital and to assume certain percentage discounts for the lack of control and marketability associated with the shareholding. The Engagement is a Calculation Engagement because the Member and the Client have agreed the Valuation Approaches, Valuation Methods and Valuation Procedures the Member will apply, thereby eliminating the Member's freedom to choose. The performance of the Calculation Engagement is a Valuation Service.

Example 9 Valuation of Employer's intangible assets for tax consolidation

Facts: A Member in Business is assigned by the Member's Employer to perform a Valuation of the intangible assets of a company acquired by the Employer for the purpose of tax consolidation and to provide a written report to the Employer.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement.

Example 10 Limited scope Valuation for mergers and acquisitions advice

Facts: A Member in Public Practice is engaged to provide mergers and acquisitions advice to a Client contemplating a potential acquisition of a business. Part of the instructions includes performing an indicative Valuation of the target business and providing an oral Valuation Report.

Analysis: This is a Valuation Service to the extent of the indicative Valuation. The Member has been engaged to perform an indicative Valuation and to provide a Valuation Report, which constitutes a Limited Scope Valuation Engagement.

Example 11 Estimate of price for advice on sale of a company

Facts: A Member in Public Practice is engaged to provide advice and assistance with respect to the sale of a company. As part of the sale process the Member is asked to provide generic valuation statistics and parameters relevant to the industry in which the company operates.

Analysis: This is not a Valuation Service. Even if some Valuation Procedures are conducted the Member has not been engaged to perform a Valuation or to provide a Valuation Report. The Member has been engaged to provide ancillary services related to the sale of a company.

Example 12 Limited scope Valuation of Employer's business for potential sale

Facts: A Member in Business is assigned by the Member's Employer to perform an indicative Valuation of a business owned by the Employer for the purpose of its potential sale and to provide an oral report to the Employer.

Analysis: This is a Valuation Service. The Member has been assigned to perform a Limited Scope Valuation and to provide a Valuation Report to the Member's Employer, which constitutes a Limited Scope Valuation Engagement.

Example 13 Limited scope Valuation for estate planning advice

Facts: A Member in Public Practice is engaged to provide estate planning advice. As a required input to providing that advice, the Member performs an indicative Valuation of a business and provides an oral Valuation Report to the Client.

Analysis: This is a Valuation Service to the extent of performing the indicative Valuation of the business and providing the Valuation Report, which constitutes a Limited Scope Valuation Engagement.

Example 14 Valuation assumptions for estate planning advice

Facts: A Member in Public Practice is engaged to provide tax advice in respect of an estate planning engagement. As part of the estate planning process, the Member provides assumptions of values of the assets to assess the potential tax consequences. The Member is not involved in determining the value of the estate.

Analysis: This is not a Valuation Service. Even if some Valuation Procedures are conducted the Member has not been engaged to perform a Valuation or to provide a Valuation Report. The Member has been engaged to provide tax advice in respect of estate planning.

Example 15 Independent expert report for takeover offer

Facts: A Member in Public Practice is engaged by a Client who is the target of a takeover offer to prepare an independent expert report on whether the takeover offer is “fair and reasonable”. As noted in paragraph RG 111.10 of ASIC’s Regulatory Guide 111 “Content of Expert Reports”, an offer is “fair” if “the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer”. The Member will perform a Valuation of the securities for the purpose of assessing if the offer is “fair”. In accordance with section 640 of the Corporations Act 2001, the independent expert’s report will accompany the target’s statement that will be sent to the shareholders of the Client.

Analysis: This is a Valuation Service to the extent of performing the Valuation of the securities and providing the Valuation Report. Although the Member has been engaged to express an opinion on whether the takeover offer is “fair and reasonable”, the accepted meaning of “fair” (as stated in ASIC’s Regulatory Guide 111) clearly implies that a Valuation is to be performed. Thus the Member has been engaged, in part, to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement.

Example 16 Independent expert report for scheme of arrangement

Facts: A Member in Public Practice is engaged by a Client who is the target of a friendly takeover to be achieved by way of a scheme of arrangement, to prepare an expert’s report on whether a scheme of arrangement is “in the best interests of the members of the company” in accordance with clause 8303 of Schedule 8 of the Corporations Regulations 2001. As noted in paragraph RG 111.16 of ASIC’s Regulatory Guide 111 “Content of Expert Reports”, in such a case the expert is expected to provide an opinion as to whether the proposal is “fair and reasonable” as that phrase is understood for the purpose of section 640 of the Corporations Act 2001. The Member will perform a Valuation of the securities for the purpose of assessing if the offer is “fair”. The expert’s report will, if the court directs, accompany the explanatory statement and notice of meeting sent to shareholders of the company.

Analysis: This is a Valuation Service to the extent of performing the Valuation of the securities and providing the Valuation Report. Although the Member has been engaged to express an opinion on whether the proposal is “in the best interests of the members of the company”, accepted practice (as stated in ASIC’s Regulatory Guide 111) implies that a Valuation is to be performed. Thus the Member has been engaged, in part, to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement.

Example 17 Independent expert report for the compulsory acquisition of securities

Facts: A Member in Public Practice is engaged by a Client who has acquired 90% of the securities of a particular class of a company and wishes to issue a notice to acquire compulsorily the balance of the securities. The Member is engaged to provide an expert’s report under section 667A of the Corporations Act 2001 on whether “the terms proposed in the notice give a fair value for the securities concerned”. In accordance with section 664C, a copy of the expert’s report will be sent to each holder of securities.

Analysis: This is a Valuation Service. The Member has been engaged to perform a Valuation and to provide a Valuation Report, which constitutes a Valuation Engagement.

Example 18 Audit procedures on Valuation assertions

Facts: A Member in Public Practice is engaged to perform an audit. The Member will perform procedures to test the valuation assertions (as defined in Australian Auditing Standard ASA 500 *Audit Evidence*) of the financial statement balances as part of the audit Engagement. The results of these procedures will be documented in the Member's working papers and will not be communicated to the Client.

Analysis: This is not a Valuation Service. The Member has not been engaged to perform a Valuation or to provide a Valuation Report. The Member has been engaged to perform an audit and the procedures to test the valuation assertions (as defined in the Auditing Standards) are only performed as part of the audit Engagement.

Example 19 Audit procedures on Client's Valuations

Facts: A Member in Public Practice is engaged to perform an audit. The Member will audit/review the valuation models or calculations prepared by the Client to test assets (including goodwill) for impairment as part of the Member's audit procedures in accordance with Auditing Standards. The procedures performed will be documented in the Member's working papers and will not be communicated to the Client.

Analysis: This is not a Valuation Service. The Member has not been engaged to perform a Valuation or to provide a Valuation Report. The Member has been engaged to perform an audit and the procedures to test impairment are only performed as part of the audit Engagement.

Example 20 Limited scope Valuation of Employer's business

Facts: A Member in Business is assigned to perform an indicative Valuation of the business of the Employer as part of the Employer's procedures in respect of testing assets (including goodwill) for impairment for financial reporting purposes.

Analysis: This is a Valuation Service. The Member has been assigned to perform an indicative Valuation and to provide a Valuation Report which constitutes a Limited Scope Valuation Engagement.

Example 21 Opinion as receiver and manager on realisable value of business

Facts: A Member in Public Practice is engaged by a secured creditor as a receiver and manager of the assets and undertaking of a company. In reporting to the Client the Member expresses an opinion on the amount that might be realised from the sale of the company's business.

Analysis: This is not a Valuation Service. Even if some Valuation Procedures are conducted the Member does not perform a Valuation and is not engaged to provide a Valuation Report. The Member has been engaged to perform an insolvency service and the opinion was expressed as part of performing that service.

Example 22 Opinion as expert witness on lost profits

Facts: A Member in Public Practice is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged wrong-doing by the defendant. The Member is instructed that the damages are to be determined by reference to lost profits and that the court must award damages as a once-off lump sum. In performing this task, the Member:

- (a) will calculate the lost profits caused by the alleged wrong-doing by comparing the profits that the plaintiff would have earned but for the alleged wrong-doing with the profits that the plaintiff will earn given the alleged wrong-doing; and
- (b) will calculate the present value of those lost profits.

The Member will provide a written report and may later give oral evidence at the court hearing.

Analysis: This is not a Valuation Service because the Member has not been engaged to perform a Valuation (i.e. the Member has not been engaged to determine an estimate of value of a business, business ownership interest, security or intangible asset).

Example 23 Opinion as expert witness on value of business

Facts: A Member in Public Practice is engaged to act as an expert witness in litigation and to express an opinion on the quantum of damages suffered by the plaintiff as a result of an alleged breach of contract by the defendant. The Member is instructed that the damages are to be determined by reference to the value of the plaintiff's business before the alleged breach of contract and the Member is instructed to express an opinion on that value. The Member will provide a written report and may later give oral evidence at the court hearing.

Analysis: This is a Valuation Service because the Member has been engaged to perform a Valuation and to provide a Valuation Report which constitutes a Valuation Engagement. It is a Valuation because the Member has been engaged to determine an estimate of value of a business by applying Valuation Approaches, Valuation Methods and Valuation Procedures.

Appendix 2

Summary of revisions to the previous APES 225 (Issued July 2008)

APES 225 *Valuation Services* originally issued in July 2008 [and revised in May 2012](#) has been revised by APESB in [xx 2015May 2012](#). A summary of the revisions is given in the table below.

Table of revisions*

<u>Paragraph affected</u>	<u>How affected</u>
1.1	Added
1.2 – Paragraph 1.1 of existing APES 225 relocated	Amended
1.3 – Paragraph 1.2 of existing APES 225 relocated	Amended
1.6 – Paragraph 1.5 of existing APES 225 relocated	Amended
1.8 – Paragraph 1.7 of existing APES 225 relocated	Amended
1.10	Added
2 – Definition of Assignment	Amended
2 – Definition of Client	Amended
2 – Definition of Contingent Fee	Amended
2 – Definition of Engagement Document	Added
2 – Definition of Firm	Amended
2 – Definition of Independence	Amended
2 – Definition of Member	Amended
2 – Definition of Member in Business	Amended
2 – Definition of Member in Public Practice	Amended
2 – Definition of Professional Activity	Added
2 – Definition of Professional Bodies	Added
2 – Definition of Professional Services	Amended
2 – Definition of Professional Standards	Added
4.1	Amended
4.2	Amended
4.6	Added
4.7	Added
Appendix 2	Amended

* Refer [Technical Update 20125/xx](#)

Proposed Standard: APES 320 Quality Control for Firms

[Supersedes APES 320 Quality Control for Firms issued in May 2009]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **03/15**
ISSUED: September 2015

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APES 320 *Quality Control for Firms* is based on the *International Standard on Quality Control (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (2009)* of the *Handbook of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* of the International Auditing and Assurance Board for Accountants (IAASB), published by the International Federation of Accountants (IFAC) in April 2009 each as amended, and is used with permission of IFAC.

APES 320 Quality Control for Firms

[Supersedes APES 320 Quality Control for Firms issued in May 2009]

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

REVISED: [Month/Year]

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APES 320 *Quality Control for Firms* is based on the *International Standard on Quality Control (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (2009) of the *Handbook of the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* of the International Auditing and Assurance Board for Accountants (IAASB), published by the International Federation of Accountants (IFAC) in April 2009 each as amended, and is used with permission of IFAC.

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Appendix: Application requirements for Firms

Appendix 1: Summary of revisions to the previous APES 320 (Issued May 2009)

Legal enforceability

~~The Auditing and Assurance Standards Board (AUASB) has issued auditing standards as legislative instruments under the Corporations Act 2001, effective for financial reporting periods, which commenced on or after 1 July 2006. For Corporations Act audits and reviews, these standards have legal enforceability. To the extent that those legally enforceable auditing standards make reference to the quality control requirements for Firms issued by a Professional Body, the requirements of APES 320 have the same level of legal enforceability in respect of Corporations Act audits and reviews. This is due to the linkages with Auditing Standards ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards and ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information (or equivalent predecessor ASA's).~~

1 Scope and application

- 1.1 The primary objectives of APES 320 *Quality Control for Firms* are to specify the mandatory obligations of a Member in Public Practice and a Firm in respect of establishing and maintaining a system of quality control at the Firm level to provide it with reasonable assurance that the:
- Member and Firm are complying with Professional Standards, Relevant Ethical Requirements and applicable legal and regulatory requirements; and
 - reports issued by the Firm or Engagement Partners are appropriate in the circumstances.
- 1.42 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 320 *Quality Control for Firms* (**the Standard**). Systems of quality control in compliance with this Standard are required to be established by 01 ~~January 2010~~April 2016. Earlier adoption of this Standard is permitted.
- 1.23 APES 320 sets the standards for Members in Public Practice and Firms to establish and maintain a system of quality control at the Firm level in the provision of quality and ethical Professional Services. The mandatory requirements of this Standard are in **bold**-type, preceded or followed by discussion or explanations in normal type ~~grey type~~. APES 320 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.34 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**
- 1.45 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 320 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.56 **Members shall be familiar with relevant Professional Standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.67 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.78 All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.89 In applying the requirements outlined in APES 320, Members in Public Practice should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.910 In this Standard, Firms that have an Assurance Practice are required to apply the whole of APES 320 as applicable to their Assurance Practice and Assurance Engagements. Firms that do not have an Assurance Practice, or the non-assurance parts of Firms with an Assurance Practice, are required to apply all paragraphs of APES 320 where applicable other than those boxed and designated 'Assurance Practices only'. The application requirements are summarised in the flow chart in the Appendix to the Standard.
- 1.4011A A Firm's Personnel may be required to comply with additional standards and guidance regarding quality control procedures at the Engagement level. For example in respect of Assurance Engagements, Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* (or equivalent predecessor ASA), issued by the Auditing and Assurance Standards Board establishes standards and provides guidance on quality control procedures for audits at the Engagement level.

1.12 In this Standard, unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

2. Definitions

For the purpose of this Standard:

- (a) **Date of Report** means the date selected by a Member in Public Practice to date a report.
- (b) **Engagement Documentation** means the record of work performed, results obtained, and conclusions the Member in Public Practice reached (terms such as “working papers” or “workpapers” are sometimes used).
- (c) **Engagement Quality Control Review** means a process designed to provide an objective evaluation, on or before the Date of Report, of the significant judgements the Engagement Team made and the conclusions it reached in formulating the report. The Engagement Quality Control Review process is for audits of financial statements of ~~U~~Listed ~~e~~Entities, and those other Engagements, if any, for which the Firm has determined an Engagement Quality Control Review is required.
- (d) **Engagement Quality Control Reviewer** means a Partner, other person in the Assurance Practice, Suitably Qualified External Person, or a team made up of such individuals, none of whom is part of the Engagement Team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the Engagement Team made and the conclusions it reached in formulating the report.
- (e) **Engagement Team** means all ~~Personnel~~Partners and Staff performing the Engagement, and any individuals engaged by the Firm or a Network Firm who perform procedures on the Engagement. This excludes external experts engaged by the Firm or Network Firm.
- (f) **Firm** means:
- A sole practitioner, partnership, corporation or other entity of professional accountants;
 - An entity that controls such parties through ownership, management or other means;
 - An entity controlled by such parties through ownership, management or other means; or
 - An Auditor-General’s office or department.
- (g) **Inspection** means in relation to completed Engagements, procedures designed to provide evidence of compliance by Engagement Teams with the Firm’s quality control policies and procedures.
- (h) **Listed Entity** means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
- (i) **Monitoring** means a process comprising an ongoing consideration and evaluation of the Firm’s system of quality control, including a periodic Inspection of a selection of completed Engagements, designed to provide the Firm with Reasonable Assurance that its system of quality control is operating effectively.
- (~~k~~) **Network** means a larger structure:
- ~~(i)~~(a) ~~It~~ that is aimed at co-operation; and
- ~~(ii)~~(b) ~~It~~ that is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

- (k) **Network Firm** ~~or Network Assurance Practice~~ means a Firm, ~~practice~~ or entity that belongs to a Network.
- (l) **Partner** means any individual with authority to bind the Firm with respect to the performance of a Professional Services Engagement.
- (m) **Personnel** means Partners and Staff.
- (n) **Reasonable Assurance** means in the context of this Standard, a high, but not absolute, level of assurance.
- (o) **Relevant Ethical Requirements** means ethical requirements to which the Engagement Team and Engagement Quality Control Reviewer are subject ~~to, and~~ which ordinarily comprise Parts A and B of the Code.
- (p) **Staff** means professionals, other than Partners, including any experts the Firm employs.
- (q) **Suitably Qualified External Person** means an individual outside the Firm with the competence and capabilities to act as an Engagement Partner, for example a Partner of another Firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of historical financial information, or other assurance or related services Engagements, or of an organisation that provides relevant quality control services.

AUST 2.1

For the purpose of this Standard:

- (a) **Assurance Engagement** means an Engagement in which ~~a conclusion is expressed by a~~ Member in Public Practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the ~~evaluation or measurement or evaluation of an underlying a~~ subject matter against criteria).

This includes an Engagement in accordance with the Framework for Assurance Engagements issued by ~~the Auditing and Assurance Standards Board (AUASB)~~ or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.

- (b) **Assurance Practice** means the assurance division or section of a Firm, encompassing every Assurance Engagement conducted by the Firm, whether or not required to be conducted by a Registered Company Auditor and whether or not conducted by an individual auditor, an audit Firm or an audit company.
- (c) **Client** means an individual, firm, entity or organisation to whom or to which ~~p~~Professional services/activities are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.
- (d) **Code** means APES 110 *Code of Ethics for Professional Accountants*.
- (e) **Engagement** means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such an agreement are not part of an Engagement.
- (f) **Engagement Partner** means the Partner or other person in the Firm who is responsible for the Engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

In public sector audit organisations, the term includes a suitably qualified person to whom the Auditor General has delegated Engagement Partner responsibilities.

- (g) **Independence** means:
- Independence of mind – the state of mind that permits the ~~provision~~expression of ~~an opinion~~a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism; ~~and.~~
 - Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that~~having knowledge of all relevant information, including any safeguards applied, would reasonably conclude~~ a Firm's, or a member of the Engagement Team's, integrity, objectivity or professional scepticism ~~has~~had been compromised.
- (h) **Key Audit Partner** means the Engagement Partner, the individual responsible for the Engagement Quality Control Review, and other audit Partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the Firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit Partners" may include, for example, audit Partners responsible for significant subsidiaries or divisions.
- (i) **Member** means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body.
- (m) **Member in Public Practice** means a Member, irrespective of functional classification (e.g., audit, tax, or consulting) in a Firm that provides Professional Services. ~~The~~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.
- (k) **Professional Activity** means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
- (l) **Professional Body(ies)** means ~~the Institute of Chartered Accountants in Australia~~Chartered Accountants Australia and New Zealand, CPA Australia and the ~~National Institute of Accountants~~Institute of Public Accountants.
- (j) **Professional Services** means ~~services requiring accountancy or related skills performed by a Member in Public Practice including accounting, auditing, taxation, management consulting and financial management services~~Professional Activities performed for Clients.
- (n) **Professional Standards** means all standards issued by the Accounting Professional & Ethical Standards Board and all professional and ethical requirements of the applicable Professional Body.

Objective

3. A Firm shall establish and maintain a system of quality control designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Professional Standards and applicable legal and regulatory requirements and that reports issued by the Firm or Engagement Partners are appropriate in the circumstances.
4. A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.

5. The nature and extent of the policies and procedures developed by an individual Firm to comply with this Standard will depend on various factors such as the size and operating characteristics of the Firm, and whether it is part of a Network.

AUST 5.1 The policies and procedures developed by a Firm need not be complex or time-consuming to be effective. This Standard describes responsibilities for several different roles and functions within the Firm, including overall quality control and Monitoring. For a small Firm, it may be necessary for one person to perform more than one of these functions. In some circumstances, it may be appropriate to use the services of a Suitably Qualified External Person. When a Firm decides to use such a person, care should be taken to establish the legal responsibilities of the parties and to safeguard Client confidentiality.

Applying and complying with relevant requirements

6. **Personnel within a Firm responsible for establishing and maintaining the Firm's system of quality control shall have an understanding of the entire text of this Standard, including its application and other explanatory material, to understand its objective and to apply its requirements properly.**
7. **A Firm shall comply with each requirement of this Standard unless, in the circumstances of the Firm, the requirement is not relevant to the services provided by the Firm.**

Considerations specific to smaller Firms

8. This Standard does not call for compliance with requirements that are not relevant, for example, in the circumstances of a sole practitioner with no Staff. Requirements in this Standard such as those for policies and procedures for the assignment of appropriate Personnel to the Engagement Team (see paragraph 56), for review responsibilities (see paragraph 63), and for annual communication of the results of Monitoring to Engagement Partners within a Firm (see paragraph 117), are not relevant in the absence of Staff.
9. **The requirements are designed to enable a Firm to achieve the objective stated in this Standard. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the Firm shall consider whether there are particular matters or circumstances that require the Firm to establish policies and procedures in addition to those required by this Standard to meet the stated objective.**

Elements of a system of quality control

10. **A Firm shall establish and maintain a system of quality control that includes policies and procedures that address each of the following elements:**
 - (a) **Leadership responsibilities for quality within the Firm.**
 - (b) **Relevant Ethical Requirements.**
 - (c) **Acceptance and continuance of Client relationships and specific Engagements.**
 - (d) **Human resources.**
 - (e) **Engagement performance.**
 - (f) **Monitoring.**
11. **A Firm shall document its policies and procedures and communicate them to the Firm's Personnel.**

12. In general, communication of quality control policies and procedures to Firm's Personnel includes a description of the quality control policies and procedures and the objectives they are designed to achieve, and the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. Encouraging Firm's Personnel to communicate their views or concerns on quality control matters recognises the importance of obtaining feedback on the Firm's system of quality control.

Considerations specific to smaller Firms

13. Documentation and communication of policies and procedures for smaller Firms may be less formal and extensive than for larger Firms.

Leadership responsibilities for quality within a Firm

14. **A Firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing Engagements. Such policies and procedures shall require the Firm's chief executive officer (or equivalent) or, if appropriate, the Firm's managing board of Partners (or equivalent), to assume ultimate responsibility for the Firm's system of quality control.**
15. The Firm's leadership and the examples it sets significantly influence the internal culture of the Firm. The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the Firm's management that emphasise the Firm's quality control policies and procedures, and the requirement to:
 - (a) Perform work that complies with Professional Standards and applicable legal and regulatory requirements; and
 - (b) Issue reports that are appropriate in the circumstances.

Such actions and messages encourage a culture that recognises and rewards high quality work. These actions and messages may be communicated by, but are not limited to, training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda. They may be incorporated in the Firm's internal documentation and training materials, and in Partner and Staff appraisal procedures such that they will support and reinforce the Firm's view on the importance of quality and how, practically, it is to be achieved.

16. Of particular importance in promoting an internal culture based on quality is the need for a Firm's leadership to recognise that the Firm's business strategy is subject to the overriding requirement for the Firm to achieve quality in all the Engagements that the Firm performs. Promoting such an internal culture includes:
 - (a) Establishment of policies and procedures that address performance evaluation, compensation, and promotion (including incentive systems) with regard to its Personnel, in order to demonstrate the Firm's overriding commitment to quality;
 - (b) Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
 - (c) Provision of sufficient resources for the development, documentation and support of its quality control policies and procedures.
17. **A Firm shall establish policies and procedures such that any person or persons assigned operational responsibility for the Firm's system of quality control by the Firm's chief executive officer or managing board of Partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.**
18. Sufficient and appropriate experience and ability enables the person or persons responsible for the Firm's system of quality control to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.

Relevant Ethical Requirements

- 19. A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that the Firm and its Personnel comply with Relevant Ethical Requirements.**
20. Ethical requirements are contained in the Professional Standards. The Code establishes the fundamental principles of professional ethics, which include:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behaviour.
21. Part B of the Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.
22. The fundamental principles are reinforced in particular by:
- The leadership of the Firm;
 - Education and training;
 - Monitoring; and
 - A process for dealing with non-compliance.
23. In complying with the requirements in paragraphs 19, 24–26, 29 and 31, the definitions of “Firm”, “Network” and “Network Firms” used in the Relevant Ethical Requirements apply in so far as is necessary to interpret those ethical requirements.

Independence

- 24. A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that the Firm, its Personnel and, where applicable, others subject to Independence requirements (including Network Firm’s Personnel) maintain Independence where required by Relevant Ethical Requirements. Such policies and procedures shall enable the Firm to:**
- (a) Communicate its Independence requirements to its Personnel and, where applicable, others subject to them; and**
 - (b) Identify and evaluate circumstances and relationships that create threats to Independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the Engagement, where withdrawal is possible under applicable law or regulation.**

Assurance Practices only

- 25. A Firm shall establish policies and procedures that require:**
- (a) Engagement Partners to provide the Firm with relevant information about Client Engagements, including the scope of services, to enable the Firm to evaluate the overall impact, if any, on Independence requirements;**
 - (b) Personnel to promptly notify the Firm of circumstances and relationships that create a threat to Independence so that appropriate action can be taken; and**

- (c) **The accumulation and communication of relevant information to appropriate Personnel so that:**
- (i) **the Firm and its Personnel can readily determine whether they satisfy Independence requirements;**
 - (ii) **the Firm can maintain and update its records relating to Independence; and**
 - (iii) **the Firm can take appropriate action regarding identified threats to Independence that are not at an acceptable level.**
26. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that it is notified of breaches of Independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:**
- (a) **Personnel to promptly notify the Firm of Independence breaches of which they become aware;**
 - (b) **The Firm to promptly communicate identified breaches of these policies and procedures to:**
 - (i) **The Engagement Partner who, with the Firm, needs to address the breach; and**
 - (ii) **Other relevant Personnel in the Firm and, where appropriate, the Network, and those subject to the Independence requirements who need to take appropriate action; and**
 - (c) **Prompt communication to the Firm, if necessary, by the Engagement Partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the Firm can determine whether it should take further action.**
- AUST 27. Guidance on threats to Independence and safeguards, including application to specific situations, is set out in the Code. The Code also requires threats to Independence that are not clearly insignificant to be documented and include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
- AUST 28. A Firm receiving notice of a breach of Independence policies and procedures should promptly communicate relevant information to Engagement Partners, others in the Firm as appropriate and, where applicable, experts contracted by the Firm and Network Firm Personnel, for appropriate action. Appropriate action by the Firm and the relevant Engagement Partner should include applying appropriate safeguards to eliminate the threats to Independence or to reduce them to an acceptable level, or withdrawing from the Engagement.
29. **At least annually, a Firm shall obtain written confirmation of compliance with its policies and procedures on Independence from all Firm Personnel required to be independent by Relevant Ethical Requirements.**
30. Written confirmation may be in paper or electronic form. By obtaining confirmation and taking appropriate action on information indicating non-compliance, the Firm demonstrates the importance that it attaches to Independence and makes the issue current for, and visible to, its Personnel.
31. **A Firm shall establish policies and procedures:**
- (a) **Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior Personnel on an Assurance Engagement over a long period of time; and**
 - (b) **Requiring, for audits of financial statements of Listed Entities, the rotation of the Engagement Partner and the individuals responsible for Engagement Quality Control Review, and where applicable, others subject to rotation requirements, after a specified period in compliance with Relevant Ethical Requirements.**

32. The Code discusses the familiarity threat that may be created by using the same senior Personnel on an Assurance Engagement over a long period of time and the safeguards that might be appropriate to address such threats.
33. Determining appropriate criteria to address familiarity threats may include matters such as:
- (a) the nature of the Engagement, including the extent to which it involves a matter of public interest; and
 - (b) the length of service of the senior Personnel on the Engagement.
- Examples of safeguards include rotating the senior Personnel or requiring an Engagement Quality Control Review.
34. The Code recognises that the familiarity threat is particularly relevant in the context of financial statement audits of Listed Entities. For these audits, the Code requires the rotation of Key Audit Partners after a pre-defined period, normally no more than five years, and provides related standards and guidance.

Considerations specific to public sector organisations

35. Statutory measures may provide safeguards for the Independence of public sector auditors. However, threats to Independence may still exist regardless of any statutory measures designed to protect their Independence. Therefore, in establishing the policies and procedures required by paragraphs 19, 24–26, 29 and 31, public sector auditors should have regard to the public sector mandate and address any threats to Independence in that context.
36. Listed entities as referred to in paragraphs 31 and 34 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a Firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.
37. In the public sector, legislation may establish the appointments and terms of office of the auditor with Engagement Partner responsibility. As a result, it may not be possible to comply strictly with the Engagement Partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered significant, as noted in paragraph 36, it may be in the public interest for public sector audit organisations to establish policies and procedures to promote compliance with the spirit of rotation of Engagement Partner responsibility.

Acceptance and continuance of Client relationships and specific Engagements

38. **A Firm shall establish policies and procedures for the acceptance and continuance of Client relationships and specific Engagements, designed to provide the Firm with Reasonable Assurance that it will only undertake or continue relationships and Engagements where the Firm:**
- (a) Is competent to perform the Engagement and has the capabilities, including time and resources, to do so;**
 - (b) Can comply with Relevant Ethical Requirements; and**
 - (c) Has considered the integrity of the Client and does not have information that would lead it to conclude that the Client lacks integrity.**
39. Consideration of whether the Firm has the competence, capabilities and resources to undertake a new Engagement from a new or an existing Client involves reviewing the specific requirements of the Engagement and the existing Partner and Staff profiles at all relevant levels, and including whether:

- Firm's Personnel have knowledge of relevant industries or subject matters;
 - Firm's Personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
 - The Firm has sufficient Personnel with the necessary competence and capabilities;
 - Experts are available, if needed;
 - Individuals meeting the criteria and eligibility requirements to perform Engagement Quality Control Review are available, where applicable; and
 - The Firm is able to complete the Engagement within the reporting deadline.
40. With regard to the integrity of a Client, matters to consider include, for example:
- The identity and business reputation of the Client's principal owners, key management, related parties and those charged with its governance.
 - The nature of the Client's operations, including its business practices.
 - Information concerning the attitude of the Client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
 - Whether the Client is aggressively concerned with maintaining the Firm's fees as low as possible.
 - Indications of an inappropriate limitation in the scope of work.
 - Indications that the Client might be involved in money laundering or other criminal activities.
 - The reasons for the proposed appointment of the Firm and non-reappointment of the previous Firm.
 - The identity and business reputation of related parties.

The extent of knowledge a Firm will have regarding the integrity of a Client will generally grow within the context of an ongoing relationship with that Client.

41. Sources of information on such matters obtained by the Firm may include the following:
- Communications with existing or previous providers of professional accountancy services to the Client in accordance with Relevant Ethical Requirements, and discussions with other third parties.
 - Inquiry of other Firm's Personnel or third parties such as bankers, legal counsel and industry peers.
 - Background searches of relevant databases.
42. **A Firm shall establish policies and procedures that require:**
- (a) The Firm to obtain such information as it considers necessary in the circumstances before accepting an Engagement with a new Client, when deciding whether to continue an existing Engagement, and when considering acceptance of a new Engagement with an existing Client.**
 - (b) If a potential conflict of interest is identified prior to accepting an Engagement from a new or an existing Client or during the conduct of an Engagement, the Firm to determine whether it is appropriate to accept or continue the Engagement.**
 - (c) If issues have been identified, and the Firm decides to accept or continue the Client relationship or a specific Engagement, the Firm to document how the issues were resolved.**

43. Deciding whether to continue a Client relationship includes consideration of significant matters that have arisen during the current or previous Engagements, and their implications for continuing the relationship. For example, a Client may have started to expand its business operations into an area where the Firm does not possess the necessary expertise.
44. **A Firm shall establish policies and procedures on continuing an Engagement and the Client relationship, addressing the circumstances where the Firm obtains information that would have caused it to decline the Engagement had that information been available earlier. Such policies and procedures shall include consideration of:**
- (a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the Firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and**
 - (b) The possibility of withdrawing from the Engagement or from both the Engagement and the Client relationship.**
45. Policies and procedures on withdrawal from an Engagement or from both the Engagement and the Client relationship should address issues that include the following:
- Discussing with the appropriate level of the Client's management and those charged with its governance the appropriate action that the Firm might take based on the relevant facts and circumstances.
 - If the Firm determines that it is appropriate to withdraw, discussing with the appropriate level of the Client's management and those charged with its governance withdrawal from the Engagement or from both the Engagement and the Client relationship, and the reasons for the withdrawal.
 - Considering whether there is a professional, legal or regulatory requirement for the Firm to remain in place, or for the Firm to report the withdrawal from the Engagement, or from both the Engagement and the Client relationship, together with the reasons for the withdrawal, to regulatory authorities.
 - Documenting significant matters, consultations, conclusions and the basis for the conclusions.

Consideration specific to public sector audit organisations

46. In the public sector, auditors may be appointed in accordance with statutory procedures. Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of Client relationships and specific Engagements as set out in paragraphs 38-45 may not be relevant. Nonetheless, establishing policies and procedures as described may provide valuable information to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Human resources

47. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that it has sufficient Personnel with the competence, capabilities and commitment to ethical principles necessary to:**
- (a) Perform Engagements in accordance with Professional Standards and applicable legal and regulatory requirements; and**
 - (b) Enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**
48. Personnel issues relevant to a Firm's policies and procedures related to human resources include, for example:
- Recruitment.

- Performance evaluation.
- Capabilities, including time to perform assignments.
- Competence.
- Career development.
- Promotion.
- Compensation.
- The estimation of Personnel needs.

Effective recruitment processes and procedures help the Firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the Firm's work and possess the appropriate characteristics to enable them to perform competently.

49. Competence can be developed through a variety of methods, including the following:
- Professional education.
 - Continuing professional development, including training.
 - Work experience.
 - Coaching by more experienced Staff, for example, other members of the Engagement Team.
 - Independence education for Personnel who are required to be independent.
50. The continuing competence of a Firm's Personnel depends to a significant extent on an appropriate level of continuing professional development so that Personnel maintain their knowledge and capabilities. Effective policies and procedures should emphasise the need for continuing training for all levels of the Firm's Personnel, and should provide the necessary training resources and assistance to enable Personnel to develop and maintain the required competence and capabilities.
51. A Firm may use a Suitably Qualified External Person, for example, when internal technical and training resources are unavailable.
52. Performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. Steps a Firm may take in developing and maintaining competence and commitment to ethical principles include:
- (a) Making Personnel aware of the Firm's expectations regarding performance and ethical principles;
 - (b) Providing Personnel with evaluation of, and counseling on, performance, progress and career development; and
 - (c) Helping Personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the Firm's policies and procedures may result in disciplinary action.

Considerations specific to smaller Firms

53. The size and circumstances of a Firm will influence the structure of the Firm's performance evaluation process. Smaller Firms, in particular, may employ less formal methods of evaluating the performance of their Personnel.

Assignment of Engagement Teams

54. **A Firm shall assign responsibility for each Engagement to an Engagement Partner and shall establish policies and procedures requiring that:**
- (a) The identity and role of the Engagement Partner are communicated to key members of Client management and those charged with governance;**
 - (b) The Engagement Partner has the appropriate competence, capabilities and authority to perform the role; and**
 - (c) The responsibilities of the Engagement Partner are clearly defined and communicated to that Partner.**
55. Policies and procedures may include systems to monitor the workload and availability of Engagement Partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.
56. **A Firm shall establish policies and procedures to assign appropriate Personnel with the necessary competence and capabilities to:**
- (a) Perform Engagements in accordance with Professional Standards and applicable legal and regulatory requirements; and**
 - (b) Enable the Firm or Engagement Partners to issue reports that are appropriate in the circumstances.**
57. A Firm's assignment of Engagement Teams and the determination of the level of supervision required, include for example, consideration of the Engagement Team's:
- Understanding of, and practical experience with, Engagements of a similar nature and complexity through appropriate training and participation;
 - Understanding of Professional Standards and applicable legal and regulatory requirements;
 - Technical knowledge and expertise, including knowledge of relevant information technology;
 - Knowledge of relevant industries in which the Clients operate;
 - Ability to apply professional judgement; and
 - Understanding of the Firm's quality control policies and procedures.

Engagement performance

58. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that Engagements are performed in accordance with Professional Standards and applicable legal and regulatory requirements, and that the Firm or the Engagement Partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:**
- (a) Matters relevant to promoting consistency in the quality of Engagement performance;**
 - (b) Supervision responsibilities; and**
 - (c) Review responsibilities.**
59. A Firm promotes consistency in the quality of Engagement performance through its policies and procedures. This is often accomplished through written or electronic manuals, software tools or other forms of standardised documentation, and industry or subject matter-specific guidance materials. Matters addressed may include:
- How Engagement Teams are briefed on the Engagement to obtain an understanding of

the objectives of their work.

- Processes for complying with applicable Engagement standards.
 - Processes of Engagement supervision, Staff training and coaching.
 - Methods of reviewing the work performed, the significant judgements made and the form of report being issued.
 - Appropriate documentation of the work performed and of the timing and extent of the review.
 - Processes to keep all policies and procedures current.
60. Appropriate teamwork and training assist less experienced members of an Engagement Team to clearly understand the objectives of the assigned work.
61. Engagement supervision includes the following:
- Tracking the progress of the Engagement;
 - Considering the competence and capabilities of individual members of the Engagement Team, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the Engagement;
 - Addressing significant matters arising during the Engagement, considering their significance and modifying the planned approach appropriately; and
 - Identifying matters for consultation or consideration by more experienced Engagement Team members during the Engagement.
62. A review consists of consideration of whether:
- (a) The work has been performed in accordance with Professional Standards and applicable legal and regulatory requirements;
 - (b) Significant matters have been raised for further consideration;
 - (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - (d) There is a need to revise the nature, timing and extent of work performed;
 - (e) The work performed supports the conclusions reached and is appropriately documented;
 - (f) The evidence obtained is sufficient and appropriate to support the report; and
 - (g) The objectives of the Engagement procedures have been achieved.
63. **A Firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced team members is reviewed by more experienced Engagement Team members.**

Consultation

64. **A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that:**
- (a) **Appropriate consultation takes place on difficult or contentious matters;**
 - (b) **Sufficient resources are available to enable appropriate consultation to take place;**

<p>Assurance Practices only</p>
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| <p>(c) The nature and scope of, and conclusions arising from, such consultations are documented and agreed by both the individual seeking consultation and the individual consulted; and</p> |
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(d) Conclusions resulting from consultations are implemented.

65. Consultation includes discussion at the appropriate professional level, with individuals within or outside the Firm who have specialised expertise.
66. Consultation uses appropriate research resources as well as the collective experience and technical expertise of the Firm. Consultation helps to promote quality and improves the application of professional judgement. Appropriate recognition of consultation in the Firm's policies and procedures helps to promote a culture in which consultation is recognised as a strength and encourages Personnel to consult on difficult or contentious matters.
67. Effective consultation on significant technical, ethical and other matters within the Firm, or where applicable, outside the Firm can only be achieved when those consulted:
- Are given all the relevant facts that will enable them to provide informed advice; and
 - Have appropriate knowledge, seniority and experience,
 - and when conclusions resulting from consultations are appropriately documented and implemented.

Considerations specific to smaller Firms

68. A Firm needing to consult externally, for example, a Firm without appropriate internal resources may take advantage of advisory services provided by:
- Other Firms;
 - Professional and regulatory bodies; or
 - Commercial organisations that provide relevant quality control services.

Before contracting for such services, consideration of the competence and capabilities of the external provider helps the Firm to determine whether the external provider is suitably qualified for that purpose.

Assurance Practices only

69. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:
- (a) The issue on which consultation was sought; and
 - (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Engagement Quality Control Review

- 70. A Firm shall establish policies and procedures requiring, for appropriate Engagements, an Engagement Quality Control Review that provides an objective evaluation of the significant judgements made by the Engagement Team and the conclusions reached in formulating the report. Such policies and procedures shall:**
- (a) Require an Engagement Quality Control Review for all audits of financial statements of Listed Entities;**
 - (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services Engagements shall be evaluated to determine whether an Engagement Quality Control Review should be performed; and**
 - (c) Require an Engagement Quality Control Review for all Engagements, if any, meeting the criteria established in compliance with subparagraph 70(b).**

71. Criteria for determining which Engagements other than audits of financial statements of Listed Entities are to be subject to an Engagement Quality Control Review may include, for example:
- The nature of the Engagement, including the extent to which it involves a matter of public interest.
 - The identification of unusual circumstances or risks in an Engagement or class of Engagements.
 - Whether laws or regulations require an Engagement Quality Control Review.

Nature, timing and extent of the Engagement Quality Control Review

72. **A Firm shall establish policies and procedures setting out the nature, timing and extent of an Engagement Quality Control Review. Such policies and procedures shall require that the Engagement report not be dated until the completion of the Engagement Quality Control Review.**
73. **A Firm shall establish policies and procedures to require the Engagement Quality Control Review to include:**
- (a) Discussion of significant matters with the Engagement Partner;**
 - (b) Review of the financial statements or other subject matter information and the proposed report;**
 - (c) Review of selected Engagement Documentation relating to significant judgements the Engagement Team made and the conclusions it reached; and**
 - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.**
74. An Engagement report is not dated until the completion of the Engagement Quality Control Review. However, documentation of the Engagement Quality Control Review may be completed after the Date of Report.
75. Conducting the Engagement Quality Control Review in a timely manner at appropriate stages during the Engagement allows significant matters to be promptly resolved to the Engagement Quality Control Reviewer's satisfaction on or before the Date of Report.
76. The extent of the Engagement Quality Control Review may depend, among other things, on the complexity of the Engagement, whether the entity is a Listed Entity, and the risk that the report might not be appropriate in the circumstances. The performance of an Engagement Quality Control Review does not reduce the responsibilities of the Engagement Partner.
77. **For audits of financial statements of Listed Entities, a Firm shall establish policies and procedures to require the Engagement Quality Control Review to include consideration of the following:**
- (a) The Engagement Team's evaluation of the Firm's Independence in relation to the specific Engagement;**
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and**
 - (c) Whether documentation selected for review reflects the work performed in relation to significant judgements and supports the conclusions reached.**
78. Other matters relevant to evaluating the significant judgements made by the Engagement Team that may be considered in an Engagement Quality Control Review of an audit of financial statements of a Listed Entity include:
- Significant risks identified during the Engagement and the responses to those risks.
 - Judgements made, particularly with respect to materiality and significant risks.
 - The significance and disposition of corrected and uncorrected misstatements identified during

the Engagement.

- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

These other matters, depending of the circumstances, may also be applicable for Engagement Quality Control Reviews for audits of financial statements of other entities as well as reviews of financial statements and other assurance and related services Engagements.

Considerations specific to public sector audit organisations

79. Although not referred to as Listed Entities, as described in paragraph 36, certain public sector entities may be of sufficient significance to warrant performance of an Engagement Quality Control Review.

Criteria for the eligibility of Engagement Quality Control Reviewers

- 80. A Firm shall establish policies and procedures to address the appointment of Engagement Quality Control Reviewers and establish their eligibility through:**

- (a) The technical qualifications required to perform the role, including the necessary experience and authority; and**
- (b) The degree to which an Engagement Quality Control Reviewer can be consulted on the Engagement without compromising the reviewer's objectivity.**

81. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the Assurance Engagement. For example, the Engagement Quality Control Reviewer for an audit of the financial statements of a Listed Entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit Engagement Partner on audits of financial statements of Listed Entities.

82. The Engagement Partner may consult the Engagement Quality Control Reviewer during the Engagement, for example, to establish that a judgement made by the Engagement Partner will be acceptable to the Engagement Quality Control Reviewer. Such consultation avoids identification of differences of opinion at a late stage of the Engagement and need not compromise the Engagement Quality Control Reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant the reviewer's objectivity may be compromised unless care is taken by both the Engagement Team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the Firm or a Suitably Qualified External Person should be appointed to take on the role of either the Engagement Quality Control Reviewer or the person to be consulted on the Engagement.

- 83. A Firm shall establish policies and procedures designed to maintain the objectivity of the Engagement Quality Control Reviewer.**

84. Such policies and procedures should provide that the Engagement Quality Control Reviewer:

- (a) Where practicable, is not selected by the Engagement Partner;
- (b) Does not otherwise participate in the Engagement during the period of review;
- (c) Does not make decisions for the Engagement Team; and
- (d) Is not subject to other considerations that would threaten the reviewer's objectivity.

Considerations specific to smaller Firms

85. It may not be practicable, in the case of Firms with few Partners, for the Engagement Partner not to be involved in selecting the Engagement Quality Control Reviewer. Suitably Qualified External Persons may be contracted where sole practitioners or small Firms identify Engagements requiring Engagement Quality Control Reviews. Alternatively, some sole practitioners or small Firms may wish to use other Firms to facilitate Engagement Quality Control Reviews. Where a

Firm contracts Suitably Qualified External Persons, the Firm should follow the requirements and guidance in paragraphs 80-83 and 87.

Considerations specific to public sector audit organisations

86. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of Engagement Partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the Engagement Quality Control Reviewer should include consideration of the need for Independence from the audited entity and the ability of the Engagement Quality Control Reviewer to provide an objective evaluation.
- 87. A Firm's policies and procedures shall provide for the replacement of the Engagement Quality Control Reviewer where the reviewer's ability to perform an objective review may be impaired.**

Documentation of the Engagement Quality Control Review

- 88. A Firm shall establish policies and procedures on documentation of the Engagement Quality Control Review which require documentation that:**
- (a) The procedures required by the Firm's policies on Engagement Quality Control Review have been performed;**
 - (b) The Engagement Quality Control Review has been completed on or before the Date of Report; and**
 - (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the Engagement Team made and the conclusions it reached were not appropriate.**

Differences of opinion

- 89. A Firm shall establish policies and procedures for dealing with and resolving differences of opinion within the Engagement Team, with those consulted and, where applicable, between the Engagement Partner and the Engagement Quality Control Reviewer.**
- 90. Such policies and procedures shall require that:**
- (a) Conclusions reached be documented and implemented; and**
 - (b) The report not be dated until the matter is resolved.**
91. Effective procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached.
92. Procedures to resolve such differences may include consulting with another practitioner or Firm, or a professional or regulatory body.

Engagement Documentation

Completion of the assembly of final Engagement files

- 93. A Firm shall establish policies and procedures for Engagement Teams to complete the assembly of final Engagement files on a timely basis after the Engagement reports have been finalised.**
94. Law or regulation may prescribe the time limits by which the assembly of final Engagement files for specific types of Engagement is to be completed. Where no such time limits are prescribed in law or regulation, paragraph 93 requires the Firm to establish time limits that reflect the need to complete the assembly of final Engagement files on a timely basis. In the case of an audit, for example, such a time limit would ordinarily not be more than 60 days after the date of the auditor's report.

95. Where two or more different reports are issued in respect of the same subject matter information of an entity, a Firm's policies and procedures relating to time limits for the assembly of final Engagement files address each report as if it were for a separate Engagement. This may, for example, be the case when the Firm issues an auditor's report on a component's financial information for group consolidation purposes and, at a subsequent date, an auditor's report on the same financial information for statutory purposes.

Confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation

96. A Firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation.

97. Relevant Ethical Requirements establish an obligation for the Firm's Personnel to observe at all times the confidentiality of information contained in Engagement Documentation, unless specific Client authority has been given to disclose information, or there is a legal duty to do so. Specific laws or regulations may impose additional obligations on the Firm's Personnel to maintain Client confidentiality, particularly where data of a personal nature are concerned.

98. Whether Engagement Documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the Firm's knowledge, or if it could be permanently lost or damaged. Accordingly, controls that the Firm designs and implements to avoid unauthorised alteration or loss of Engagement Documentation may include those that:

- Enable the determination of when and by whom Engagement Documentation was created, changed or reviewed;
- Protect the integrity of the information at all stages of the Engagement, especially when the information is shared within the Engagement Team or transmitted to other parties via the Internet;
- Prevent unauthorised changes to the Engagement Documentation; and
- Allow access to the Engagement Documentation by the Engagement Team and other authorised parties as necessary to properly discharge their responsibilities.

99. Controls that the Firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of Engagement Documentation may include the following:

- The use of a password among Engagement Team members to restrict access to electronic Engagement Documentation to authorised users.
- Appropriate back-up routines for electronic Engagement Documentation at appropriate stages during the Engagement.
- Procedures for properly distributing Engagement Documentation to the team members at the start of Engagement, processing it during Engagement, and collating it at the end of Engagement.
- Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy Engagement Documentation.

100. For practical reasons, original paper documentation may be electronically scanned for inclusion in Engagement files. In such cases, the Firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the Engagement Teams to:

- Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- Integrate the scanned copies into the Engagement files, including indexing and signing off on the scanned copies as necessary; and
- Enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory or other reasons for a Firm to retain original paper documentation that has been scanned.

Retention of Engagement Documentation

- 101. A Firm shall establish policies and procedures for the retention of Engagement Documentation for a period sufficient to meet the needs of the Firm or as required by law or regulation.**
102. The needs of a Firm for retention of Engagement Documentation, and the period of such retention, will vary with the nature of the Engagement and the Firm's circumstances, for example, whether the Engagement Documentation is needed to provide a record of matters of continuing significance to future Engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of Engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements.
103. In the specific case of audit Engagements, the retention period would ordinarily be no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
104. Procedures that a Firm adopts for retention of Engagement Documentation include those that enable the requirements of paragraph 101 to be met during the retention period, for example to:
- Enable the retrieval of, and access to, the Engagement Documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time;
 - Provide, where necessary, a record of changes made to Engagement Documentation after the Engagement files have been completed; and
 - Enable authorised external parties to access and review specific Engagement Documentation for quality control or other purposes.

Ownership of Engagement Documentation

105. Unless otherwise specified by law or regulation, Engagement Documentation is the property of a Firm. The Firm may, at its discretion, make portions of, or extracts from, Engagement Documentation available to Clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of Assurance Engagements, the Independence of the Firm or its Personnel.

Monitoring

Monitoring a Firm's quality control policies and procedures

106. **A Firm shall establish a Monitoring process designed to provide it with Reasonable Assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:**
- (a) Include an ongoing consideration and evaluation of the Firm's system of quality control, including, on a cyclical basis, Inspection of at least one completed Engagement for each Engagement Partner;**
 - (b) Require responsibility for the Monitoring process to be assigned to a Partner or Partners or other persons with sufficient and appropriate experience and authority in the Firm to assume that responsibility; and**
 - (c) Require that those performing the Engagement or the Engagement Quality Control Review are not involved in inspecting the Engagements.**

107. The purpose of Monitoring compliance with quality control policies and procedures is to provide an evaluation of:
- Adherence to Professional Standards and applicable legal and regulatory requirements;
 - Whether the system of quality control has been appropriately designed and effectively implemented; and
 - Whether the Firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
108. Ongoing consideration and evaluation of the system of quality control include matters such as the following:
- Analysis of:
 - New developments in Professional Standards and applicable legal and regulatory requirements, and how they are reflected in the Firm's policies and procedures where appropriate;

Assurance Practices only

- Written confirmation of compliance with policies and procedures on Independence;
- Continuing professional development, including training; and
- Decisions related to acceptance and continuance of Client relationships and specific Engagements.
- Determination of corrective actions to be taken and improvements to be made in the system, including the provision of feedback into the Firm's policies and procedures relating to education and training.
- Communication to appropriate Firm's Personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with it.
- Follow-up by appropriate Firm's Personnel so that necessary modifications are promptly made to the quality control policies and procedures.

- AUST109. In determining the scope of the Inspections, Firms may take into account quality reviews conducted by the Professional Bodies or regulator.

Assurance Practices only

Inspection cycle policies and procedures may, for example, specify a cycle that spans three years. The manner in which the Inspection cycle is organised, including the timing of selection of individual Engagements, depends on many factors, such as the following:

- The size of the Firm.
- The number and geographical location of offices.
- The results of previous Monitoring procedures.
- The degree of authority both Personnel and offices have (for example, whether individual offices are authorised to conduct their own Inspections or whether only the head office may conduct them).
- The nature and complexity of the Firm's practice and organisation.
- The risks associated with the Firm's Clients and specific Engagements.

110. The Inspection process includes the selection of individual Assurance Engagements, some of which may be selected without prior notification to the Engagement Team. In determining the scope of the Inspections, the Firm may take into account the scope or conclusions of an independent external Inspection program such as conducted by the Professional Bodies or regulator. However, an independent external Inspection program does not act as a substitute for

the Firm's own internal Monitoring program.

Considerations specific to smaller Firms

111. In the case of small Firms, Monitoring procedures may need to be performed by individuals who are responsible for design and implementation of the Firm's quality control policies and procedures, or who may be involved in performing the Engagement Quality Control Review. A Firm with a limited number of persons may choose to use a Suitably Qualified External Person or another Firm to carry out Engagement Inspections and other Monitoring procedures. Alternatively, the Firm may establish arrangements to share resources with other appropriate organisations to facilitate Monitoring activities.

Evaluating, communicating and remedying identified deficiencies

112. **A Firm shall evaluate the effect of deficiencies noted as a result of the Monitoring process and determine whether they are either:**
- (a) **Instances that do not necessarily indicate that the Firm's system of quality control is insufficient to provide it with Reasonable Assurance that it complies with Professional Standards and applicable legal and regulatory requirements, and that the reports issued by the Firm or Engagement Partners are appropriate in the circumstances; or**
 - (b) **Systemic, repetitive or other significant deficiencies that require prompt corrective action.**
113. **A Firm shall communicate to relevant Engagement Partners and other appropriate Personnel deficiencies noted as a result of the Monitoring process and recommendations for appropriate remedial action.**
114. The reporting of identified deficiencies to individuals other than the relevant Engagement Partners need not include an identification of the specific Assurance Engagements concerned, although there may be cases where such identification may be necessary for the proper discharge of the responsibilities of the individuals other than the Engagement Partners.
115. **Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:**
- (a) **Taking appropriate remedial action in relation to an individual Assurance Engagement or member of Personnel;**
 - (b) **The communication of the findings to those responsible for training and professional development;**
 - (c) **Changes to the quality control policies and procedures; and**
 - (d) **Disciplinary action against those who fail to comply with the policies and procedures of the Firm, especially those who do so repeatedly.**
116. **A Firm shall establish policies and procedures to address cases where the results of the Monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the Assurance Engagement. Such policies and procedures shall require the Firm to determine what further action is appropriate to comply with relevant Professional Standards and applicable legal and regulatory requirements and to consider whether to obtain legal advice.**
117. **A Firm shall communicate at least annually the results of the Monitoring of its system of quality control to Engagement Partners and other appropriate individuals within the Firm, including the Firm's chief executive officer or, if appropriate, its managing board of Partners. This communication shall be sufficient to enable the Firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:**
- (a) **A description of the Monitoring procedures performed.**

- (b) The conclusions drawn from the Monitoring procedures.
- (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.
118. Some Firms operate as part of a Network and, for consistency, may implement some of their Monitoring procedures on a Network basis. Where Firms within a Network operate under common Monitoring policies and procedures designed to comply with this Standard, and these Firms place reliance on such a Monitoring system, the Firm's policies and procedures shall require that:
- (a) At least annually, the Network communicate the overall scope, extent and results of the Monitoring process to appropriate individuals within the Network Firms; and
- (b) The Network communicate promptly any identified deficiencies in the system of quality control to appropriate individuals within the relevant Network Firm or Firms so that the necessary action can be taken,
- in order that Engagement Partners in the Network Firms can rely on the results of the Monitoring process implemented within the Network, unless the Firms or the Network advise otherwise.

Complaints and allegations

119. A Firm shall establish policies and procedures designed to provide it with Reasonable Assurance that it deals appropriately with:
- (a) Complaints and allegations that the work performed by the Firm fails to comply with Professional Standards and applicable legal and regulatory requirements; and
- (b) Allegations of non-compliance with the Firm's system of quality control.
- As part of this process, the Firm shall establish clearly defined channels for Firm's Personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.
120. Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the Firm. They may be made by Firm's Personnel, Clients or other third parties. They may be received by Engagement Team members or other Firm's Personnel.

Assurance Practices only

121. Policies and procedures established for the investigation of complaints and allegations may include for example, that the Partner supervising the investigation:
- Has sufficient and appropriate experience;
 - Has authority within the Firm; and
 - Is otherwise not involved in the Engagement.
- The Partner supervising the investigation may involve legal counsel as necessary.

122. If during the investigations into complaints and allegations, deficiencies in the design or operation of the Firm's quality control policies and procedures or non-compliance with the Firm's system of quality control by an individual or individuals are identified, the Firm shall take appropriate actions as set out in paragraph 115.

Considerations specific to smaller Firms

123. It may not be practicable, in the case of Firms with few Partners, for the Partner supervising the investigation not to be involved in the Engagement. These small Firms and sole practitioners may use the services of a Suitable Qualified External Person or another Firm to carry out the investigation into complaints and allegations.

Documentation of the system of quality control

124. A Firm shall establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

125. The form and content of documentation evidencing the operation of each of the elements of the system of quality control is a matter of judgement and depends on a number of factors, including the following:

- The size of the Firm and the number of offices.
- The nature and complexity of the Firm's practice and organisation.

For example, large Firms may use electronic databases to document matters such as Independence confirmations, performance evaluations and the results of Monitoring Inspections.

126. Appropriate documentation relating to Monitoring should include, for example:

- Monitoring procedures, including the procedure for selecting completed Engagements to be inspected.
- A record of evaluation of:
 - Adherence to Professional Standards and applicable legal and regulatory requirements;
 - Whether the system of quality control has been appropriately designed and effectively implemented; and
 - Whether the Firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the Firm or Engagement Partners are appropriate in the circumstances.
- Identification of the deficiencies noted an evaluation of their effect, and the basis for determining whether and what further action is necessary.

Considerations specific to smaller Firms

127. Smaller Firms may use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.

128. A Firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing Monitoring procedures to evaluate the Firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

129. A Firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

Effective Date

130. Systems of quality control in compliance with this Standard are required to be established by 1 January 2010. Firms should consider the appropriate transitional arrangements for Engagements in process at that date.

Conformity with International Pronouncements

APES 320 and ISQC 1

APES 320 incorporates ISQC 1 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' issued by the IAASB. Words have only been changed where there is a need to accommodate Australian legislation and environment, and to fit within the structure of APES 320. These changes do not affect the substance of the requirements. Where paragraphs of APES 320 have no equivalent in the corresponding international standard, they are denoted with the letters "AUST" before the paragraph number.

Compliance with ISQC 1

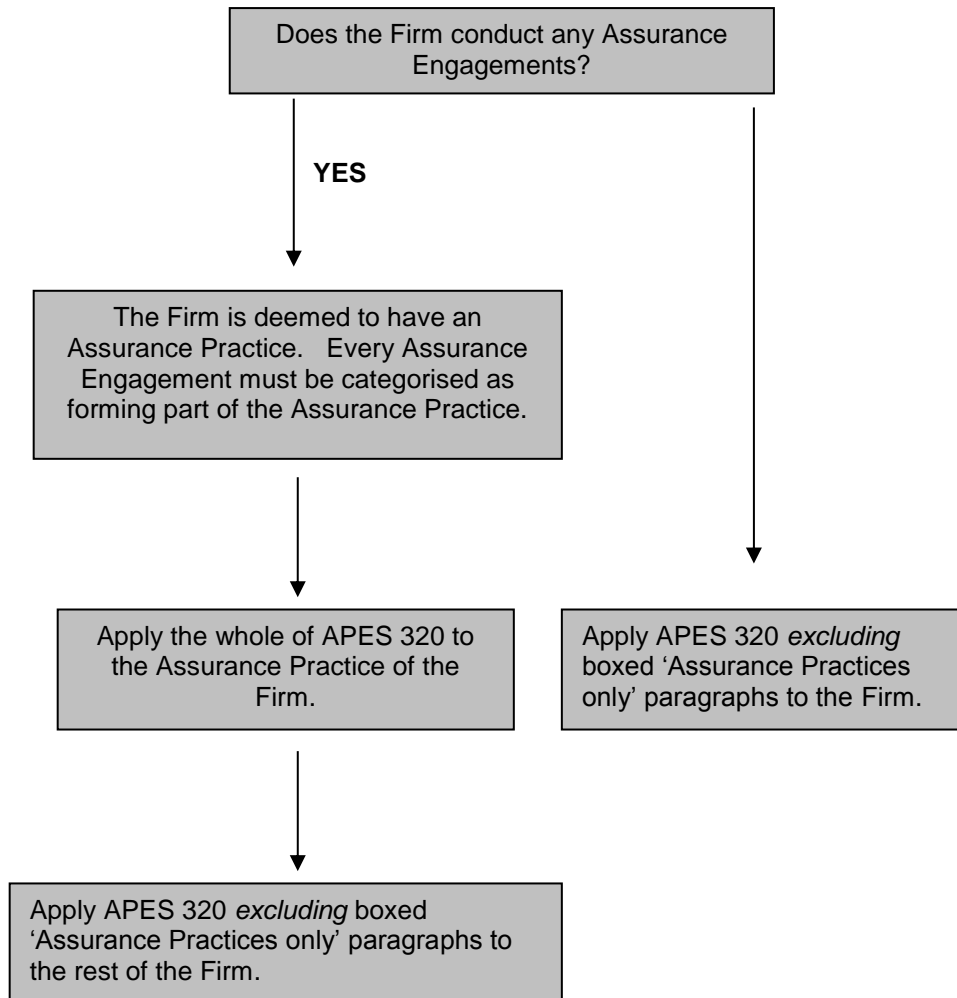
The basic principles and essential procedures of APES 320 and ISQC 1 are consistent except for:

- The addition of paragraphs prefixed as AUST in APES 320; and
- The 'Scope and application section' included in APES 320 in accordance with APESB's drafting conventions.

Appendix

Application requirements for Firms

The application requirements for Firms are summarised in the flow chart below.



Appendix 1

Summary of revisions to the previous APES 320 (Issued May 2009)

APES 320 *Quality Control for Firms* originally issued in May 2009 has been revised by APESB in XX 2015. A summary of the revisions is given in the table below.

Table of revisions*

<u>Paragraph affected</u>	<u>How affected</u>
<u>1.1</u>	<u>Added</u>
<u>1.2 – Paragraph 1.1 in existing APES 320 relocated</u>	<u>Amended</u>
<u>1.3 – Paragraph 1.2 in existing APES 320 relocated</u>	<u>Amended</u>
<u>1.12</u>	<u>Added</u>
<u>2 – Definition of Assurance Engagement</u>	<u>Amended</u>
<u>2 – Definition of Client</u>	<u>Amended</u>
<u>2 – Definition of Engagement Quality Control Review</u>	<u>Amended</u>
<u>2 – Definition of Engagement Team</u>	<u>Amended</u>
<u>2 – Definition of Independence</u>	<u>Amended</u>
<u>2 – Definition of Member</u>	<u>Amended</u>
<u>2 – Definition of Member in Public Practice</u>	<u>Amended</u>
<u>2 – Definition of Network</u>	<u>Amended</u>
<u>2 – Definition of Network Firm</u>	<u>Amended</u>
<u>2 – Definition of Professional Activity</u>	<u>Added</u>
<u>2 – Definition of Professional Bodies</u>	<u>Amended</u>
<u>2 – Definition of Professional Services</u>	<u>Amended</u>
<u>2 – Definition of Relevant Ethical Requirements</u>	<u>Amended</u>
<u>Appendix 1</u>	<u>Added</u>

* Refer Technical Update 2015/xx