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Basis for Conclusions: APES GN 41 Management Representations

Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board

BASIS FOR CONCLUSIONS:

APES GN 41 Management Representations

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders so they may gain an understanding of the background to the development of APES GN 41 *Management Representations* (APES GN 41).

The basis for conclusions **does not** form part of APES GN 41 and is not a substitute for reading the Guidance Note.

Background

APESB has issued APES GN 41 to provide guidance to assist Members in Business on the application of the fundamental principles in APES 110 *Code of Ethics for Professional Accountants* to Management Representations.

APES GN 41 includes guidance in respect of:

- preparing and/or signing Management Representations to Those Charged with Governance or an external party;
- professional obligations (due to regulatory practice or other conventions) in relation to Management Representations including Financial Reporting Certifications; and
- Management Representation considerations at the entity level, controlling entity level and board or audit committee level;

APESB issued an exposure draft of the proposed Guidance Note (APES GN 41 ED) in November 2015 with a comment deadline of 29 February 2016. APESB received eight submissions from the major accounting firms, professional bodies and a professional body member. In response to the comments received, APESB made a number of changes to APES GN 41.

The following summarises the key issues raised by respondents during the development of APES GN 41 and how APESB addressed them. Please note that the paragraph numbering reflects the numbering in APES GN 41 and may not reflect APES GN 41 ED.

Clarity of structure

A respondent suggested that APES GN 41’s framework could be restructured to follow the systematic process of preparing Management Representations. However, APESB determined that the focus should remain on the professional and ethical obligations of Members in Business when preparing and/or signing Management Representations rather than the process. Accordingly, paragraph 1.1 includes a statement that APES GN 41 does not set out the underlying procedures or processes that a Member should follow in order to comply with applicable regulatory or other obligations associated with Management Representations.

Drafting style and use of the word ‘should’

Some respondents were concerned with the drafting style and the use of the term ‘should’ in the proposed APES GN 41 as to whether it creates a mandatory professional obligation. Accordingly, APESB has provided a cross reference in paragraph 1.4 to where the term ‘should’ is defined in the APESB’s *Due process and working procedures for the development and review of APESB pronouncements* document which clearly states it is a matter for consideration and is dependent on the circumstances of the engagement or assignment.

Rationale for the development

A respondent was of the view that the content in APES GN 41 should have been developed into a standard based on the importance of its subject matter. In contrast, some respondents queried the need for the guidance note as it may be viewed as increasing a Member in Business’s obligations when dealing with Management Representations and that there is no equivalent international pronouncement.

APESB developed APES GN 41 as a guidance note instead of a standard as its primary purpose is to enhance Members in Business’ understanding in applying the Code’s fundamental principles when preparing and/or signing Management Representations. The lack of an international pronouncement on Management Representations should not be a deterrent for a National Standards Setter to develop and issue pronouncements that are relevant to Members in a local jurisdiction.

Scope of Management Representations (paragraph 4.1)

Based on requests from respondents, the APESB has included additional examples of Management Representations in paragraph 4.1. The additional examples emphasise the breadth of Management Representations covered in the scope of APES GN 41.

Provision of Management Representations (paragraph 4.3)

A respondent noted that as the most common Management Representation is the one provided to Members in Public Practice in respect of annual and half year Financial Statements, APES GN 41 could include information from the relevant Australian Auditing Standards.

Rather than referring to specific Australian Auditing Standards requirements, paragraph 4.1 has been updated to include a cross reference to ASA 580 *Written Representations*. A new paragraph 4.3 has also been included to draw attention to the fact that a failure to provide Management Representations may result in the external auditor providing a modified opinion on the Financial Statements.

Using the work of others (paragraph 5.4)

Respondents were concerned that the terms 'relying on the work of others' and 'take reasonable steps' were associated with work performed by auditors. Accordingly, APESB has amended paragraph 5.4 to clarify that the Member in Business may use the work of others (e.g. internal personnel). However, the Member is expected to understand the information and is responsible for ensuring that the entity's financial records are appropriate regardless of whether the financial records are maintained in-house or outsourced to an external party.

Communication of significant matters (paragraph 5.7)

Some respondents were of the view that APES GN 41 should contain guidance where there is an obligation to report to an external party (e.g. the police in the event of a fraud). APESB notes that the International Ethics Standards Board for Accountants (IESBA) has recently approved changes to the International Code in respect of Responding to Non-Compliance with Laws and Regulations, which will address this matter. Accordingly, APES GN 41 includes a new paragraph 5.7 that refers Members in Business to the Code if they identify non-compliance with laws and regulations in respect of Management Representations.

Management Representation considerations at the entity level (paragraph 6.1)

APESB decided to modify paragraph 6.1 to remove the reference to requirements set out in section 320 *Preparation and Reporting of Information* of the Code. These professional obligations are already specifically referenced in paragraph 5.2 of the Guidance Note.

Financial Reporting Certification considerations at the board/audit committee level (paragraph 8.5)

A respondent was concerned that paragraph 8.5 implies that obtaining a Financial Reporting Certification satisfies the obligations of a Member in Business under the *Corporations Act 2001*. APESB agreed that merely obtaining a Financial Reporting Certification does not necessarily satisfy Those Charged with Governance's obligations under the Corporations Act. This paragraph was amended to clarify this fact.

Documentation (paragraph 9.1)

A respondent was concerned that the guidance in relation to documentation in paragraph 9.1 implied senior Members in Business should prepare working papers to support Management Representations. APESB has amended this paragraph to clarify that appropriate working papers should be maintained by the entity and considered by the Member in Business who prepares and/or signs Management Representations.