



**Exposure Draft of Proposed Standard: APES 345 Reporting
on Prospective Financial Information (Previously F2)**

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 16 July 2008.

Comments should be addressed to:

The Chairperson
Accounting Professional & Ethical Standards Board Limited
Level 7, 600 Bourke Street
MELBOURNE VIC 3000
AUSTRALIA
E-mail: sub@apesb.org.au

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 July 2008 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

Reasons for issuing Exposure Draft XX/08

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to issue the Standard APES 345 *Reporting on Prospective Financial Information* setting out mandatory requirements and guidance for Members in Public Practice who provide Reporting Services to Clients in relation to Prospective Financial Information contained in Disclosure Documents.

The predecessor standard, Professional Statement F.2 *Prospectuses and Reports on Profit Forecasts* formed part of the Code of Professional Conduct (CPC) that was replaced by APES 110 *Code of Ethics for Professional Accountants*. As the Code did not contain provisions dealing with prospectuses and reports on profit forecasts F.2 was retained and is applicable for Members in Public Practice. Whilst F.2 is now presented as a separate professional statement, the original intention was that it be read and interpreted in conjunction with the CPC. That is, principles contained within the CPC were also to be applied by members undertaking engagements to report on Prospective Financial Information. This was taken into consideration when developing the proposed APES 345 as a stand alone document which has resulted in a substantial rewrite. APES 345 incorporates the ethical and professional considerations that a Member in Public Practice needs to consider when undertaking a Reporting Services Engagement.

Key requirements and guidance in ED XX/08

The proposed APES 345 includes mandatory requirements and guidance in respect of:

- The responsibility of a Member in Public Practice to follow APES 110: *Code of Ethics for Professional Accountants* (the Code) in the context of Reporting Services Engagements;
- The requirement to document and communicate the Terms of Engagement;
- Circumstances arising out of relationships which may create threats to fundamental principles in the Code;
- The provision of other services that may create threats to the fundamental principles in the Code;
- The obligations in respect of performing, documenting and reporting on the Reporting Services Engagement;
- Communication of significant matters;
- Professional fees; and
- Role in Due Diligence Committees

Proposed operative date

It is intended that this Standard will be operative for Reporting Services Engagements commencing on or after 01 July 2009.

Request for comments

Comments are invited on this Exposure Draft of APES 345 *Reporting on Prospective Financial Information* by 16 July 2008. APESB would prefer that respondents express a clear overall opinion on whether the proposed Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed Standard.

Request for specific comments

APESB invites respondents to consider and comment on the following issues:

- **A Member's role in Due Diligence Committee**

APES 345

Reporting on Prospective Financial Information

(Issued <insert Date Year>)

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1. Scope and application

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues professional standard APES 345 *Reporting on Prospective Financial Information (the Standard)*, which is effective from 01 July 2009. Early adoption of this Standard is permitted.
- 1.2 APES 345 sets the standards for Members in Public Practice who undertake Reporting Services Engagements in connection with Disclosure Documents. The mandatory requirements of this Standard are in **bold** type, preceded or followed by discussion or explanations in grey type. APES 345 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply.
- 1.3 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 345 when they provide Professional Services to Clients that are Reporting Services Engagements.**
- 1.4 **Members in Public Practice practising outside of Australia shall follow the provisions of APES 345 to the extent to which they are not prevented from so doing by specific requirements of local regulations and/or laws.**
- 1.5 **Members in Public Practice 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.**
- 1.6 The Standard is not intended to detract from any responsibilities which may be imposed by law.
- 1.7 All references to professional standards are references to those provisions as amended from time to time.
- 1.8 In applying the requirements outlined in APES 345, Members should be guided not merely by the words but also by the spirit of the Standard and the Code.
- 1.9 This Standard is directed towards Members in Public Practice. However, Members in Business may utilise this standard when they are involved in the preparation of Disclosure Documents for their Employers.

2. Definitions

For the purpose of this Standard:

Acceptable Level means a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised.

(Proposed IESBA Code)

Assurance Engagement means an Engagement in which a conclusion is expressed by a Member in Public Practice designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

This would include an Engagement in accordance with *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with specific relevant standards for Assurance Engagements. *(APES205)*

Client means an individual, Firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature. (APES 220)

Close Family means a parent, child or sibling, who is not an Immediate Family member. (APES 110)

Code means APES 110 *Code of Ethics for Professional Accountants*. (APES 220)

Direct Financial Interest means a Financial Interest:

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control. (APES 110)

Disclosure Document means a disclosure document as defined in the *Corporations Act 2001* issued by an entity pursuant to statutory or regulatory requirements relating to securities on which it is intended that a third party should make an investment decision, including a Prospectus, Product Disclosure Statement (PDS), explanatory memorandum or similar document. (APB adapted)

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. (APES 110)

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. (APES 305)

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. (APES 110)

Engagement Period starts when the Firm accepts the Reporting Services Engagement and ends on the day the securities are allotted. (APB)

Engagement Team means all personnel performing an Engagement, including any experts contracted by the Firm in connection with that Engagement. (APES 110)

Financial Interest means an interest in equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest. (APES 110)

Firm means

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

Forecast means Prospective Financial Information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared. (ASIC RG170)

Immediate Family means a spouse (or equivalent) or dependant. (APES 110)

Independence means

- (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, 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 a reasonable and informed third party, 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 had been compromised. (Code)

Indirect Financial Interest means a financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control. (APES 110)

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 term is also used to refer to a Firm of Members in Public Practice and means a practice entity as defined by the applicable professional body. (APES315)

Network Firm means a firm or entity that belongs to a network. (Code s290 amendment)

Network means a larger structure:

- (a) That is aimed at co-operation, and
- (b) 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. (Code s290 amendment)

Partner means any individual with authority to bind the Firm with respect to the performance of an Engagement. (Code)

Product Disclosure Statement means a statement as defined in Part 7.9 of the Corporations Act 2001.

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. (APES 220)

Prospective Financial Information means financial information of a predictive character based on assumptions about events that may occur in the future and on possible actions by an entity.

(ASIC RG 170)

Prospectus means any prospectus, notice, circular, advertisement or invitation for applications or offers from the public to subscribe for or purchase, or offers to the public for subscription or purchase any shares in, or debentures of, or any units of shares in, or units of debentures of a company or proposed company or other entity or trust which is lodged with the Australian Securities and Investment Commission (ASIC). (CPC Section A and Corps Act definition)

Reporting Services Engagement means an Engagement in connection with a Disclosure Document which contains Prospective Financial Information. *(APB adapted)*

Those charged with governance includes those persons accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions.

(AUASB glossary)

3. Fundamental responsibilities of Members

3.1 Members in Public Practice providing Professional Services in respect of Reporting Services Engagements shall comply with Section 100 *Introduction and Fundamental Principles* of the Code and relevant legislation. *(APES 220)*

Public interest

3.2 In accordance with Section 100.1 of the Code, Members shall observe and comply with their public interest obligations when they provide Professional Services in respect of Reporting Services Engagements. *(APES 220)*

Professional Independence

3.3 When engaged to perform a Reporting Services Engagement which requires Independence or purports to be independent, a Member in Public Practice shall comply with Section 220 *Conflict of Interest*, Section 280 *Objectivity – All Services* and Independence of the Code. *(APES225)*

3.4 A Member in Public Practice shall not act as an advocate in respect of a Reporting Services Engagement. *(APES225)*

Professional competence and due care

3.5 A Member in Public Practice performing a Reporting Services Engagement shall maintain professional competence and take due care in the performance of their work in accordance with Section 130 *Professional Competence and Due Care* of the Code. *(APES225)*

3.6 Where a Reporting Services Engagement requires the consideration of matters that are outside a Member's professional expertise, the Member in Public Practice shall seek expert assistance or advice from a suitably qualified third party on those matters outside the Member's professional expertise or decline the Reporting Services Engagement. The Member in Public Practice shall disclose in any reports or Disclosure Documents the extent of the reliance upon the advice of such a third party. *(APES225)*

- 3.7 When planning to use the work of a suitably qualified third party, a Member shall assess the professional competence and objectivity of that third party and the appropriateness and reasonableness of the work performed. (APES225)
- 3.8 In undertaking Reporting Services Engagement, a Member in Public Practice should consider the contents of any guidance in respect of such services issued by the professional accounting bodies and appropriate regulatory authorities. (APES225)

Confidentiality

- 3.9 In accordance with Section 140 *Confidentiality* of the Code, a Member in Public Practice who acquires confidential information in the course of a Reporting Services Engagement for a Client shall not use that information for any purpose other than the proper performance of the Reporting Services Engagement for that Client. (APES 220)
- 3.10 Unless the Member in Public Practice has a legal obligation of disclosure, a Member shall not convey any information relating to a Client's affairs to a third party without the Client's permission. (APES 220)
- 3.11 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. (APES 220)
- 3.12 Where a Member in Public Practice provides confidential information in accordance with a legal obligation of disclosure, the Member shall notify the Client or the relevant third party as soon as practical, provided that there is no legal prohibition against such notification. (APES 220)

4. Professional Engagement and other matters

- 4.1 A Member in Public Practice shall document and communicate the Terms of Engagement to provide the Reporting Services Engagement in accordance with APES 305 *Terms of Engagement*. (APES 225)
- 4.2 A Member in Public Practice who is approached by a potential Client to undertake a Reporting Services Engagement shall comply with the requirements of Section 210 *Professional Appointment* of the Code. (APES 220)
- 4.3 A Member in Public Practice who has utilised the services of a suitably qualified third party in connection with the performance of the Reporting Service 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. (APES225 4.3)

4.4 A Member in Public Practice should gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to ensure that the Disclosure Document and the conclusions for which the Member is responsible for are properly supported. When determining the extent and quality of evidence necessary the Member in Public Practice shall exercise professional judgement, considering the nature of the Reporting Services Engagement, Terms of the Engagement and the use to which the Disclosure Document will be put. (APES 225 4.4)

5. Relationships that create threats to the fundamental principles

5.1 This section of the standard provides requirements and guidance on specific circumstances arising out of relationships with the Client, which may create threats to the fundamental principles in the Code which a Member in Public Practice is required to abide by. Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an Acceptable Level, the only possible actions are to eliminate the activities or interest creating the threat, or refuse to accept or continue the Reporting Services Engagement. *(first sentence - APBp2.2. Remaining from Codep290.24)*

5.2 Threats to the fundamental principles may be created by any of the following interest or relationships:

- Financial interests;
- Loans and guarantees;
- Close business relationships with the client;
- Employment relationships with the client;
- Family and personal relationships.

5.3 A Member in Public Practice shall consider whether the circumstances of the Reporting Engagement make the Engagement an Assurance Engagement under *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB).

5.4 Where a Reporting Engagement is an Assurance Engagement, the Member in Public Practice shall comply with Section 290 *Independence – Assurance Engagements* of the Code.

6. The provision of other services

6.1 The provision of other services by a Member in Public Practice to the Client may create threats to the fundamental principles in the Code. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an Acceptable Level, in such a situation, either the Reporting Services Engagement or the other services should be refused. *(Code290.158)* In this standard “other services” comprise any Engagement in which a Member provides Professional Services to a Client other than pursuant to a Reporting Services Engagement. *(APB3.1, 3.2)*

- 6.2 Prior to accepting the Engagement, the Member in Public Practice shall consider and evaluate the significance of any threats identified. If the threats are other than insignificant, safeguards shall be considered and applied as necessary to reduce the threats to an Acceptable Level.
- 6.3 Where the Engagement Partner considers it probable that a reasonable and informed third party would regard the objectives of another Engagement undertaken during the relevant period as being inconsistent with the objectives of the Reporting Services Engagement, the Member in Public Practice shall consider the Firm's policies and procedures established in accordance with paragraphs 28-35 *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity. (APB3.7 adapted)
- 6.4 Other services which may introduce threats to the fundamental principles of the Code include but are not limited to:
- internal audit services;
 - information technology services;
 - valuation services;
 - actuarial valuation services;
 - taxation services;
 - litigation support services;
 - legal services;
 - recruitment and remuneration services; or
 - accounting services

7. Documentation

- 7.1 A Member in Public Practice shall prepare working papers in accordance with this Standard that appropriately document the work performed, including aspects of the Engagement that have been provided in writing. The documentation prepared by the Member in Public Practice shall:
- (a) provide a sufficient and appropriate record of the procedures performed for the Engagement;
 - (b) identify the source of significant information the Member has used in the conduct of the Reporting Services Engagement; and
 - (c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including APES 320 *Quality Control for Firms*, and any applicable ethical, legal and regulatory requirements.
(APES315p7.1)

8. Reporting

- 8.1 A Member in Public Practice shall take all reasonable steps to ensure that where the Member's name is used in a Disclosure Document, the parts of the document with which the Member is associated with do not contain false or misleading information, or the omission of material information, which may make it false or misleading. (F2p2)

- 8.2** If the Member in Public Practice finds that information on which the Reporting Services Engagement is based contains false or misleading information or omits material information, the Member shall take all reasonable steps to ensure that the Client takes the necessary steps to inform anyone who received the previously issued Disclosure Document of the situation.
- 8.3** If the Member in Public Practice becomes aware that the Client has not taken appropriate action in terms of paragraph 8.2, the Member shall notify Those Charged with Governance of the Client.
- 8.4** A Member shall not knowingly or recklessly make a statement or cause another to make a statement in or in connection with a Reporting Services Engagement that, by its content or by an omission, is false or misleading in a material manner. *(APES220p7.2)*

9. Communication with Those Charged with Governance

- 9.1** The Member in Public Practice shall ensure that Those Charged with Governance of the Client, and any other persons or entities the Member is instructed to advise, are appropriately informed on a timely basis of all significant matters that arising from the Reporting Services Engagement. *(APB1.68 adapted)*
- 9.2** Matters communicated will generally include the key elements of the Member in Public Practice's consideration of significant matters such as:
- The principal threats, if any, to objectivity and Independence identified by the Member, including consideration of relationships between the Firm and:
 - The Engagement Client, its related entities and directors, and
 - Other entities directly involved in the transaction which is the subject of the Disclosure Document;
 - Any safeguards adopted and the reasons why they are considered to be effective;
 - The considerations of the Engagement quality control review;
 - The overall assessment of threats and safeguards;
 - Information about the general policies and processes within the Firm for maintaining objectivity and Independence.
- (APB1.72)*

10. Professional fees *(discussed in APB 2.63- 2.78)*

- 10.1** A Member in Public Practice providing Reporting 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. *(APES220p10.1)*
- 10.2** A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee for a Reporting Services Engagement requiring Independence or which purports to be independent. *(APES225pp8.2)*

11. Threatened and actual litigation

11.1 Where litigation in relation to Professional Services between the Client or its related entities and the Firm, which is other than insignificant, is already in progress, or where the Member in Public Practice considers such litigation to be probable, the Member shall consider the Firm's policies and procedures established in accordance with paragraphs 28-35 *Acceptance and Continuance of Client Relationships and Specific Engagements* of APES 320 *Quality Control for Firms* in determining whether to continue acting for the Client in a professional capacity. (APB2.79, APES220p7.6 from "shall consider...")

12. Gifts and hospitality

12.1 When a Member in Public Practice, or an Immediate or Close Family member, is offered gifts and hospitality from a Client, the Member shall act in accordance with Section 260 *Gifts and Hospitality* in the Code. (discussed in APB2.82 – 2.89)

13. Role in Due Diligence Committee

13.1 A Member in Public Practice performing a Reporting Services Engagement may be invited to join a Due Diligence Committee established by the Client in respect of the Disclosure Document. The Member in Public Practice should give consideration as to the Member's proposed role on the Due Diligence Committee and assess whether that role may give rise to an impairment of objectivity or Independence by creating an advocacy or self-review threat.

13.2 Where the Member in Public Practice is of the opinion that their membership of the Due Diligence Committee may create an advocacy or self-review threat, the Member in Public Practice shall apply appropriate safeguards to reduce the threat to an Acceptable Level.

13.3 A Member in Public Practice invited to participate as a member of a Due Diligence Committee shall consider Section 290 *Independence – Assurance Engagements*, in particular *Application of Framework to Specific Situations* in the Code.

13.4 A Member in Public Practice shall only participate as a member of a Due Diligence Committee where the threat of advocacy or self-review is reduced to an Acceptable Level.

13.5 Safeguards that can be implemented by a Member in Public Practice providing Professional Services to a Client are discussed at Sections 100.11 – 100.15 and 290.28 – 290.30 of the Code.

13.6 The Member in Public Practice should consider whether a reasonable and informed third party would consider that the safeguards applied by the Member are appropriate in the circumstance given the same factual situation and the nature of the Reporting Services Engagement.