

APESB Professional and Ethical Standards

Hai Nan ICPA

Melbourne, 21 September 2016

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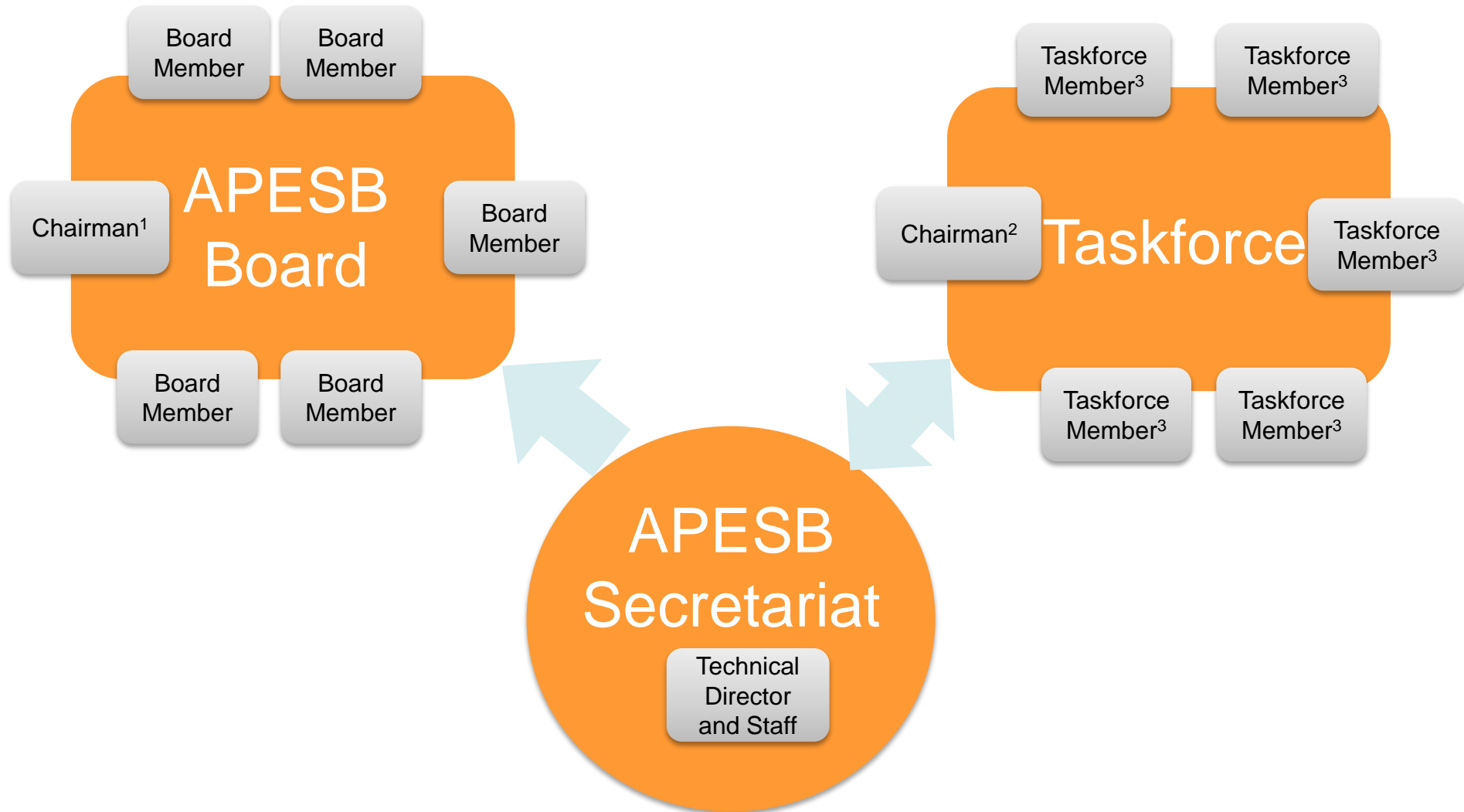
Overview

- APESB's Board composition and functional structure
- APESB's International links
- Structure of APESB Pronouncements
- APESB pronouncements to date
- APES 110 *Code of Ethics for Professional Accountants and Auditor Independence*
- APES 225 *Valuation Services*
- APES GN 30 *Outsourced Services*

Board Composition

- Independent Chair
- Two Directors CPA Australia
- Two Directors CA ANZ
- One Director IPA

APESB Functional Structure



APESB's International Links

APESB's International links

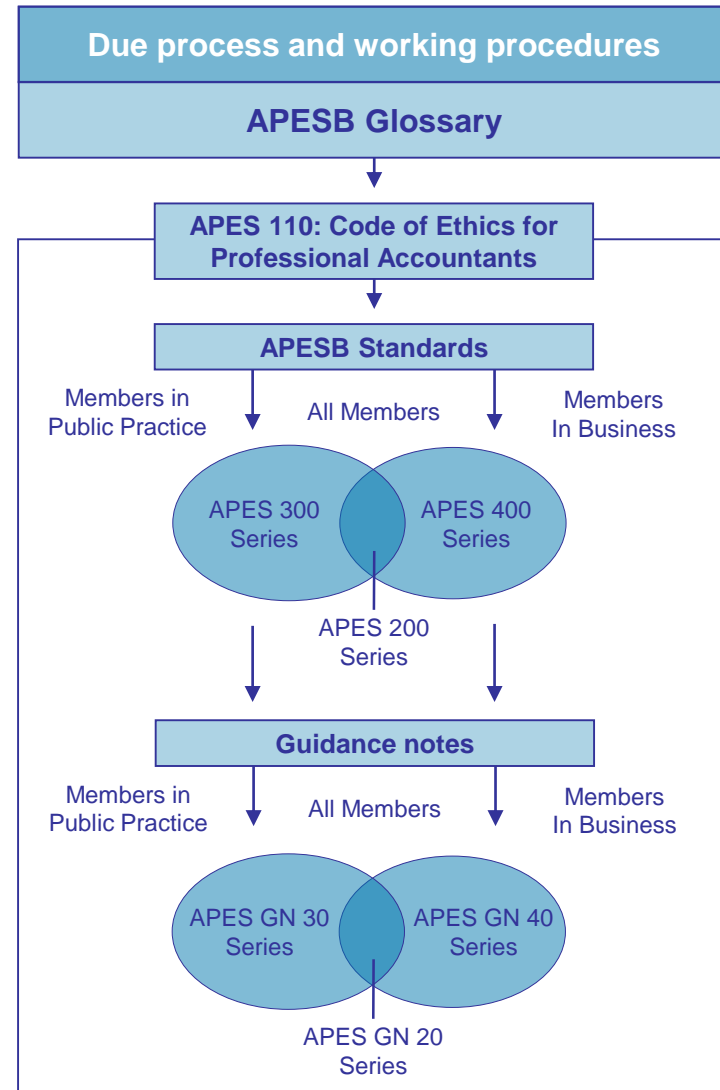
- Member of the IESBA National Standard Setters Group
- Former APESB Chairman – Member of IESBA
- Former APESB Director – Member of IFAC SMP Committee
- Current APESB Director – Member of IFAC Compliance Advisory Panel
- 2 pronouncements based on IFAC Pronouncements
- 18 pronouncements developed by APESB

Structure of APESB pronouncements

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

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

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



APESB Pronouncements to date

All Members

- APES 110 *Code of Ethics for Professional Accountants*
- APES 205 *Conformity with Accounting Standards*
- APES 210 *Conformity with Auditing and Assurance Standards*
- APES 215 *Forensic Accounting Services*
- APES 220 *Taxation Services*
- APES 225 *Valuation Services*
- APES 230 *Financial Planning Services*
- APES GN 20 *Scope and Extent of Work for Valuation Services*
- APES GN 21 *Valuation Services for Financial Reporting*

APESB Pronouncements to date

Members in Public Practice

- APES 305 *Terms of Engagement*
- APES 310 *Dealing with Client Monies*
- APES 315 *Compilation of Financial Information*
- APES 320 *Quality Control for Firms*
- APES 325 *Risk Management for Firms*
- APES 330 *Insolvency Services*
- APES 345 *Reporting on Prospective Financial Information prepared in connection with a Public Document*
- APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*
- APES GN 30 *Outsourced Services*

APESB Pronouncements to date

Members in Business

- APES GN 40 *Ethical Conflicts in the Workplace – Considerations for Members in Business*
- APES GN 41 *Management Representations*

APES 110
Code of Ethics for Professional Accountants

(issued June 2006, revised December 2010, compiled November 2013)

Ethical Obligations of Professional Accountant

Adhere to APES 110 Code of Ethics for Professional Accountants:

“A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest”

The Code has five fundamental principles:

- integrity;
- objectivity;
- professional competence and due care;
- confidentiality; and
- professional behaviour.

Auditor Independence

- Independence requires Members to act with **integrity** and to exercise **objectivity** and **professional scepticism**. Members are obliged to be straightforward and honest in professional and business relationships and not to allow their judgement to be compromised by bias, conflict of interest or the undue influence of others.
- Independence comprises both:
 - Independence of mind; and
 - Independence in appearance.
- Members must not only act in an independent manner but they must also be perceived, by an informed third party, to be independent.
- Particularly relevant when providing assurance services.

Independence in the context of 'assurance engagements'

Assurance Engagement

Any engagement in which 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 measurement or evaluation of an underlying subject matter against criteria).

In the context of 'Assurance Engagements', the Code has two sections:

- **Section 290:** Independence requirements for *Audit and Review Engagements*; and
- **Section 291:** Independence requirements for all *Other Assurance Engagements*.

APESB's revision to APES 110 in respect of auditor independence requirements

- APES 110 revised in December 2010 in accordance with the IESBA's revision of their Code
- Key changes to APES 110 in respect of auditor independence requirements are:
 - Auditor independence requirements extended from Listed Entities to audits of all Public Interest Entities (PIEs)
 - The separation of the independence requirements for Audit and Review Engagements of Financial Statements from the independence requirements for Other Assurance Engagements.
 - **Section 290:** Independence requirements for *Audit and Review Engagements*; and
 - **Section 291:** Independence requirements for all *Other Assurance Engagements*.

APESB's revision to APES 110 in respect of auditor independence requirements

Mandatory Partner rotation requirements for audits of PIEs

- Extended from Engagement Partner and Engagement Quality Control Review Partner to all Key Audit Partners i.e.
 - » Engagement Partner
 - » Quality Control Review Partner
 - » Other Partners responsible for key decisions or judgments on the Audit Engagement
- Key Audit Partner rotation required after 7 years and time-out of 2 years
 - » An exemption available where there are only a few people with knowledge & skill to serve as a Key Audit Partner;
 - » Independent regulator has provided an exemption; and
 - » Independent regulator has provided safeguards

APESB's revision to APES 110 in respect of auditor independence requirements

Mandatory cooling off period

- Mandatory cooling off period for a Key Audit Partner before joining former Audit Client that is a PIE as a:
 - Director;
 - Officer; or
 - Employee with significant influence over accounting records or Financial Statements
- Cooling off period:
 - Senior or managing Partner = 1 year (Section 290.140)
 - Key Audit Partner = 1 audit opinion covering 12 months

Auditor's rotation requirements according to the Act and the Code

Refer to Chapter 8 of **JAB Independence Guide** for more information on Auditor Rotation Requirements

The Act*
5-year rotation rules
(Listed Entities)

For listed entities, the Corporations Act continues to apply the more restrictive 5-year rotation rules to individuals who 'play a significant role' (i.e. Lead Auditor and Review Auditor as defined in Section 324 AF) in the audit. Recent amendments to the Corporations Act has resulted in a 2-year extension to the general 5-year period with the specific approval of the Audit Committee.

The Code
7-year rotation rule
(Public Interest Entities)

The Code has established a 7-year rotation rule that applies to all Key Audit Partners of audits and reviews of Public Interest Entities. The new definitions of Public Interest Entity and Key Audit Partner will have the effect of expanding the rotation requirements to include additional partners who make significant judgements on an Audit Engagement of a Listed entity and also apply to unlisted entities which may now be classified as PIEs.

* Refer to *Corporations Act 2001*

Auditor's independence requirements in recent amendments of the *Corporations Act*

- Recent amendments to the *Corporations Act* provides additional requirements for auditors to enhance audit quality:
 - Annual transparency reports for audit firms which audit 10 or more Australian listed companies, listed registered schemes, authorised deposit-taking institutions and insurance companies.
 - Amendment of the *Australian Securities and Investments Commission Act 2001*:
 - Amendments to the audit deficiency notification and reporting process; and
 - ASIC's level of communication with those charged with governance of corporations, registered schemes and disclosing entities in certain specified circumstances.

Applicable Independence Standards

Classification of Entity	Type of Engagement	Outcome	Applicable section of the Code	Applicable Corporate Legislation
Public Interest Entity	Audit and Review Engagements for Historical Financial Statements	Assurance Engagements where a Member expresses a conclusion on Financial Statements	Section 290	Corporations Act 2001 Divisions 3,4 and 5 of Part 2M.4 and s307C
	Other Assurance Engagements	Assurance Engagements that are not Audit or Review Engagements	Section 291	Corporations Act 2001 – via ASAEs
Not a Public Interest Entity	Audit and Review Engagements for Historical Financial Statements	Assurance Engagements where a Member expresses a conclusion on Financial Statements	Section 290	Corporations Act 2001 Divisions 3 and 4 of Part 2M.4 and s307C
				Corporations Act 2001 – via ASAs and ASREs
	Other Assurance Engagements	Assurance Engagements that are not Audit or Review Engagements	Section 291	Corporations Act 2001 – via ASAEs

APES 225 ***Valuation Services***

(issued July 2008, revised May 2012 and December 2015)

APES 225 Valuation Services

Australian perspective

- ATO
 - Market Value Guidelines (2002)
- ASIC
 - RG 111: Contents of experts reports (Oct 2007)
 - RG 112: Independence of experts (Oct 2007)
- APESB
 - *APES 225 Valuation Services* (December 2015)
 - *APES 110 Code of Ethics for Professional Accountants* (Dec 2011)
 - *APES GN 20 Scope and Extent of Work for Valuation Services*
 - *APES GN 21 Valuation Services for Financial Reporting*

APES 225 Valuation Services

International perspective

- CICBV
 - Standards 110, 120 and 130
- IVSC
 - International Valuation Standards
- ICANZ
 - Independent Business Valuation Engagements (2001)
- AICPA
 - Standards for Valuation Services (June 2007)

APES 225 Valuation Services

Scope and application

- Engagement → Members in Public Practice
- Assignment → Members in Business
- Mandatory for the Members of the three Professional Bodies
- The revised APES 225 is effective from 1 April 2016
 - 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

Three types of Valuation Services

- Valuation Engagements
- Calculation Engagements
- Limited Scope Valuation Engagements

Results

- Valuation Engagement → Conclusion of Value
- Limited Scope Valuation Engagement → Conclusion of Value
- Calculation Engagement → Calculated Value

Valuation Report

- Written or oral communication containing a Conclusion of Value or a Calculated Value

APES 225 Valuation Services

Reporting

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

APES 225 Valuation Services

Reporting cont.

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

APES 225 Valuation Services

What constitutes a Valuation Service – Refer Appendix

- Diagram to determine type of Valuation Services
- 23 examples to determine whether a Member is providing a Valuation Service and the type of Valuation Service

APES GN 30 ***Outsourced Services***

(issued March 2013, revised October 2015)

APES GN 30 Outsourced Services

- Originally issued in March 2013
- Revised in October 2015
- APES GN 30 *Outsourced Services* provides guidance to Members in Public Practice to manage risks associated with Outsourced Services
- Includes guidance in respect of:
 - Maintaining confidentiality of Client information
 - Ensuring quality control of the Outsourced Service provided
 - Appropriate level of disclosure of the nature and extent of use of Outsourced Services in the delivery of the Professional Service
 - Matters to be disclosed in the Service Level Agreement (SLA)

APES GN 30 Outsourced Services

- **Scope of APES GN 30**
 - Applies to the utilisation and provision of Outsourced Services
 - Applies to the utilisation of cross border teams and Network Firms
 - Excludes Engagements subject to ASA 600 Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)

APES GN 30 Outsourced Services

- **Communication with the Client**
 - Disclose Outsourced Service arrangements
 - Recommendation is to obtain the Client's written consent
- **Management of risks associated with Outsourced Services**
 - Development and documentation of Outsourcing Policy Framework
 - Matters to be addressed by the Outsourcing Policy Framework
 - Due diligence assessments on the Outsourced Service Provider

APES GN 30 Outsourced Services

- **Terms of the Outsourcing Agreement**
- **Performance of the Outsourcing Agreement**
 - Transfer process and knowledge
 - Monitor and manage performance
 - Renew, renegotiate and terminate
 - Client monies
- **Documentation**

APES GN 30 Outsourced Services

- **Appendix 1**

- Provides nine examples to assist Members in Public Practice with the determination of whether a particular Professional Service is an Outsourced Service
- Takes into consideration whether the Outsourced activity is a Material Business Activity

- **Appendix 2**

- Provides guidance in respect of the subject matters to be included in an Outsourcing Service Level Agreement (SLA):
 - Terms of the Outsourcing Agreement
 - The required service levels and performance requirements
 - Transition process
 - Pricing model
 - Management of Client information
 - Audit and monitoring procedures
 - Details of liability and indemnity insurance
 - Dispute resolution mechanisms
 - Conditions for SLA termination

Questions?

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