

Ethics and Professional Standards for the Professional Accountant: The Changing Landscape

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Channa Wijesinghe
MBA, CPA, CA
Technical Director

APESB 
Accounting Professional & Ethical Standards Board

Overview

- History and structure of the APESB
- Why accounting ethics and professional standards matter ?
- Structure of APESB pronouncements
 - All Members
 - Members in Public Practice
 - Members in Business
- APESB pronouncements issued to date and summary of each professional standard
- APESB's current projects

History and structure of APESB

- Established in February 2006 as an initiative of ICAA & CPA Australia
- IPA became a Member in December 2006
- Previously professional and ethical pronouncements were developed by the three professional bodies
- Members of the three bodies are required to comply and are subject to disciplinary procedures of the relevant professional body

APESB Vision

*To be recognised by our stakeholders
for our leading contribution in achieving
the highest level of professional and ethical
behaviour in the accounting profession*

Board Composition

- Independent Chair
- Two Directors CPA Australia
- Two Directors ICAA
- One Director IPA

Why accounting ethics and professional standards matter?

- Collapse of Arthur Anderson
- Arthur Anderson's problem clients (refer table 1)
- Increased regulations such as CLERP 9 in Australia and Sarbanes & Oxley in the US
- Recent corporate collapses brought on by the global financial crisis (refer table 2)

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

AA Client	Problem	Losses to shareholders	Job losses
WorldCom	US \$ 4.3 billion overstatement of earnings	\$ 179.3 billion	17,000
Enron	Inflation of income, assets, bankrupt 2001	\$ 66.4 billion	6,100
Waste Management	Overstatement of income by US \$ 1.1 billion, (1992 -96)	\$ 20.5 billion	11,000
Sunbeam	Overstatement of 1997 income by US \$ 71 million then bankruptcy	\$ 4.4 billion	1,700

Source: "Fall from grace," *Business Week*, 2002

Table 2: Recent Corporate collapses due to the Global Financial Crisis

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

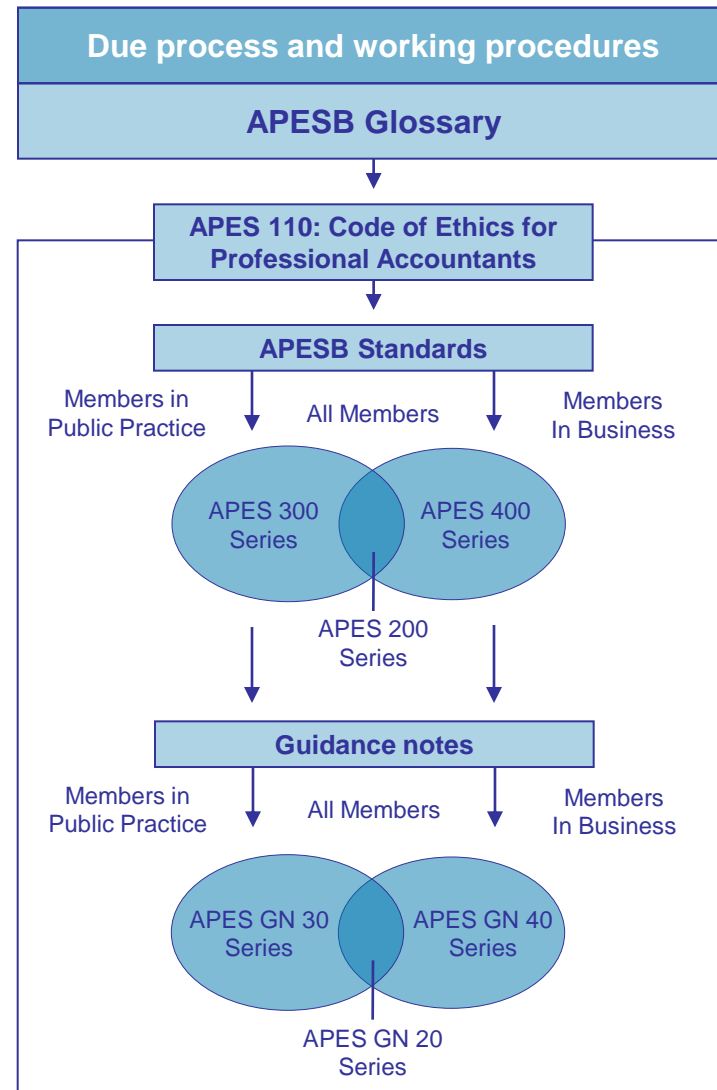
Source: www.google.com

Structure of APESB pronouncements

- **Conceptual Framework**
 - Principles based
 - Mandatory for professional accountants

- **Standard**
 - Introduces principles
 - Mandatory requirements in black letter
 - Guidance and/or explanation in grey letter

- **Guidance notes**
 - Do not introduce new principles
 - Guidance on a specific matter on which the Principles are already stated in a Standard
 - Guidance is only in grey letter



APESB Pronouncements to date

All members

- APES 110 Code of Ethics for Professional Accountants
- APES 205 Conformity with Accounting Standards
- APES 210 Conformity with Auditing Standards
- APES 215 Forensic Accounting Services
- APES 220 Taxation Services
- APES 225 Valuation Services
- *APES 230 Financial Advisory Services ED*

APESB Pronouncements to date

Members in Public Practice

- APES 305 Terms of Engagement
- APES 310 Dealing with Client Monies
- APES 315 Compilation of Financial Information
- APES 320 Quality Control for Firms
- *APES 325 Risk Management for a Firm (project in progress)*
- APES 330 Insolvency Services
- APES 345 Reporting on Prospective Financial Information
- APES 350 Due Diligence Committees

APESB Pronouncements to date

Members in Business

- *APES GN 40 Members in Business (project in progress)*

APES 110

Code of Ethics for Professional Accountants

APES 110 Code of Ethics for Professional Accountants

- **Part A: General Application**
- **Part B: Members in Public Practice**
- **Part C: Members in Business**

APES 110 *Code of Ethics for Professional Accountants*

Part A: General Application

- Fundamental Principles:
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

APES 110 *Code of Ethics for Professional Accountants*

Part B: Members in Public Practice

- Section 210 – Professional Appointment
- Section 220 – Conflicts of Interest
- Section 230 – Second opinions
- Section 240 – Fees and Other Types of Remuneration
- Section 250 – Marketing Professional Services
- Section 260 – Gifts and Hospitality
- Section 270 – Custody of Client Assets
- Section 280 – Objectivity All Services
- Section 290 – Independence Assurance Engagements

APES 110 *Code of Ethics for Professional Accountants*

Part C: Members in Business

- Section 300 – Introduction
- Section 310 – Potential conflicts
- Section 320 – Preparation and Reporting of Information
- Section 330 – Acting with Sufficient Expertise
- Section 340 – Financial Interests
- Section 350 – Inducements

APES 110 *Code of Ethics for Professional Accountants*

- **Independence requires:**
 - Independence of Mind
 - Independence of Appearance

(S. 290.8 and definitions)

APES 110 *Code of Ethics for Professional Accountants*

- **Threats to Independence:**
 - Self interest threat
 - Self review threat
 - Advocacy threat
 - Familiarity threat
 - Intimidation threat

(s. 290.28 to 290.28.9)

APES 110 *Code of Ethics for Professional Accountants*

- **Safeguards**
 - created by the profession, legislation or regulation
 - within the Assurance client
 - within the firm's own systems and procedures

(s. 290.28.10 to 290.29)

APES 110 Section 290 Independence

- **Auditor's responsibility**
 - Identify threats to independence
 - Evaluate whether these threats are clearly insignificant
 - If not identify and apply appropriate safeguards
- **When safeguards are not available**
 - Eliminate activity or interest creating the threat
 - Refuse to accept or continue the Assurance Engagement

APES 205

Conformity with Accounting Standards

APES 205 *Conformity with Accounting Standards*

- Replaced APS 1 or NIA BP 3
- Effective 1 July 2008
- Reporting entity concept
- Responsibilities of Members to follow accounting standards when they prepare, present, audit, review or compile:
 - General Purpose Financial Statements
- Responsibilities of Members to follow accounting standards when they prepare, present, audit, review or compile:
 - Special Purpose Financial Statements

APES 210

Conformity with Auditing and Assurance Standards

APES 210 *Conformity with Auditing and Assurance Standards*

- All members must comply with auditing and assurance standards in the conduct of all audit, review, assurance, other assurance engagements and related services
- All members should comply with auditing and assurance guidance in the conduct of all audit, review, assurance, other assurance engagements and related services

APES 215

Forensic Accounting Services

APES 215 *Forensic Accounting Services*

- Formerly APS 11 & GN 2
- Applies to accountants working in public practice as well as business (i.e. ASIC, Police forces etc.)
- Includes mandatory requirements and guidance for Forensic Accounting Services (FAS)
- Extension of scope for Members in Business
 - Operative on or after 1 July 2009
 - Engagement → Members in Public Practice
 - Assignment → Members in Business

APES 215 *Forensic Accounting Services*

- Where a Professional Service later becomes a FAS then APES 215 applies (Para 1.5)
- Where a FAS other than an Expert Witness Service (EWS), later becomes a EWS then section 5 of APES 215 applies (Para 1.6)
- Key sections:
 - Expert Witness Services
 - False or misleading information and changes in opinion
 - Professional fees
 - Appendix – use of the terms “facts”, “assumptions” and “opinions”

APES 215 *Forensic Accounting Services*

- **Key definitions:**
 - **Forensic Accounting Services:**
 - » Expert Witness Services;
 - » Lay Witness Services;
 - » Consulting Expert Services; and
 - » Investigations Services
 - **Court**
 - **Expert Witness**
 - **Lay Witness**
 - **Consulting Expert**
 - **Professional Services**
 - **Proceedings**
 - **Contingent Fees**
 - **Report**

APES 215 *Forensic Accounting Services*

Expert Witness Services

- Evaluation of prior and/or existing relationships
 - Member in Public Practice (para 3.8 and 5.1)
 - Member in Business (para. 5.2)
 - Member in Business who is employed by a government agency (para 5.3)
- A Member's obligation as an Expert Witness (para 5.4)
- The Report of an Expert Witness (para 5.6)
 - The instruction received, limitation on the scope, Member's expertise
 - Relationships with any parties to the Proceedings
 - Significant assumptions
 - Explanation why a significant assumption is likely to be misleading (if any)
 - A list of documents and sources of information relied upon

APES 215 *Forensic Accounting Services*

False or misleading information and changes in opinion

- Shall not knowingly or recklessly make false or misleading statements
- A Member subsequently becoming aware that information is false or misleading
 - Promptly inform the legal representative of the Client, Employer or the Court as appropriate
 - Consider issuing a supplementary report

APES 215 *Forensic Accounting Services*

Professional fees

- Member in Public Practice
 - Fees will be computed in accordance with s.240 *Fees and other Types of Remuneration* of the Code
 - Not enter into a Contingent Fee arrangement for an Expert Witness Service or Engagements that require Independence
- Member in Business
 - Not receive contingent remuneration for an Expert Witness Service

APES 215 *Forensic Accounting Services*

Quality control

- Member in Public Practice – comply with APES 320 *Quality Control for Firms*
- Member in Business – utilise a system of quality control
- Proper documentation of working papers
- Maintain chain of custody

APES 215 *Forensic Accounting Services*

Use of the terms “facts”, “assumptions” and “opinions”

- Examples are provided to assist Members determine whether a matter is a fact, an assumption or an opinion
- Judged based on the particular facts and circumstances
- **Fact** - Expert Witness has applied specialised knowledge but has not applied any significant degree of judgment
- **Assumption** – ordinary meaning
- **Opinion** – Expert Witness applies a significant degree of expert judgment and draws an inference

APES 220

Taxation Services

APES 220 *Taxation Services*

- Formerly APS 6
- Applies to accountants working in public practice as well as now scope extended to members in business
- Includes mandatory requirements and guidance for Taxation Services
- Operative on or after 1 July 2008

APES 220 *Taxation Services*

- Taxations Services to a Client or Employer defined as:
 - preparation of return, notice, statement or similar document
 - preparation of tax calculations for financial statements
 - tax planning and other tax advisory
 - assistance in resolving tax disputes

APES 220 *Taxation Services*

- Preparation and lodgment of returns to Revenue Authorities
 - returns shall be prepared in accordance with information provided by Client, their instructions and tax law
- Members must not be involved in tax schemes and arrangements which are not within the law
- Use of estimates in preparation of revenue returns
 - shall not prepare or be associated with such estimates unless use is generally accepted or impractical to obtain exact data
- Members obligations in respect of false and misleading information

APES 220 *Taxation Services*

- Professional obligations in respect of Client monies and prohibition against applying tax refunds to settle amounts due unless prior client approval has been obtained
- Preparation of work papers to document the work performed

APES 225

Valuation Services

APES 225 *Valuation Services*

Scope and application

- Engagement → Members in Public Practice
- Assignment → Members in Business
- Mandatory for the Members of the three Professional Bodies
- Effective for Valuation Engagements or Assignments commencing on or after 1 January 2009
- All Members who provide an estimate of value for a business, business ownership interest, security or intangible asset are required to comply with APES 225

APES 225 *Valuation Services*

Key Definitions

- Valuation linked to:
 - Valuation Approaches
 - Valuation Methods
 - Valuation Procedures
- Three types of Valuation Services:
 - Valuation Engagements
 - Calculation Engagements
 - Limited Scope Valuation Engagements

APES 225 *Valuation Services*

Key Definitions cont.

- Results:
 - Valuation Engagement & Limited Scope
 - Valuation Engagement → Conclusion of Value
 - Calculation Engagement → Calculated Value
- Valuation Report:
 - Written or oral communication containing a Conclusion of Value or a Calculated Value

APES 225 *Valuation Services*

Reporting

- Mandatory for Members in Public Practice (para 5.1)
- Guidance for Members in Business (para 5.5)
- Reports can be written (para 5.2) or oral (para 5.3)

APES 225 *Valuation Services*

Reporting cont.

- Key report disclosures from para 5.2 are:
 - Usual disclosures – scope, basis, purpose, limitations etc.
 - Whether acting independently or not
 - Material assumptions and basis of those assumptions
 - Valuation approaches adopted
 - All qualifications that materially affect the Conclusion of Value or Calculated Value
 - Valuation Services conducted in accordance with the Standard
 - Para 5.4 provides additional disclosures to consider

APES 225 *Valuation Services*

Use of a glossary of business valuation terms

- When issuing a Valuation Report define the terms used
- Members are referred to the *International Glossary of Business Valuation*

What constitutes a valuation service

- Examples are provided in the appendix to APES 225

APES 305

Terms of Engagement

APES 305 *Terms of Engagement*

- Members in Public Practice shall document and communicate Terms of Engagement to a Client
- Guidance on general contents of an Engagement Document including limitation of liability clauses

APES 315

Compilation of Financial Information

APES 315 *Compilation of Financial Information*

- Formerly APS 9
- Applies to members in public and is effective for engagements commencing on or after 1 January 2009
- scope extended from compilation of financial statements to compilation of financial information
- independence is not a requirement but when not independent the member needs to disclose

APES 315 *Compilation of Financial Information*

- Objective is to use “accounting expertise” to compile financial information
- Activities which are not within the scope (para 4.3)
- Requirement to comply with APES 205 if compiling general purpose or special purpose financial statements

APES 315 *Compilation of Financial Information*

- Defining the terms of engagement
- Procedures of a compilation engagement
- Misstatements
- Documentation
- Reporting on a compilation engagement and compilation report format
- Communication of significant matters
- Subsequent discovery of facts
- Examples of compilation reports
- Revision done to APES 315 and a new version effective for engagements commencing on or after 1 January 2010

APES 320

Quality Control for Firms

APES 320 *Quality Control for Firms*

Applies to all Members in Public Practice

- Leadership responsibilities for quality within the Firm
- Ethical Requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring
- Documentation

APES 320 *Quality Control for Firms*

- Firms shall establish a system of quality control
- A quality control system must have the following elements
 - Leadership responsibilities for quality
 - Ethical requirements
 - Acceptance and continuance of client relationships and specific engagements
 - Human resources
 - Engagement performance
 - Monitoring
 - Documentation

APES 320 *Quality Control for Firms*

- APES 320 was effective from 1 July 2006
- A revised version of APES 320 is effective from 1 January 2010
- Some professional bodies have prepared quality control manuals that comply with APES 320

APES 330

Insolvency Services

APES 330 *Insolvency Services*

- Revision to APS 7 which was last revised in 1998
- Applies to members in public practice who provide Insolvency Services
- Effective for Insolvency Services commencing on or after 1 April 2010
- Requirement to only undertake Appointments where Members are independent and can maintain independence
- Expert witness obligations
- Professional fees and expenses

APES 350

Due Diligence Committees

APES 350 *Due Diligence Committees*

Key Definitions

- DDC Member – participates in the DDC’s decisions, signs all collective reports and documents issued by the DDC, and prepares a DDC Sign-Off
- DDC Observer – does not sign the collective reports or participate in the capacity of a DDC Member (limited role and may not involve formal reporting)
 - attend one or more meetings
 - may or may not undertake DD enquiries & provide a report to the DDC
- Due Diligence Sign-Off – written communication of conclusions arising from DD procedures performed

APES 350 *Due Diligence Committees*

Key Definitions cont.

- Public Document – disclosure document, product disclosure document statement or other documentation provided in relation to a scheme of arrangement under Part 5.1 of the *Corporations Act* or a takeover or compulsory acquisition under Chapter 6 of the *Corps Act 2001*
- Reporting Person – Member engaged to provide professional services and report on a specific issue or area of enquiry
 - may also be a DDC Member or DDC Observer

APES 350 *Due Diligence Committees*

Professional Appointments

- Member shall consider threats to compliance with the fundamental principles and apply appropriate safeguards to reduce to them to an acceptable level
- When providing services to Assurance Clients, Member shall consider s290 *Independence* of APES 110 to determine whether there are threats to independence
- When providing services to audit clients, Members shall also comply with independence requirements of the *Corporations Act 2001*

APES 350 *Due Diligence Committees*

Professional Engagement

- Document terms of Engagement in accordance with APES 305
- Where the Due Diligence Planning Memorandum (DDPM) extends responsibilities beyond the Engagement Document, the Engagement Document shall be amended to ensure the Member's responsibilities are:
 - Consistent with the Engagement Document and requirements of APES 350
- Professional obligations of the Member cannot be determined by the DDPM as it is not a document the Member controls

APES 350 *Due Diligence Committees*

Materiality guidance

- when providing such guidance Members must comply with Auditing and Assurance standards

Member's Roles and Responsibilities

- Specify the financial and/or other specific information that the Member has performed procedures on
- Not report on matters outside the Member's expertise
- A Member shall only sign a report to Those Charged with Governance on information of a general nature or the due diligence process as a DDC Member when it is approved and signed by other members of the DDC

APES 350 *Due Diligence Committees*

Roles & Responsibilities – cont.

- Agree specific procedures in relation to verification processes
- DDC Observers to assess scope of procedures and assess whether they will be in a position to provide a DDC Sign-Off

Reporting

- Contents of a Due Diligence Sign-Off :
- Conclusions of Member provided in negative assurance form
- Member's responsibilities in respect of draft documents
- DDC Sign-off pro forma in Appendix 1 of APES 350

APES 350 *Due Diligence Committees*

Some of the key elements of a DDC Sign-Off are:

- identification of the proposed transaction and the purpose of the sign-off
- the financial information and other specific information disclosed in the public document in relation to which the member has undertaken procedures
- any limitations on the scope of work performed
- the basis upon which the statements in the DDC Sign-off are made
- the extent of the member's assurance whether the financial and other specific information as presented in the identified sections are misleading or deceptive
- the significant assumptions
 - any restrictions on the use and distribution of the DDC Sign-Off; and
 - a statement that the professional services were performed and the DDC Sign-Off was prepared in accordance with APES 350 and other applicable standards

APESB's current projects

- APES 230 ED *Financial Advisory Services*
- Proposed Standard APES 325 *Risk Management for Firms*
- Proposed guidance note APES GN 20 *Outsourced Accounting Services*
- Proposed Guidance Note APES GN 40 *Ethical Considerations for Members in Business*
- Public Interest Entity (PIE) definition for the Code
- Revisions to APES 215 and APES 225

Questions?

For more information visit:

www.apesb.org.au

Contact:

Channa Wijesinghe

Technical Director

APESB

Tel: 03 96424372

Email: channa.wijesinghe@apesb.org.au

