

June 2019



Exposure Draft 02/19 Revision of APESB pronouncements

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A. Explanatory Memorandum to Exposure Draft 02/19 Revision of APESB pronouncements

Introduction

In November 2018, APESB released the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The restructured Code features significant revisions which impacts the entire suite of APESB pronouncements. The pronouncements listed below have been revised to update cross-references to the Code, to ensure consistency of definitions and terminology and other matters noted on the APESB's Issues Register.

The aim of this Explanatory Memorandum is to provide stakeholders with the background, development process and rationale for Exposure Draft 02/19 *Revision of APESB pronouncements* (the Exposure Draft) issued in June 2019.

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.

Summary of APESB Pronouncements

This Exposure Draft comprises proposed amendments to the following pronouncements, grouped into the type of pronouncement:

Pronouncement	Name of pronouncement	Part of Explanatory Memorandum
Part 1: Standards		
APES 310	<i>Client Monies</i>	Part 1 and Appendix 1
APES 320	<i>Quality Control for Firms</i>	
APES 325	<i>Risk Management for Firms</i>	
Part 2: Guidance Notes		
APES GN 40	<i>Ethical Conflicts in the Workplace – Considerations for Members in Business</i>	Part 2 and Appendix 2
APES GN 41	<i>Management Representations</i>	

Stakeholders are welcome to respond to one or more of the proposed revised pronouncements.

Key proposed amendments

The marked-up version of each pronouncement in the Exposure Draft (refer to **Appendices 1 and 2**) reflects the proposed changes for the following key matters:

- (i) Revisions to reflect the restructured Code;
- (ii) Matters raised by respondents in APESB's Issues Register;
- (iii) Matters noted through a review of the pronouncement by APESB Technical Staff; and
- (iv) Inclusion of references to Non-compliance with Laws and Regulations (NOCLAR).

The specific details of the proposed changes for each pronouncement are set out in Parts 1 and 2 of this Explanatory Memorandum.

Interactive PDF features

APESB are incorporating updates to include interactive PDF features within all of its pronouncements.

The restructured Code PDF now includes the following features:

- Bookmark Tab section for Table of Contents;
- Dynamic links to Sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites

APESB is proposing to include these features in the revised versions of the pronouncements in this Exposure Draft. To prepare for this, APESB Technical Staff have shaded all defined terms in blue in this Exposure Draft.

Effective Date

The effective date for all of the revised pronouncements will be 1 January 2020 (to align with the effective date of the new restructured Code).

This is marked up in each standard in paragraph 1.2 proposing that the revised standard will be operative from 1 January 2020 and that earlier adoption of the standard is permitted.

Guidance Notes are effective from the date of issue.

B. Request for comments on Exposure Draft

Commenting on this Exposure Draft

APESB invites stakeholders to provide comments on these proposed revisions to the pronouncements identified in ED 02/19.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 24 July 2019.**

Comments should be addressed to:

Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne, Victoria 3000
Australia

APESB would prefer that respondents express a clear overall opinion on whether the revisions to a proposed pronouncement or the pronouncements (refer to the marked-up version of each pronouncements in Appendices 1 and 2 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.

Request for Specific Comments

APESB is seeking respondents' specific comments and feedback on whether the existing provisions in these standards require amendments due to the use of digital technology and artificial intelligence.

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.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au.

Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne Victoria 3000
Australia

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Phone: (03) 9670 8911
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Part 1: Standards

This part of the explanatory memorandum focuses on the following three pronouncements:

Pronouncement	Name of pronouncement
APES 310	<i>Client Monies</i>
APES 320	<i>Quality Control for Firms</i>
APES 325	<i>Risk Management for Firms</i>

1.1 Key proposed amendments

The marked-up version of each Standard in the Exposure Draft (refer to **Appendix 1**) reflects the proposed changes incorporated into the existing pronouncement and addresses the following key matters:

(i) **Revisions to reflect the restructured Code**

In November 2018, APESB released the restructured Code to align it with the restructure to the International Code undertaken by the International Ethics Standards Board for Accountants (IESBA).

APESB has commenced a project to revise all of its current pronouncements to update any cross-references to the Code and ensure consistency of definitions and obligations across the Code and all APESB Pronouncements. Refer to **Section 1.2** for a table which summarises the revisions to the pronouncements in this part of the Exposure Draft in relation to the restructured Code.

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

APESB has also taken the opportunity to address matters that have been noted on the Issues Register in respect of the Standards in this Exposure Draft. These matters include:

- Inclusion of an example of a Limited Assurance Engagement Report (APES 310); and
- Inclusion of a reference to NOCLAR requirements (APES 325).

(iii) **Matters noted through review of pronouncement by APESB Technical Staff**

In reviewing these pronouncements APESB Technical Staff noted the following matters to be addressed in this revision:

- the definition of 'Client' in APES 310 was inconsistent with the definition used in other APESB pronouncements.

(iv) **Minor editorials**

Minor editorials, primarily dealing with capitalisation of lists, is not captured in the tables of proposed revisions in this Exposure Draft

Section 1.3 sets out a table which summarises the proposed revisions to the Standards in Exposure Draft 02/19 not addressed in Section 1.2.

Please refer to Part 2 (page 70) for the explanatory memorandum on Guidance Notes GN 40 and GN 41.

1.2 Table of proposed revisions to reflect the restructured Code

The table below provides a summary of the proposed revisions to the Standards in this Exposure Draft to align the definitions and relevant cross-references to the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued in November 2018.

Revisions to reflect the restructured Code	Pronouncements		
	APES 310	APES 320	APES 325
Amendments to definitions to align with the restructured Code			
Assurance Engagement	✓	✓	
Code	✓	✓	✓
Engagement Team		✓	
Firm	✓	✓	
Independence	✓	✓	
Key Audit Partner		✓	
Member in Public Practice	✓	✓	✓
Network		✓	✓
Professional Activity	✓	✓	✓
Update cross-references to the restructured Code			
Definition - Relevant Ethical Standards		✓	
Paragraph 3.1	✓		
Paragraph 3.2	✓		
Paragraph 3.3	✓		
Paragraph 3.4	✓		
Paragraph 3.5	✓		
Paragraph 4.1	✓		
Paragraph 4.8	✓		
Paragraph 4.13	✓		
Paragraph 8.1	✓		
Appendix 1	✓		
Amendments to align obligations with the Restructured Code			
Paragraphs made consistent with restructured Code paragraph R1.4	1.8	1.6	1.7
Amendments to align with the enhanced conceptual framework approach to addressing threats			
Paragraph 21		✓	
Paragraph 24		✓	
Paragraph AUST 27		✓	
Paragraph AUST 28		✓	
Paragraph 31		✓	

1.3 Table of other proposed revisions to the Standards

The table below provides a summary of the proposed revisions to the Standards in the Exposure Draft and the impact on the existing pronouncements. Note that this summary does not include the revisions noted in Section 1.2 relating to the restructured Code.

Summary of proposed amendments	Pronouncements		
	APES 310	APES 320	APES 325
Effective date (paragraph 1.2)	1.2	1.2 and 130	1.2
Definition of Client updated for consistency with other APESB pronouncements	✓		
Matters on the Issues Register			
Guidance on Limited Assurance Engagement Reports			
- Editorial amendment (paragraph 8.7)	✓		
- Example of Limited Assurance Engagement Report (Appendix 2)	✓		
Reference to NOCLAR requirements (paragraph 4.2)			✓
Editorials			
Introduction, Section 2	✓	✓	✓
Definition – Engagement Partner		✓	
Definition – Personnel	✓		
Definition – Risk Management			✓
Paragraph 3.1			✓
Paragraph 5.1	✓		✓
Paragraph 5.14	✓		
Paragraph 5.34	✓		
Paragraph 6.22	✓		
Paragraph 7.7	✓		
Paragraph 23		✓	
Paragraph 36		✓	
Paragraph 57		✓	
Paragraph 78		✓	
Paragraph 86		✓	
Paragraph 98		✓	
Paragraph 105		✓	

Appendix 1
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APES 310 Client Monies

[Supersedes APES 310 ~~Dealing with Client Monies~~ issued in ~~July 2013~~ May 2018]

~~Prepared and issued by~~
~~Accounting Professional & Ethical Standards Board Limited~~

REVISED: ~~May 2018~~ XXXX 2019

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<i>Appendix 34 – Summary of revisions to the previous APES 310 (Issued July 2013) [Not included as the summary of revisions is set out in the explanatory memorandum for this exposure draft]</i>	

1. Scope and application

- 1.1 The objectives of APES 310 *Client Monies* are to specify a **Member in Public Practice's** professional and ethical obligations when the **Member**:
- (a) **Deals with Client Monies** including:
- holding, receiving and disbursing **Client Monies** in a **Trust Account**;
 - holding, receiving and disbursing **Client Monies** in a **Client Bank Account**;
 - reporting on **Dealing with Client Monies**; and
 - obtaining an **Assurance Engagement** on the **Member's** compliance with this Standard; or
- (b) acts as an **Auditor of Client Monies** in terms of:
- compliance with applicable **Independence** requirements;
 - completing a professional appointment process;
 - compliance with applicable **Auditing and Assurance Standards**; and
 - reporting obligations to the applicable **Professional Body**.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 310 *Client Monies* (**the Standard**), which is effective for **Engagements** commencing on or after 1 **October 2018-January 2020** and supersedes APES 310 ~~*Dealing with Client Monies*~~ issued in **July 2013 May 2018**. Earlier adoption of this Standard is permitted.
- 1.3 APES 310 sets the standards for **Members in Public Practice** who **Deal with Client Monies** or who act as an **Auditor of Client Monies**. The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 310 should be read in conjunction with other professional duties of **Members**, and any legal obligations that may apply.
- 1.4 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 310 when they Deal with Client Monies or when they act as an Auditor of Client Monies.**
- 1.5 **Members in Public Practice practising outside of Australia shall follow the mandatory requirements of APES 310 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.**
- 1.6 This Standard does not apply where a **Member in Public Practice** is not acting in a **Client** relationship and is acting as a trustee, under a power of attorney, as a director or as an officeholder of an entity. When acting in the capacity of a trustee, an attorney, or an officeholder, the **Member** is required to comply with the obligations specified in the relevant trust deed, the power of attorney or their officeholder obligations.
- 1.7 This Standard does not apply in circumstances where a **Member in Public Practice** has no responsibility or authority to transact **Client Monies** and is only preparing or arranging banking transactions for subsequent **Client** approval.
- 1.8 **Members in Public Practice shall comply with all other applicable Professional Standards and 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**.**
- 1.9 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.

- 1.10 All references to [Professional Standards](#), guidance notes and legislation are references to those provisions as amended from time to time.
- 1.11 In applying the requirements outlined in APES 310, [Members in Public Practice](#) 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

Defined terms are shown in the body of the Standard in title case.

For the purpose of this Standard:

Applicable Year-End Date means a date, which once determined cannot be changed without the approval of the applicable [Professional Body](#). The Applicable Year-End Date must occur within 12 months of the month-end following the [Member in Public Practice](#) opening a [Trust Account](#) or the [Member](#) obtaining the authority to operate a [Client Bank Account](#).

Assurance Engagement means an [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).

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

(For guidance on Assurance Engagements, see the *Framework for Assurance Engagements* issued by the AUASB. The *Framework for Assurance Engagements* describes the elements and objectives of an Assurance Engagement and identifies engagements to which Australian Auditing Standards (ASAs), Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs) apply.)

AUASB means the Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Auditing and Assurance Standards means the [AUASB](#) standards, as described in *ASA 100 Preamble to AUASB Standards*, *ASA 101 Preamble to Australian Auditing Standards* and the *Foreword to AUASB Pronouncements*, issued by the [AUASB](#), and operative from the date specified in each standard.

Auditor of Client Monies means a [Member in Public Practice](#) who:

- (a) has been engaged to perform an [Assurance Engagement](#) of another [Member in Public Practice's](#) compliance with this Standard; and
- (b) holds a certificate of public practice of one of the [Professional Bodies](#).

Business Day means a day that is not a Saturday, Sunday, public holiday or bank holiday.

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

Client Bank Account means a [Client's](#) bank account held with a [Financial Institution](#) for which a [Member in Public Practice](#), acting either solely or in conjunction with one or more people, holds a signing authority.

Client Monies means any **Monies** (in whatever form) coming into the **Control** of a **Member in Public Practice** or any of the **Member's Personnel** which are the property of a **Client** and includes **Monies** to which the **Member** or the **Member's Personnel** have no present entitlement.

Code means APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards*).

Control means where a **Member in Public Practice** or any of the **Member's Personnel**, acting either solely or in conjunction with one or more people, can authorise the transacting of **Client Monies**.

Deals (or Dealing) with Client Monies means to hold, receive or disburse **Client Monies** by any means including cash, cheques or electronic fund transfers.

Deficiency means a deficit or shortfall of **Client Monies**, as disclosed by **Records** maintained by a **Member in Public Practice**, or in the records of a **Financial Institution** at which an account is held. However, it does not include:

- (a) any **Deficiency** which the **Auditor of Client Monies** is satisfied was caused solely by an error of a **Financial Institution** which has been subsequently rectified; and
- (b) any **Client** approved use of an overdraft facility attached to a **Client Bank Account**.

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.

Financial Institution means a bank, building society, credit union or such other financial entity that is regulated by the Australian Prudential Regulation Authority (APRA) in accordance with the *Banking Act 1959*.

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.

Independence ~~is~~ comprises:

- (a) Independence of mind – the state of mind that permits the expression of 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.
- (b) 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 a **Firm's**, or an **Engagement team** member's ~~of the Engagement team's~~, integrity, objectivity or professional scepticism has been compromised.

Limited Assurance Engagement means an **Assurance Engagement** in which the **Member in Public Practice** reduces **Engagement** risk to a level that is acceptable in the circumstances of the **Engagement**, but where that risk is greater than for a **Reasonable Assurance Engagement**, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the **Member's** attention to cause the **Member** to believe the compliance requirements have not been met, in all material respects. The nature, timing and extent of procedures performed in a Limited Assurance Engagement is limited compared with that necessary in a **Reasonable Assurance Engagement** but is planned to obtain a level of assurance that is, in the **Member's** professional judgement, meaningful. To be meaningful, the level of assurance obtained by the **Member** is likely to enhance the intended users' confidence about the compliance outcome to a degree that is clearly more than inconsequential.

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 Public Practice means a **Member**, irrespective of functional classification (e.g. for example, 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 and a participant in that practice entity as defined by the applicable **Professional Body**.

Monies means cash, foreign currency, any negotiable instrument and any security, the title to which is transferable by delivery (for example, bills of exchange and promissory notes), including delivery by electronic funds transfer.

Personnel ~~for the purposes of this Standard~~ means employees, officers, directors, contractors or agents.

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 **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**.

Reasonable Assurance Engagement means an **Assurance Engagement** in which the **Member in Public Practice** reduces **Engagement** risk to an acceptably low level in the circumstances of the **Engagement** as the basis for the **Member's** conclusion. The **Member's** conclusion is expressed in a form that conveys the **Member's** opinion on the outcome of the evaluation of the compliance activities against compliance requirements.

Records means hardcopy and/or electronic documentation evidencing the **Dealing with Client Monies** via a **Trust Account** or a **Client Bank Account**, or otherwise **Dealing with Client Monies** in accordance with a **Client's** instructions.

Signatory means a **Member in Public Practice** or any other person who has the ability to authorise the transacting of **Client Monies** either solely or in conjunction with one or more people.

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

Trust Account means an account opened by a **Member in Public Practice**, or by another party on behalf of the **Member**, with a **Financial Institution** which is kept for the sole purpose of **Dealing with Client Monies**. A Trust Account can be in the form of:

- (a) one or more accounts dealing with **Monies** of one **Client**; or
- (b) one or more accounts dealing with **Monies** of multiple **Clients**.

3. Fundamental responsibilities of Members in Public Practice

3.1 A **Member in Public Practice** who **Deals with Client Monies** or acts as an **Auditor of Client Monies** shall comply with Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework Section 100 Introduction and Fundamental Principles of the **Code** and relevant law and regulations.

- 3.2 A Member in Public Practice who Deals with Client Monies or acts as an Auditor of Client Monies shall comply with Section ~~220310~~ *Conflicts of Interest* and ~~Section 280~~ *Objectivity—All Services* of the Code.

Public interest

- 3.3 In accordance with Section 100 ~~Complying with the Code—Introduction and Fundamental Principles~~ of the Code, a Member in Public Practice shall observe and comply with the Member's public interest obligations when the Member Deals with Client Monies or acts as an Auditor of Client Monies.

Professional competence and due care

- 3.4 A Member in Public Practice who Deals with Client Monies or acts as an Auditor of Client Monies shall maintain professional competence and ~~exercise~~ *take* due care in the performance of the Member's work in accordance with ~~Section 130~~ *Subsection 113* *Professional Competence and Due Care* of the Code.

Confidentiality

- 3.5 A Member in Public Practice who Deals with Client Monies or acts as an Auditor of Client Monies and acquires confidential information in the course of ~~the Member's work for a performing a Professional Service for a Client~~ shall comply with ~~Section 140~~ *Subsection 114* *Confidentiality* of the Code.

Part A: Professional obligations of a Member in Public Practice who Deals with Client Monies

4. General obligations

- 4.1 A Member in Public Practice who Deals with Client Monies shall comply with Section ~~270350~~ *Custody of Client Assets* of the Code.
- 4.2 Subject to paragraphs 4.11, 4.12, 5.22 and 6.9, a Member in Public Practice shall only Deal with Client Monies through a Client Bank Account or a Trust Account and only in accordance with the Client's agreement and/or instructions.
- 4.3 The Client's instructions referred to in paragraph 4.2 should be in writing. To address risks associated with instructions including those received by email or other electronic means, the Member in Public Practice should develop administrative protocols that address matters including but not limited to:
- The authenticity of the instructions;
 - Acceptable timeframes for execution of instructions; and
 - Contingency procedures to be followed when the Member is not available to authorise transactions on behalf of the Client.

An example of an authority letter is set out in Appendix ~~32~~.

- 4.4 Where a Client gives an oral instruction, a contemporaneous note should be made and kept on file by the Member in Public Practice recording the relevant details.
- 4.5 A Member in Public Practice shall comply with access controls specified by the relevant Financial Institution when Dealing with Client Monies. The Member shall not use another person's or the Client's electronic banking password to access or transact Client Monies.

- 4.6 A **Member in Public Practice** shall be accountable for all **Client Monies** and keep **Client Monies** separate from all other **Monies** of the **Member**.
- 4.7 Subject to paragraph 4.8, a **Member in Public Practice** shall not obtain any benefit from **Dealing with Client Monies**, including benefits deriving from the deposit and/or investment of **Client Monies**, without prior written authority from the **Client**.
- 4.8 A **Member in Public Practice** shall only charge professional fees in respect of **Dealing with Client Monies** in accordance with Section **240330** *Fees and Other Types of Remuneration* of the **Code**.
- 4.9 Subject to legislative requirements, a **Member in Public Practice** shall take reasonable steps to ensure that the **Client** authorises the **Member's Professional Body** to have access to the **Member's Records** in respect of **Client Monies** for the purposes of an inspection, quality review or disciplinary proceedings of the applicable **Professional Body**.
- 4.10 A **Member in Public Practice** shall document the process followed to establish the identity of a **Client** and the source of **Client Monies** prior to **Dealing with Client Monies**.
- 4.11 A **Member in Public Practice** shall not:
- (a) receive or pay into a **Trust Account** or a **Client Bank Account**; or
 - (b) disburse out of a **Trust Account** or a **Client Bank Account**,
- any **Monies** if the **Member** believes, on reasonable grounds, that they were obtained from, or are to be used for, illegal activities or that dealing with the **Monies** is otherwise unlawful.
- 4.12 When **Dealing with Client Monies**, a **Member in Public Practice** shall not be involved in any money laundering transactions or in the utilisation of the proceeds of crime or terrorist financing.
- 4.13 ~~A~~Where a **Member in Public Practice** ~~who encounters or~~ becomes aware of instances of non-compliance ~~or suspected non-compliance~~ with laws and regulations (**NOCLAR**) when **Dealing with Client Monies**, ~~the Member~~ shall comply with Section **225-360** *Responding to Non-Compliance with Law and Regulations* of the **Code**.

5. Specific obligations in relation to Trust Accounts

Opening a Trust Account

- 5.1 A **Member in Public Practice** who **Deals with Client Monies** shall open a **Trust Account** at a **Financial Institution** in the name of the **Member** or the **Member's Firm** and include the term **“Trust Account”** in its title, unless the **Member** has been authorised to operate a **Client Bank Account** in accordance with Section 6 of this Standard.
- 5.2 Paragraph 5.1 does not apply where a **Member in Public Practice** who does not **Deal with Client Monies** receives **Client Monies** inadvertently or in error and dispatches them within 5 **Business Days** to the **Client**, drawer or sender as appropriate.
- 5.3 A **Member in Public Practice** shall not open a **Trust Account** with a **Financial Institution** unless its terms and conditions relating to **Trust Accounts** require that:
- (a) all **Monies** standing to the credit of that account are held by the **Member** as **Client Monies** and that the **Financial Institution** is not entitled to combine the account with any other account, or to exercise any right to set-off or counterclaim against

- Monies** in that account in respect of any sum owed to the **Financial Institution** on any other account; and
- (b) any interest payable in respect of the account balance is credited to that account.
- 5.4 A **Member in Public Practice** shall retain a copy of the terms and conditions of the **Financial Institution** relating to a **Trust Account** as part of the **Member's Records** and, where requested, provide a copy to the **Client** within 10 **Business Days** of that request.
- 5.5 A **Member in Public Practice** shall inform the **Client** in writing:
- (a) no later than at the time of initial deposit into a **Trust Account**, the details of the **Financial Institution** at which the **Client Monies** are to be held; and
- (b) within 10 **Business Days**, if there is a change to the existing **Financial Institution** arrangements where the **Client Monies** are held.

Operation of a Trust Account

- 5.6 A **Member in Public Practice** shall implement appropriate internal controls and procedures in respect of the operation of a **Trust Account**. The **Member** shall take all reasonable steps to ensure that those internal controls achieve the following objectives:
- (a) **Client Monies** are dealt with in accordance with the **Client's** instructions and the requirements of this Standard; and
- (b) a **Trust Account** is properly safeguarded and accounted for.
- 5.7 Only a **Member in Public Practice**, or any persons authorised in accordance with paragraph 5.8, shall operate the **Member's Trust Account**.
- 5.8 In circumstances where a **Member in Public Practice** is not available to authorise **Trust Account** transactions in a timely manner, the **Member** shall assign the responsibility to effect transactions, in writing, to:
- (a) another **Member in Public Practice**;
- (b) a solicitor holding a current practising certificate;
- (c) a suitably competent person employed by the **Member**; or
- (d) a manager of a branch of a **Financial Institution**.
- 5.9 A **Member in Public Practice** shall bear any **Financial Institution**, statutory or other government charges in respect of a **Trust Account**.
- 5.10 A **Member in Public Practice** shall only deposit the **Member's** own funds to a **Trust Account**:
- (a) to meet any charges made to the **Trust Account** where the **Financial Institution** has made such charges to the **Trust Account** in error, instead of to the **Member's** general bank account; or
- (b) to meet prescribed minimum requirements for an ongoing account balance of the **Financial Institution** or applicable laws and regulations.
- 5.11 Where any interest is earned on a **Trust Account**, the **Member in Public Practice** shall allocate interest on a reasonable basis to the credit of each relevant **Client**.
- 5.12 Where it is unreasonable to allocate interest to the credit of each **Client**, the **Member in Public Practice** should consider donating the interest to a charity as defined in the *Charities Act 2013*.

Holding and receiving Client Monies

- 5.13 Subject to paragraph 5.22, a **Member in Public Practice** shall deposit **Client Monies** into a **Trust Account** within 3 **Business Days** of receipt.
- 5.14 The 3 **Business Days** period referred to in paragraph 5.13 commences once the **Member in Public Practice** is reasonably able to identify the individual **Client** to whom the funds belong.
- 5.15 A **Member in Public Practice** shall only hold **Client Monies** in a **Trust Account** for the period necessary to enable the purpose for which the **Client Monies** were received to be discharged.
- 5.16 A **Member in Public Practice** receiving **Client Monies** where the payee is no longer a **Client**, the intended recipient is unable to be identified or is unknown to the **Member**, shall return the **Monies** within 10 **Business Days** to the drawer or sender as appropriate.
- 5.17 Where a **Member in Public Practice** is unable to disburse **Client Monies** to the **Client**, payee, drawer or sender, the **Member** shall comply with relevant legislation in respect of unclaimed **Monies**.
- 5.18 Where the amount of unclaimed **Monies** falls below thresholds of relevant legislation, the **Member in Public Practice** should consider donating these funds to a charity as defined in the *Charities Act 2013*.
- 5.19 Where a **Member in Public Practice** has taken appropriate action in relation to paragraphs 5.16, 5.17 and 5.18, the **Member** should document the process undertaken.
- 5.20 A **Member in Public Practice** shall record the following information for **Client Monies** received:
- (a) the name of the person or entity from whom **Monies** were received;
 - (b) the amount of **Monies**;
 - (c) the **Client** for whose benefit **Monies** are held;
 - (d) the purpose for which **Monies** were received or other description of the **Monies**;
 - (e) the date on which **Monies** were received;
 - (f) the form in which **Monies** were received; and
 - (g) in relation to **Client Monies** of a kind referred to in paragraph 5.22, the location where the **Monies** are held.
- 5.21 A **Member in Public Practice** shall issue an acknowledgement to the **Client** within 21 **Business Days** or as otherwise agreed with the **Client** containing the details specified in paragraph 5.20 and stating that the **Member** has deposited the **Client Monies** into a **Trust Account**.
- 5.22 A **Member in Public Practice** who receives **Client Monies** that are not capable of being deposited into a **Financial Institution** shall safeguard the **Monies** against unauthorised use, record details in an appropriate register, and issue an acknowledgement to the **Client** within 21 **Business Days** containing the details specified in paragraph 5.20.
- 5.23 **Client Monies** that are not capable of being deposited into a **Financial Institution** may include promissory notes or a coin collection. In such circumstances, the requirements of paragraphs 4.1 and 5.22 apply.

Disbursement of Client Monies

- 5.24 A **Member in Public Practice** shall disburse **Client Monies** within 3 **Business Days** of receipt of instructions in respect of the disbursement or in accordance with the **Terms of Engagement**.
- 5.25 A **Member in Public Practice** shall ensure that appropriate **Records** are maintained to support disbursements from a **Trust Account**.
- 5.26 A **Member in Public Practice** who wishes to disburse **Monies** from a **Trust Account** relating to professional fees and/or expenses due from a **Client**, shall obtain the **Client's** written approval prior to such disbursement.
- 5.27 A **Member in Public Practice** shall not make a disbursement to or on behalf of a **Client** from a **Trust Account** that exceeds the amount of funds standing to the credit of that **Client**.

Documentation

- 5.28 A **Member in Public Practice** shall maintain **Records** to appropriately document transactions in respect of **Client Monies**.
- 5.29 A **Member in Public Practice** shall retain **Records** that:
- (a) enable transactions involving **Client Monies** to be audited;
 - (b) disclose the financial position of the **Member's Trust Account**; and
 - (c) clearly identify the transactions made on behalf of each **Client**.
- 5.30 Subject to legislative requirements, a **Member in Public Practice** shall retain and ensure that all documentation in respect of **Client Monies** is accessible for at least 7 years.
- 5.31 A **Member in Public Practice** shall keep **Records** in such a manner as to disclose clearly:
- (a) the details of all transactions involving **Client Monies**, including:
 - (i) details of all **Client Monies** paid direct to the **Client**, or to a third party nominated by the **Client**;
 - (ii) details of all cheques received and endorsed by the **Member** for disbursement to the **Client**, or to a third party nominated by the **Client**;
 - (iii) details of all electronic funds transfers of **Monies** received, and of **Monies** transferred direct to the **Client**, or to a third party nominated by the **Client**; and
 - (iv) details of any errors in transactions involving **Client Monies**;
 - (b) the details and basis of calculation of all interest earned on **Client Monies** held in a **Trust Account** and that the interest has been applied by the **Member** in accordance with paragraph 5.11; and
 - (c) the financial position of a **Member's Trust Account** and the **Client Monies** therein.

Reconciliations

- 5.32 A **Member in Public Practice** shall reconcile the **Trust Account Records** to the **Trust Account** at least every 25 **Business Days**. The **Member** shall take action to correct any difference or error identified during the reconciliation within 5 **Business Days** of such identification.

Reporting

- 5.33 A **Member in Public Practice** shall provide a statement containing details of the **Member's** application of **Client Monies** and any interest earned on **Client Monies**, either to the **Client** or to any other person as directed by the **Client**:
- (a) upon completion of the matter requiring the maintenance of the **Trust Account**;
 - (b) when a **Trust Account** is closed;
 - (c) in respect of all transactions, at least annually unless the **Member** has:
 - (i) communicated in writing to the **Client** the details of the transactions on a regular periodic basis during the year; and
 - (ii) agreed with the **Client** to an alternative reporting period; or
 - (d) in respect of any transaction, upon written request from the **Client**.
- 5.34 A **Member in Public Practice** shall issue the statements referred to in:
- (a) paragraphs 5.33(a) and 5.33(b) within 25 **Business Days**;
 - (b) paragraph 5.33(c) within 30 **Business Days** of the **Applicable Year-End Date** or if the circumstances described in paragraphs 5.33(c)(i) **and** (ii) apply then an alternative reporting period not exceeding 90 **Business Days** of the **Applicable Year-End Date**; and
 - (c) paragraph 5.33(d) within 5 **Business Days**.

6. Specific obligations in relation to Client Bank Accounts

Operation of a Client Bank Account

- 6.1 A **Member in Public Practice** shall implement appropriate internal controls and procedures in respect of the operation of a **Client Bank Account** with regards to the transactions for which the **Member** has responsibility or oversight. The **Member** shall take all reasonable steps to ensure that those internal controls achieve the following objectives:
- (a) **Client Monies** are dealt with in accordance with the **Client's** instructions and the requirements of this Standard; and
 - (b) a **Client Bank Account** is properly safeguarded against unauthorised access or use.

Holding and receiving Client Monies

- 6.2 Subject to paragraph 6.9, a **Member in Public Practice** shall deposit **Client Monies** into the appropriate **Client Bank Account** within 3 **Business Days** of receipt.
- 6.3 A **Member in Public Practice** receiving **Client Monies** where the payee is no longer a **Client**, the intended recipient is unable to be identified or is unknown to the **Member**, shall return the **Monies** within 10 **Business Days** to the drawer or sender as appropriate.
- 6.4 Where a **Member in Public Practice** is unable to disburse **Client Monies** to the **Client**, payee, drawer or sender as required by paragraph 6.3, the **Member** shall comply with relevant legislation in respect of unclaimed **Monies**.
- 6.5 Where the amount of unclaimed **Monies** falls below thresholds of relevant legislation, the **Member in Public Practice** should consider donating these funds to a charity as defined in the *Charities Act 2013*.

- 6.6 Where a **Member in Public Practice** has taken appropriate action in relation to paragraphs 6.3, 6.4 and 6.5, the **Member** should document the process undertaken.
- 6.7 **A Member in Public Practice shall record the following information for Client Monies received for deposit into a Client Bank Account:**
- (a) the name of the person or entity from whom **Monies** were received;
 - (b) the amount of **Monies**;
 - (c) the name of the **Client**;
 - (d) the purpose for which **Monies** were received or other description of the **Monies**;
 - (e) the date on which **Monies** were received; and
 - (f) the form in which **Monies** were received.
- 6.8 **A Member in Public Practice shall issue an acknowledgement to the Client within 21 Business Days or as otherwise agreed with the Client containing the details specified in paragraph 6.7 and stating that the Member has deposited the Client Monies into a Client Bank Account.**
- 6.9 A **Member in Public Practice** who receives **Client Monies** that are not capable of being deposited into a Client Bank Account shall comply with the requirements of paragraphs 4.1 and 5.22.

Disbursement of Client Monies from a Client Bank Account

- 6.10 **A Member in Public Practice shall disburse Client Monies from a Client Bank Account within 3 Business Days of receipt of instructions in respect of the disbursement or in accordance with the Terms of Engagement.**
- 6.11 **A Member in Public Practice shall ensure that appropriate Records are maintained to support disbursements from a Client Bank Account where the Member, either solely or in conjunction with one or more people, approved or was a Signatory to the disbursements.**
- 6.12 **A Member in Public Practice who wishes to disburse Monies from a Client Bank Account relating to professional fees and/or expenses due from a Client, shall obtain the Client's written approval prior to such disbursement.**

Documentation

- 6.13 **A Member in Public Practice shall maintain Records to appropriately document transactions involving Client Monies undertaken by the Member in Client Bank Accounts.**
- 6.14 **A Member in Public Practice shall retain Records that enable transactions undertaken by the Member in Client Bank Accounts to be audited.**
- 6.15 **Subject to legislative requirements, a Member in Public Practice shall retain and ensure that all documentation in respect of Client Monies is accessible for at least 7 years.**
- 6.16 **A Member in Public Practice shall keep Records in such a manner as to disclose clearly:**
- (a) the details of all transactions involving **Client Monies** undertaken by the **Member** in **Client Bank Accounts**, including:
 - (i) details of all **Client Monies** deposited into a **Client Bank Account** by the **Member**;

- (ii) details of all disbursements (including cheques and electronic fund transfers) where the Member, either solely or in conjunction with one or more people, approved or was a **Signatory** to the transaction;
 - (iii) details of all **Monies** received and transferred directly by the **Member** to a third party nominated by the **Client**; and
 - (iv) details of any errors in transactions of **Client Monies** undertaken by the **Member** in **Client Bank Accounts**;
- (b) the **Signatories** for each **Client Bank Account** where the **Member** is also an authorised **Signatory**; and
 - (c) appropriate evidence of the **Client's** approval of transactions involving **Client Monies** undertaken by the **Member**.

Reconciliations

- 6.17 Where the responsibility to prepare a reconciliation of the **Client Bank Account** does not rest with the **Member in Public Practice**, the **Member** shall provide the **Client** with a record of transactions conducted by the **Member** in the **Client Bank Account** within 25 **Business Days** of the end of each month or as otherwise agreed with the **Client**.
- 6.18 A **Member in Public Practice** who operates a **Client Bank Account** and has the responsibility to reconcile the **Client Bank Account** shall ensure that the **Member's Records** for the **Client Bank Account** are reconciled to the **Financial Institution** statements at least every 25 **Business Days** or as otherwise agreed with the **Client**. The **Member** shall take action to correct any difference or error identified during the reconciliation within 5 **Business Days** of such identification.
- 6.19 The resolution of differences or errors referred to in paragraph 6.18 may require the **Member in Public Practice** to obtain additional information from the **Client**, their **Financial Institutions** or other parties.
- 6.20 Subsequent to the **Member in Public Practice** taking action in accordance with paragraph 6.18 with the relevant parties, the **Member** shall take corrective action within 5 **Business Days** of receipt of the outstanding information.

Reporting

- 6.21 Subject to paragraph 6.23, a **Member in Public Practice** shall provide a statement containing details of the **Member's** application of **Client Monies** either to the **Client** or to any other person as directed by the **Client**:
- (a) upon completion of the matter requiring the access to the **Client Bank Account**;
 - (b) when a **Client Bank Account** is closed or if the **Member's** authority to operate a **Client Bank Account** is revoked;
 - (c) in respect of all transactions conducted by the **Member**, at least annually unless the **Member** has:
 - (i) communicated in writing to the **Client** the details of the transactions on a regular periodic basis during the year; and
 - (ii) agreed with the **Client** to an alternative reporting period; or
 - (d) in respect of any transaction, upon written request from the **Client**.

- 6.22 A **Member in Public Practice** shall issue the statements referred to in:
- (a) paragraphs 6.21(a) and 6.21(b) within 25 **Business Days**;
 - (b) paragraph 6.21(c) within 30 **Business Days** of the **Applicable Year-End Date** or if the circumstances described in paragraphs 6.21(c)(i) **and** (ii) apply then an alternative reporting period not exceeding 90 **Business Days** of the **Applicable Year-End Date**; and
 - (c) paragraph 6.21(d) within 5 **Business Days**.
- 6.23 A **Member in Public Practice** does not need to provide a statement to the **Client** on transactions undertaken by the **Member** in a **Client Bank Account** where the **Client**:
- (a) provided the supporting information for the transactions to the **Member**;
 - (b) was a co-Signatory or co-approved the transactions of **Client Monies** with the **Member**; and
 - (c) has agreed in writing that no further reporting is required.

7. Assurance Engagement on compliance with the Standard

- 7.1 Subject to paragraph 7.3, a **Member in Public Practice** who **Deals with Client Monies** shall appoint another **Member in Public Practice** as **Auditor of Client Monies** and shall ensure that an annual **Reasonable Assurance Engagement** of the **Member's** compliance with the requirements of this Standard is performed within 3 months of the **Applicable Year-End Date**.
- 7.2 The scope of the **Assurance Engagement** required under paragraph 7.1 is reduced to the extent that an **Assurance Engagement** undertaken under legislation covers some of the subject matter required by this Standard. Where the scope of the **Assurance Engagement** undertaken under legislation covers all of the subject matter required by this Standard, the **Member in Public Practice** is not required to engage an **Auditor of Client Monies**.
- 7.3 Where a **Member in Public Practice** who is **Dealing with Client Monies**:
- (a) does not have to maintain a **Trust Account** to comply with this Standard; and
 - (b) can only co-authorise transactions in a **Client Bank Account** in conjunction with the **Client**,
- then the **Member** may engage an **Auditor of Client Monies** to perform a **Limited Assurance Engagement** to comply with paragraph 7.1.
- 7.4 Where the scope of the subject matter of the **Assurance Engagement** performed in accordance with legislation does not extend to all of the subject matter of an **Assurance Engagement** required by this Standard, the **Member in Public Practice** shall ensure that the **Auditor of Client Monies** appointed pursuant to paragraph 7.1 performs an applicable **Assurance Engagement** of the subject matter that is not covered by the legislative **Assurance Engagement**.
- 7.5 A **Member in Public Practice** whose compliance with this Standard is subject to an **Assurance Engagement** shall bear the cost of the **Engagement**.
- 7.6 A **Member in Public Practice** shall:
- (a) obtain the **Client's** authorisation prior to releasing the **Client's** information to the **Auditor of Client Monies** or to the **Member's Professional Body**;
 - (b) allow the **Member's Professional Body** or the **Auditor of Client Monies** access to the **Member's Records**; and

- (c) assist the **Member's Professional Body** or the **Auditor of Client Monies** in the performance of their duties.
- 7.7 Client authorisation required in accordance with paragraph 7.6(a) may be incorporated in the **Terms of Engagement**. The **Member in Public Practice** should explain the purpose of authorisation in accordance with paragraph 7.6(c) with reference to protection of the **Client's** interest and quality of the **Professional Service** offered by the **Member**. Where the **Member** has obtained authorisation ~~verbally~~orally, the **Member** should document the ~~verbal~~oral authorisation. Where the **Client** refuses to authorise the release of its information, the **Member** should disclose this to the **Auditor of Client Monies** and consider obtaining advice from the **Member's Professional Body** in respect of ensuring compliance with this Standard and the **Code**.
- 7.8 A **Member in Public Practice** shall notify the applicable **Professional Body** and the **Auditor of Client Monies** within **5 Business Days** of becoming aware of any **Deficiency of Client Monies** occurring in the **Trust Account**, the **Trust Account** ledgers for individual **Clients** or the **Client Bank Account** along with details of corrective action taken by the **Member**.
- 7.9 A **Member in Public Practice** shall appoint a replacement **Auditor of Client Monies** within **20 Business Days** of the resignation or removal of the existing **Auditor of Client Monies**. The **Member** shall notify the applicable **Professional Body** of the membership details of the new **Auditor of Client Monies** with **20 Business Days** of the appointment of the **Auditor**.
- 7.10 The **Member in Public Practice** should consider obtaining a representation from the incoming **Auditor of Client Monies** to confirm that the **Auditor** holds a current certificate of public practice and has no pending disciplinary matters.
- 7.11 Where a **Member in Public Practice** ceases public practice and:
- (a) another **Member in Public Practice** is willing to accept the transfer of obligations to transact **Client Monies** in accordance with this Standard, the **Member** ceasing public practice shall obtain the written consent of the **Client** prior to the transfer; or
 - (b) no other **Member in Public Practice** is willing to accept the transfer of obligations to transact **Client Monies** or written consent in accordance with paragraph 7.11(a) has not been obtained, the **Member** or their legal representative shall return **Client Monies** to the **Client**.
- 7.12 Where the circumstances described in paragraph 7.11 are applicable, a **Member in Public Practice** shall engage an **Auditor of Client Monies** to perform an **Assurance Engagement** of the **Member's** compliance with this Standard for the period where the **Member** was responsible for **Client Monies** which has not otherwise been subject to an **Assurance Engagement**.
- 7.13 A **Member in Public Practice** shall ensure that an **Assurance Engagement** of the **Member's** compliance with this Standard is performed within 3 months of ceasing to **Deal with Client Monies**.

Part B: Professional obligations of an Auditor of Client Monies

8. Professional obligations of an Auditor of Client Monies

Professional Independence

- 8.1 An Auditor of Client Monies shall comply with ~~Section 291~~Part 4B *Independence—Other for Assurance Engagements other than Audit and Review Engagements* of the Code.
- 8.2 An Auditor of Client Monies shall not undertake an Assurance Engagement of another Member in Public Practice's compliance with this Standard in circumstances where a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would determine that the Independence of the Auditor is impaired as a result of a past, existing or proposed relationship.

Professional appointment

- 8.3 A Member in Public Practice who is approached by another Member in Public Practice to accept an Auditor of Client Monies role shall determine whether there are any reasons, professional or otherwise, for not accepting the Engagement. A Member shall, after receiving permission from the other Member in Public Practice, request in writing from the existing auditor any known information which the Member needs to be aware of before deciding to accept the Engagement.
- 8.4 A Member in Public Practice who provides Professional Services as an Auditor of Client Monies shall include in the Terms of Engagement the option to notify the relevant Professional Body of the auditee about any concerns that might arise in relation to the Auditor's appointment, resignation or removal.

Auditing and Assurance Standards

- 8.5 Subject to any legal requirements, an Auditor of Client Monies shall perform an applicable Assurance Engagement in accordance with Auditing and Assurance Standards.
- 8.6 An Auditor of Client Monies shall prepare the Assurance Engagement report in accordance with Auditing and Assurance Standards.
- 8.7 Appendices 1 and Appendix 2 to this Standard contains an examples of a Reasonable Assurance Engagement report and a Limited Assurance Engagement report, respectively.

Reporting obligations to Professional Bodies

- 8.8 If the issued Assurance Engagement report contains a modified opinion, the Auditor of Client Monies shall lodge the report with the applicable Professional Body within 15 Business Days of completion of the applicable Assurance Engagement.
- 8.9 An Auditor of Client Monies shall report any Deficiency of Client Monies to the auditee's Professional Body within 5 Business Days upon becoming aware of the Deficiency.
- 8.10 An Auditor of Client Monies shall report to the auditee's Professional Body within 10 Business Days of becoming aware of any material:
- (a) failure by a Member in Public Practice to comply with paragraphs 5.13, 5.24, 6.2 or 6.10 of this Standard;
 - (b) uncorrected error reflected in a statement issued by a Financial Institution; or

(c) **circumstances where [Client Monies](#) have not been transacted or maintained in accordance with this Standard.**

8.11 An [Auditor of Client Monies](#) who has resigned or is being removed from their role should consider notifying the auditee's [Professional Body](#) if the [Auditor](#) has any concerns about the circumstances that led to the resignation or removal, particularly if it relates to professional misconduct of the auditee.

Documentation

8.12 **Subject to legislative requirements, an [Auditor of Client Monies](#) shall retain relevant working papers for a period of at least 7 years.**

Conformity with International Pronouncements

The International Ethics Standard Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 310.

Appendix 1

Example of a Reasonable Assurance Engagement Report¹

To [The applicable Professional Body]

Independent Assurance Report on the compliance of [Member or Firm] with the requirements of APES 310 *Client Monies*

Opinion

We have undertaken a reasonable assurance engagement on the [Member or Firm's] compliance, in all material respects, with the requirements of APES 310 *Client Monies* (APES 310) for the [year ended .../.../.....].

(A) Unqualified

In our opinion, [Member or Firm] has complied, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

OR

(B) Qualified

In our opinion, except for the matter(s) described in the Basis for Qualified Opinion, [Member or Firm] has complied, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

Basis for Opinion

We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* (ASAE 3100) and APES 310. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OR

Basis for Qualified Opinion

We identified [provide details of exceptions] in relation to [Member or Firm]'s non-compliance with the requirements of APES 310. This has the effect of [specify detail(s) and related period] as required. We were unable to satisfy ourselves as to [Member or Firm]'s compliance with the requirements of APES 310 in respect of this matter(s), therefore qualify our opinion in this regard.

The Responsibility of [Member or Firm] for compliance with APES 310

[Member or Firm] is responsible for compliance with the requirements of APES 310. This responsibility includes establishing and maintaining internal controls relevant to compliance with the requirements of APES 310, including identification of risks that threaten the requirements of APES 310 being met, controls which will mitigate those risks and monitoring of ongoing compliance.

Our Independence and Quality Control

We have complied with the independence requirements of APES 110 *Code of Ethics for Professional Accountants* (including *Independence Standards*) and other relevant ethical requirements relating to

1 This example Reasonable Assurance Engagement report should be amended as appropriate, such as where the Assurance Engagement is subject to legislative requirements or in respect of a Limited Assurance Engagement. Refer to Appendix 2 for an example of a Limited Assurance Engagement Report.

assurance engagements and have applied APES 320 *Quality Control for Firms*² in undertaking this assurance engagement.

Auditor's Responsibility

Our responsibility is to express an opinion on [Member or Firm]'s compliance, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....]. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether, [Member or Firm] has complied, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

An assurance engagement to report on [Member or Firm]'s compliance with APES 310 involves performing procedures to obtain evidence about the compliance activities and controls implemented to meet the requirements of APES 310. The procedures selected depend on our judgement, including the identification and assessment of risks of material non-compliance with the requirements of APES 310.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with requirements of APES 310 may occur and not be detected. A reasonable assurance engagement as at [year ended .../.../.....] does not provide assurance on whether compliance with the requirements of APES 310 will continue in the future.

Restricted Use

This report has been prepared for use by [the applicable Professional Body] in accordance with the requirements of APES 310. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than [the applicable Professional Body], or for any purpose other than that for which it is prepared.

Address
Date

Member or Firm
[Member designation and Member number]

2 APES 320 *Quality Control for Firms* is consistent with the requirements of Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* and requires the standard to be applied Firm wide, not just to Assurance Engagements or related services Engagements.

Appendix 2

Example of a Limited Assurance Engagement Report³

To [the applicable Professional Body]

Independent Assurance Report on the compliance of [Member or Firm] with the requirements of APES 310 Client Monies

Conclusion

We have undertaken a limited assurance engagement on the [Member or Firm's] compliance, in all material respects, with the requirements of APES 310 Client Monies (APES 310) for the [year ended .../.../.....].

(A) Unqualified

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that [Member or Firm] does not comply, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

OR

(B) Qualified

Based on the procedures we have performed and the evidence we have obtained, except for the matter(s) described in the Basis for Qualified Opinion, nothing has come to our attention that causes us to believe that [Member or Firm] does not comply, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

Basis for Conclusion

We conducted our engagement in accordance with Standard on Assurance Engagement ASAE 3100 *Compliance Engagements* (ASAE 3100) and APES 310. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

OR

Basis for Qualified Opinion

We identified [provide details of exceptions] in relation to [Member or Firm]'s non-compliance with the requirements of APES 310. This has the effect of [specify detail(s) and related period] as required. We were unable to satisfy ourselves as to [Member or Firm]'s compliance with the requirements of APES 310 in respect of this matter(s), therefore qualify our opinion in this regard.

The Responsibility of [Member or Firm] for compliance with APES 310.

[Member or Firm] is responsible for compliance with the requirements of APES 310. This responsibility includes establishing and maintaining internal controls relevant to compliance with the requirements of APES 310, including identification of risks that threaten the requirements of APES 310 being met, controls which will mitigate those risks and monitoring of ongoing compliance.

Our Independence and Quality Control

We have complied with the independence requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* and other relevant ethical requirements relating to

³ This example Limited Assurance Engagement report should be amended as appropriate, such as where the Assurance Engagement is subject to legislative requirements.

assurance engagements and have applied APES 320 *Quality Control for Firms*⁴ in undertaking this assurance engagement.

Assurance Practitioner's Responsibility

Our responsibility is to express a **limited assurance conclusion** on [Member of Firm]'s compliance, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....]. ASAE 3100 requires that we plan and perform our procedures to obtain limited assurance about whether, **anything has come to our attention that [Member or Firm] has not** complied, in all material respects, with the requirements of APES 310 for the [year ended .../.../.....].

A **limited assurance engagement to report on [Member or Firm]'s compliance with APES 310** involves performing limited procedures to obtain evidence about the compliance activities and controls implemented to meet the requirements of APES 310. The procedures selected depend on **our judgement, including identifying areas where the risk of material non-compliance with the requirements of APES 310 is likely to arise.**

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the requirements of APES 310.

Inherent Limitations

Because of the inherent limitations of a limited assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the requirements of APES 310 may occur and not be detected. A limited assurance engagement as at [year ended .../.../.....] does not provide assurance on whether compliance with the requirements of APES 310 will continue in the future.

Restricted Use

This report has been prepared for use by [the applicable Professional Body] in accordance with the requirements of APES 310. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than [the applicable Professional Body], or for any purpose other than that for which it is prepared.

<u>Address</u>	<u>Member or Firm</u>
<u>Date</u>	<u>[Member designation and Member number]</u>

⁴ APES 320 *Quality Control for Firms* is consistent with the requirements of Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* and requires the standard to be applied Firm wide not just to Assurance Engagements or related services Engagements.

Appendix ~~31~~ 32

Example of a Trust Account authority letter

Paragraph 4.2 of APES 310 *Client Monies* requires that **Client Monies** be dealt with by a **Member in Public Practice** only through a **Trust Account** or **Client Bank Account**, and only in accordance with a **Client's** instructions. Paragraph 4.3 states that it is preferable that those instructions be in writing. An example of a **Trust Account** authority letter for **Members in Public Practice** to obtain from **Clients** is provided below.

[To be completed by the **Client**]

I/We [name of **Client**] of [address of **Client**] hereby authorise [**Member's** name or **Firm's** name] of [address] to pay immediately any **Client Monies** received by [them/him/her] on my account in respect to the **Engagement** referred to below into a **Trust Account** operated by [them/him/her] for the receipt of **Client Monies** with [name and address of the **Financial Institution** where the **Trust Bank Account** is held].

(Describe the nature of the **Engagement** to be performed by the **Member in Public Practice**, as outlined in the **Terms of Engagement**).

I/We further authorise [**Member's** name or **Firm's** name] in consideration of the completion of the **Engagement** and after being notified in writing of the amount of such fee for the work involved in the **Engagement** referred to above, to deduct from the **Client Monies** so held the amount of the account rendered and to:

- (a) forward the balance of the account to me/us;
- (b) invest the same with for the period, or
- (c) other (specify).

I/We acknowledge that any interest earned on a **Trust Account** operated by [**Member's** name or **Firm's** name] will be allocated on a reasonable basis to my account.

I/We acknowledge that where [**Member's** name or **Firm's** name] is unable to disburse **Client Monies** to my account, the drawer or sender, the **Member** will disburse these funds in accordance with the relevant legislation and APES 310 *Client Monies* in respect of unclaimed **Monies**.

I/We acknowledge that the **Records** maintained by [**Member's** name or **Firm's** name] in relation to your **Dealing with Client Monies** are subject to an annual **Assurance Engagement**, and authorise the duly appointed auditor to access those **Records**.

I/We further authorise ~~the~~ [name of **Member's Professional Body**] to access the **Records** held by [**Member's** name or **Firm's** name] for the purposes of any inspection, quality review or disciplinary proceedings by [name of **Member's Professional Body**].

This authority is strictly limited to the **Engagement** referred to in the body of this document.

Signed [by the **Client**] _____

Date _____

APES 320 Quality Control for Firms

[Supersedes APES 320 Quality Control for Firms issued in ~~May 2009~~ December 2015]

~~Prepared and issued by
Accounting Professional & Ethical Standards Board Limited~~

REVISED: ~~December 2015~~ XXXX 2019

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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 Standards Board, published by the International Federation of Accountants (IFAC) in ~~April 2009~~ December 2018 and as amended, and is used with permission of IFAC. *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* © ~~April 2009~~ December 2018 by the International Federation of Accountants.

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Conformity with International Pronouncements

Appendix 1: Application requirements for Firms

Appendix 2: Summary of revisions to the previous APES 320 (Issued in ~~May 2009~~December 2015). [Not included as the summary of revisions is set out in the explanatory memorandum for this exposure draft]

1. Scope and application

- 1.1 The objectives of APES 320 *Quality Control for Firms* are to specify the mandatory obligations of a **Firm** in respect of establishing and maintaining a system of quality control designed to provide it with **Reasonable Assurance** that the:
- **Firm** and its **Personnel** 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.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 320 *Quality Control for Firms* (**the Standard**). Systems of quality control in compliance with this Standard were required to be established by **Firms** by 1 January 2010. This Standard supersedes APES 320 issued in ~~May 2009~~ **December 2015** and **Firms** are required to incorporate appropriate amendments to their systems of quality control by 1 ~~April 2016~~ **January 2020**. Earlier adoption of this Standard is permitted.
- 1.3 APES 320 sets the standards for **Members in Public Practice** to establish and maintain a system of quality control in their **Firms** in respect of 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. APES 320 should be read in conjunction with other professional duties of **Members**, and any legal obligations that may apply.
- 1.4 **Members in Public Practice in Australia shall follow the mandatory requirements of APES 320.**
- 1.5 **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.**
- 1.6 **Members in Public Practice shall ~~comply with other applicable~~ **be familiar with relevant Professional Standards and be familiar with relevant** guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.**
- 1.7 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.8 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.9 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**.
- 1.10 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 Appendix 1 to the Standard.
- 1.11 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

Defined terms are shown in the body of the Standard in title case.

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 [Listed 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**⁵ means all [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 [by a Network Firm](#).
- (f) **Firm** means:
- (i) A sole practitioner, partnership, corporation or other entity of professional accountants;
 - (ii) An entity that controls such parties, through ownership, management or other means;
 - (iii) An entity controlled by such parties, through ownership, management or other means; or
 - (iv) 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.

5 The definition of [Engagement Team](#) in the [Code](#) ~~has been amended from the International equivalent to remove the reference to does not exclude~~ individuals within the [Client’s](#) internal audit function who provide direct assistance on an [Audit Engagement](#) as the AUASB has prohibited the use of direct assistance in Auditing and Assurance Standard ASA 610 *Using the Work of Internal Auditors* (November 2013).

- (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.
- (j) **Network** means a larger structure:
 - (i) That is aimed at co-operation; and
 - (ii) 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** means a Firm 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, which ordinarily comprise Parts **A-1** and **B-3** 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 **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).

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

(For guidance on Assurance Engagements, see the *Framework for Assurance Engagements* issued by the AUASB. The *Framework for Assurance Engagements* describes the elements and objectives of an Assurance Engagement and identifies engagements to which *Australian Auditing Standards (ASAs)*, *Standards on Review Engagements (ASREs)* and *Standards on Assurance Engagements (SAEs)* apply.)

- (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 **Professional 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* (including Independence Standards).
- (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** ~~is~~ comprises:
- (i) Independence of mind – the state of mind that permits the expression of 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.
- (ii) 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 a **Firm's**, or a ~~n~~ member of the Engagement Team's, member's integrity, objectivity or professional scepticism has 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~~ might 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**.
- (j) **Member in Public Practice** means a **Member**, irrespective of functional classification (~~e-g-for~~ example, audit, tax, or consulting) in a **Firm** that provides **Professional Services**. 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, tax~~ation~~, management consulting, and financial management.
- (l) **Professional Bodies** means Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.
- (m) **Professional Services** means **Professional Activities** performed for **Clients**.

- (n) **Professional Standards** means all standards issued by Accounting Professional & Ethical Standards Board Limited 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) ~~e~~ 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) ~~a~~ Assignment of management responsibilities so that commercial considerations do not override the quality of work performed; and
- (c) ~~p~~ 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 **3B Members in Public Practice** 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 how to evaluate and** address threats to compliance with the fundamental principles **including and also provides** examples of situations where safeguards are not available to address the threats.
22. The fundamental principles are reinforced in particular by:
- ~~t~~he leadership of the **Firm**;
 - ~~E~~ducation 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) ~~c~~Communicate its **Independence** requirements to its **Personnel** and, where applicable, others subject to them; and
- (b) ~~i~~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 eliminating the circumstances creating the threats, applying safeguards (if available), 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) ~~t~~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) ~~t~~The **Firm** to promptly communicate identified breaches of these policies and procedures to:
 - (i) ~~t~~The **Engagement Partner** who, with the **Firm**, needs to address the breach; and
 - (ii) ~~o~~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) ~~p~~rompt communication to the **Firm**, if necessary, by the **Engagement Partner** and the other individuals referred to in subparagraph 26(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 approach 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~~ ~~undertaking~~ appropriate ~~safeguards~~ ~~actions~~ to eliminate the threats to Independence, ~~or to~~ reduce the ~~m~~ threats to an acceptable level ~~by applying safeguards,~~ 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) ~~S~~setting out criteria for ~~determining the need for safeguards to reduc~~ing the familiarity threat to an acceptable level ~~(including the application of safeguards if available)~~ when using the same senior Personnel on an Assurance Engagement over a long period of time; and
- (b) ~~r~~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**:
- ~~i~~Is competent to perform the **Engagement** and has the capabilities, including time and resources, to do so;
 - ~~C~~an comply with **Relevant Ethical Requirements**; and
 - ~~h~~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:
- ~~F~~irm's **Personnel** have knowledge of relevant industries or subject matters;
 - ~~F~~irm's **Personnel** have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
 - ~~T~~he **Firm** has sufficient **Personnel** with the necessary competence and capabilities;
 - ~~E~~xperts are available, if needed;
 - ~~I~~ndividuals meeting the criteria and eligibility requirements to perform **Engagement Quality Control Review** are available, where applicable; and
 - ~~T~~he **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:**

- pPerform Engagements in accordance with Professional Standards and applicable legal and regulatory requirements; and**
- eEnable 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) **M**aking **Personnel** aware of the **Firm's** expectations regarding performance and ethical principles;
 - (b) **p**roviding **Personnel** with evaluation of, and counselling on, performance, progress and career development; and
 - (c) **h**elping **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) **t**he identity and role of the **Engagement Partner** are communicated to key members of **Client** management and those charged with governance;
 - (b) **t**he **Engagement Partner** has the appropriate competence, capabilities and authority to perform the role; and
 - (c) **t**he 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) **p**erform **Engagements** in accordance with **Professional Standards** and applicable legal and regulatory requirements; and
 - (b) **e**nable 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) **mMatters** relevant to promoting consistency in the quality of **Engagement** performance;
 - (b) **sSupervision** responsibilities; and
 - (c) **rReview** 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:
- **tTracking** the progress of the **Engagement**;
 - **cConsidering** 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**;
 - **aAddressing** 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:

- The** work has been performed in accordance with **Professional Standards** and applicable legal and regulatory requirements;
- Significant** matters have been raised for further consideration;
- Appropriate** consultations have taken place and the resulting conclusions have been documented and implemented;
- There** is a need to revise the nature, timing and extent of work performed;
- The** work performed supports the conclusions reached and is appropriately documented;
- The** evidence obtained is sufficient and appropriate to support the report; and
- 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:**

- Appropriate** consultation takes place on difficult or contentious matters;
- Sufficient** resources are available to enable appropriate consultation to take place;

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- 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

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.

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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) ~~d~~Discussion of significant matters with the Engagement Partner;
 - (b) ~~r~~Review of the financial statements or other subject matter information and the proposed report;
 - (c) ~~r~~Review of selected Engagement Documentation relating to significant judgements the Engagement Team made and the conclusions it reached; and
 - (d) ~~e~~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) ~~t~~The Engagement Team's evaluation of the Firm's Independence in relation to the specific Engagement;
 - (b) ~~W~~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) ~~w~~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 ~~n~~ 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) ~~W~~~~w~~here practicable, is not selected by the **Engagement Partner**;
 - (b) ~~d~~~~D~~oes not otherwise participate in the **Engagement** during the period of review;
 - (c) ~~d~~~~D~~oes not make decisions for the **Engagement Team**; and
 - (d) ~~i~~~~s~~ 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) ~~con~~ **clusions 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:
- **E**nable the determination of when and by whom **Engagement Documentation** was created, changed or reviewed;
 - **p**rotect 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 **I**nternet;
 - **p**revent unauthorised changes to the **Engagement Documentation**; and
 - **a**llow 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:

- **E**Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- **I**ntegrate the scanned copies into the **Engagement** files, including indexing and signing off on the scanned copies as necessary; and
- **E**nable 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:

- **e**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;
- **p**Provide, where necessary, a record of changes made to **Engagement Documentation** after the **Engagement** files have been completed; and
- **e**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:
- I**nclude 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**;
 - R**equire 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
 - r**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:
- a**dherence to **Professional Standards** and applicable legal and regulatory requirements;
 - W**hether the system of quality control has been appropriately designed and effectively implemented; and
 - w**hether 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:
- Taking appropriate remedial action in relation to an individual Assurance Engagement or member of Personnel;
 - The communication of the findings to those responsible for training and professional development;
 - Changes to the quality control policies and procedures; and
 - 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 description of the Monitoring procedures performed.
 - The conclusions drawn from the Monitoring procedures.
 - 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:
- At least annually, the Network communicate the overall scope, extent and results of the Monitoring process to appropriate individuals within the Network Firms; and
 - 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:
- Complaints and allegations that the work performed by the Firm fails to comply with Professional Standards and applicable legal and regulatory requirements; and
 - 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:

- **h**Has sufficient and appropriate experience;
- **h**Has authority within the Firm; and
- **i**s 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 Suitably 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:
 - **a**Adherence to Professional Standards and applicable legal and regulatory requirements;
 - **W**hether 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 were required to be established by Firms by 1 January 2010. This Standard supersedes APES 320 issued in ~~May 2009~~ **December 2015** and Firms are required to incorporate appropriate amendments to their systems of quality control by 1 ~~April 2016~~ **January 2020**. 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

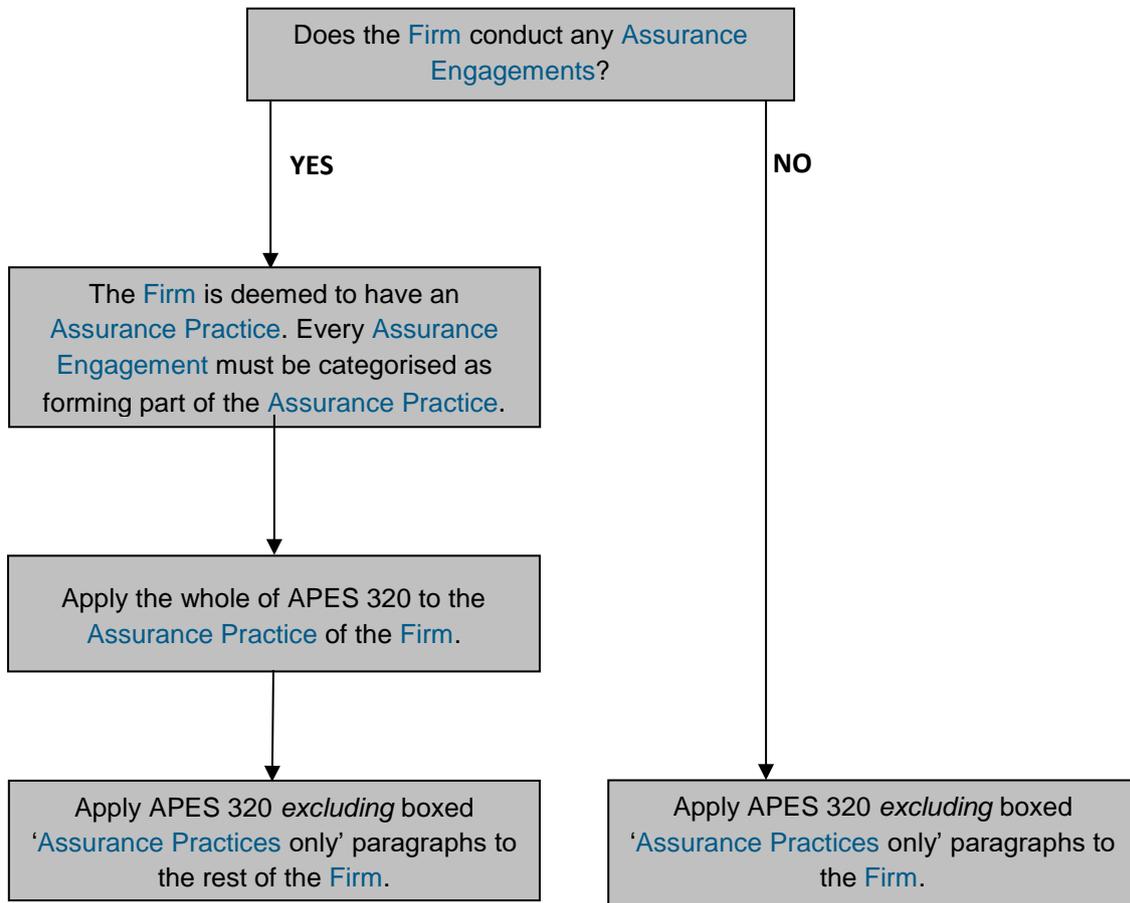
The basic principles and essential procedures of APES 320 and ISQC 1 are consistent except for:

- 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 1

Application requirements for Firms

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



APES 325 Risk Management for Firms

[Supersedes APES 325 Risk Management for Firms issued in ~~December 2014~~
and revised in ~~October 2015~~ December 2017]

~~Prepared and issued by~~
~~Accounting Professional & Ethical Standards Board Limited~~

REVISED: ~~December 2017~~ XXXX 2019

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Conformity with International Pronouncements

Appendix 1: Summary of revisions to the previous APES 325 (Issued in December 2017 ~~December 2011 and revised in October 2015~~)[Not included as the summary of revisions is set out in the explanatory memorandum for this exposure draft]

1. Scope and application

- 1.1 The objectives of APES 325 *Risk Management for Firms* are to specify the mandatory obligations of a **Firm** to:
- establish and maintain a **Risk Management Framework** in order to identify, assess and manage key organisational **Risks**;
 - monitor the **Firm's Risk Management Framework** on an ongoing basis; and
 - document the **Firm's Risk Management Framework** and to communicate its **Risk Management** policies and procedures to its **Personnel**.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional standard APES 325 *Risk Management for Firms* (**the Standard**). A **Risk Management Framework** in compliance with this Standard was required to be established by **Firms** by 1 January 2013. This Standard supersedes APES 325 issued in December 2011 and revised in ~~October 2015~~**December 2017**, and **Firms** are required to incorporate appropriate amendments to their **Risk Management Frameworks** by 1 ~~April 2018~~**January 2020**. Earlier adoption of this Standard is permitted.
- 1.3 APES 325 sets the standards for **Members in Public Practice** to establish and maintain a **Risk Management Framework** in their **Firms** in respect of the provision of quality and ethical **Professional Services**. **Members** have a responsibility, whether as owner, **Partner** or employee, to ensure that the **Firm** implements the requirements of the Standard. The level of responsibility will depend on the position held by each **Member** in the **Firm**, but as a minimum all **Members** should participate in the **Firm** achieving the objectives of the Standard. The Standard identifies the **Firm** as the overarching entity which must implement the requirements of the Standard, but it is the **Firm's Members in Public Practice** who have responsibility to ensure this occurs.
- 1.4 The mandatory requirements of this Standard are in **bold-type**, preceded or followed by discussion or explanations in normal type. APES 325 should be read in conjunction with other professional duties of **Members in Public Practice**, and any legal obligations that may apply.
- 1.5 **Members in Public Practice** conducting the operations of a **Firm** in Australia shall follow the mandatory requirements of APES 325.
- 1.6 **Members in Public Practice** conducting the operations of a **Firm** outside Australia shall follow the provisions of APES 325 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- 1.7 **Members in Public Practice** shall ~~be familiar with relevant~~**comply with other applicable Professional Standards** and ~~be familiar with relevant~~ guidance notes when providing **Professional Services**. All **Members** shall comply with the fundamental principles outlined in the **Code**.
- 1.8 The Standard is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.9 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.10 In applying the requirements outlined in APES 325, **Members in Public Practice** should be guided not merely by the words but also by the spirit of this Standard and the **Code**.
- 1.11 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

Defined terms are shown in the body of the Standard in title case.

For the purpose of this Standard:

Client means an individual, firm, entity or organisation to whom or to which **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* (including Independence Standards).

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.

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.

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

Monitoring means a process comprising ongoing consideration and evaluation of the **Firm's Risk Management Framework** designed to provide reasonable confidence that the **Firm's Risk Management Framework** is operating effectively.

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.

Partner means any individual with authority to bind the **Firm** with respect to the performance of a **Professional Services Engagement**.

Personnel means **Partners** and **Staff**.

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 **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**.

Risk means the effect of uncertainty on objectives.

Risk Management means co-ordinated activities undertaken by a **Firm**, to direct and control the activities of the **Firm** with regard to **Risk**.

Risk Management Framework means the foundations⁶ and organisational arrangements⁷ for designing, implementing, **Monitoring**, reviewing and continually improving **Risk Management** throughout the **Firm**.

Staff means professionals, other than **Partners**, including any experts the **Firm** engages.

3. Objectives of a Risk Management Framework

3.1 An effective **Risk Management Framework** should assist a **Firm** to meet its overarching public interest obligations as well as its business objectives by:

- (a) Facilitating business continuity;
- (b) Enabling quality and ethical **Professional Services** to be ~~rendered~~provided to **Clients**; and
- (c) Protecting the reputation and credibility of the **Firm**.

3.2 The **Risk Management Framework** should consist of policies designed to achieve the objectives set out in paragraph 3.1 and procedures necessary to implement and monitor compliance with those policies. The **Risk Management Framework** should be an integral part of the **Firm's** overall strategic and operational policies and practices and should take account of the **Firm's Risk** appetite.

3.3 A **Firm's** quality control policies and procedures, developed in accordance with APES 320 *Quality Control for Firms*, should be embedded within the **Risk Management Framework**. This will facilitate a **Firm** complying with this Standard and APES 320 and ensure consistency within the **Firm's** policies and procedures.

3.4 The requirements of the Standard are designed to enable a **Firm** to achieve the objectives stated in paragraph 3.1. The proper application of the requirements is therefore expected to provide a sufficient basis for the achievement of the objectives. However, because circumstances vary widely and all such circumstances cannot be anticipated, the **Firm** should 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 objectives.

4. Establishing and maintaining a Risk Management Framework for a Firm

4.1 A **Firm** shall establish and maintain a **Risk Management Framework** taking into consideration its public interest obligations. The **Firm** shall periodically evaluate the design and effectiveness of the **Risk Management Framework**.

6 The foundations include the policy, objectives, mandate and commitment to manage **Risk**.

7 The organisational arrangements include plans, relationships, accountabilities, resources, processes and activities.

4.2 The **Firm's Risk Management Framework** shall include policies and procedures that identify, assess and manage key organisational **Risks**, which may include:

- (a) **Governance Risks**;
- (b) **Business continuity Risks** (including succession planning);
- (c) **Business Risks**;
- (d) **Financial Risks**;
- (e) **Regulatory Risks**;
- (f) **Technology Risks** (including cyber security);
- (g) **Human resources Risks**; and
- (h) **Stakeholder Risks**.

Additional Risks specific to the **Firm** can be identified through the use of other relevant standards or guidance, for example, responding to Non-Compliance with Laws and Regulations (NOCLAR) in the Code.

4.3 The nature and extent of the policies and procedures developed by a **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**.

4.4 The **Firm's** chief executive officer (or equivalent) or, if appropriate, the **Firm's** managing board of **Partners** (or equivalent), shall take ultimate responsibility for the **Firm's Risk Management Framework**.

4.5 The **Firm's** leadership and the examples it sets significantly influence the culture of the **Firm**. The adoption of an appropriate culture by a **Firm** is dependent on clear, consistent and frequent actions and messages from all levels within the **Firm** that emphasise the **Firm's Risk Management** policies and procedures.

4.6 A **Firm** shall ensure that the **Personnel** assigned responsibility for establishing and maintaining its **Risk Management Framework** in accordance with this Standard have the necessary skills, experience, commitment and authority.

4.7 **Firms** may refer to the following documents for guidance:

- *AS/NZS ISO 31000:2009 Risk Management – Principles and guidelines* which provides useful guidance to develop a framework for **Risk Management**; and
- For sole practitioners and small **Firms**, Module 7: Risk Management and Module 8: Succession Planning in the *Guide to Practice Management for Small- and Medium-Sized Practices* issued by the Small and Medium Practices Committee of the International Federation of Accountants.

5. Monitoring a Firm's Risk Management policies and procedures

5.1 A **Firm** shall establish a **Monitoring** process designed to provide reasonable confidence that the **Risk Management** policies and procedures relating to the **Risk Management Framework** are relevant, adequate and operating effectively, and that instances of non-compliance with the **Firm's Risk Management** policies and procedures are detected.

5.2 A **Firm** shall establish a process whereby instances of non-compliance with the **Firm's Risk Management** policies and procedures are brought to the attention of the **Firm's** leadership who shall take appropriate corrective action.

- 5.3 A Firm's Monitoring process should include the requirements for the Firm:
- (a) To undertake a review of the Firm's Risk Management Framework on a regular basis; and
 - (b) To designate from within the Firm's leadership a person or persons with sufficient and appropriate experience and authority the responsibility for ensuring that such regular reviews of the Firm's Risk Management Framework occurs.

6. Documentation

6.1 A Firm shall document its Risk Management Framework.

6.2 The form and content of documentation of the Risk Management Framework for a Firm is a matter of judgement and depends on a number of factors, including:

- The number of Personnel and offices of the Firm; and
- The nature and complexity of the Firm's practice and the Professional Services provided.

6.3 A Firm shall document its Risk Management policies and procedures and communicate them to the Firm's Personnel.

6.4 Communication of Risk Management policies and procedures to a Firm's Personnel should include a description of the policies and procedures, the objectives they are designed to achieve, and a message that each individual has a personal responsibility for Risk Management and is required to comply with the policies and procedures. In recognition of the importance of obtaining feedback on the Firm's Risk Management Framework and policies and procedures, the Firm's Personnel should be encouraged to communicate their views and concerns on Risk Management matters.

6.5 The documentation of a Firm's Risk Management Framework should include:

- Procedures for identifying potential Risks;
- The Firm's Risk appetite;
- Risks identified;
- Procedures for assessing and managing Risks;
- Treatment of identified Risks;
- Documentation processes;
- Procedures for dealing with non-compliance;
- Training of Staff in relation to Risk Management; and
- Procedures for regularly reviewing the Risk Management Framework.

6.6 A Firm shall document its succession plan as part of its Risk Management Framework.

6.7 The succession plan should include specific actions that a Firm will undertake in order to enable the Firm to continue performing its professional obligations to its Clients.

6.8 A Firm shall retain all relevant documentation for a sufficient time to permit those performing the Firm's Monitoring process to evaluate its compliance with its Risk Management Framework and to comply with applicable legal or regulatory requirements for record retention.

- 6.9 A **Firm** shall document all instances of non-compliance with the **Firm's Risk Management** policies and procedures detected through its **Monitoring** process and the actions taken by the **Firm's** leadership in respect of those instances of non-compliance.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES 325.

Part 2: Guidance Notes

This part of the explanatory memorandum focuses on the following two pronouncements:

Pronouncement	Name of pronouncement
APES GN 40	<i>Ethical Conflicts in the Workplace – Considerations for Members in Business</i>
APES GN 41	<i>Management Representations</i>

2.1 Key proposed amendments

The marked-up version of each Guidance Note in the Exposure Draft (refer to **Appendix 2**) reflects the proposed changes incorporated into the existing pronouncement and addresses the following key matters:

(i) **Revisions to reflect the restructured Code**

In November 2018, APESB released the restructured Code to align it with the restructure to the International Code undertaken by the International Ethics Standards Board for Accountants (IESBA).

APESB has commenced a project to revise all of its current pronouncements to update any cross-references to the Code and ensure consistency of definitions and obligations across the Code and all APESB Pronouncements. Refer to **Section 2.2** for a table which summaries the revisions to the Guidance Notes in this part of the Exposure Draft in relation to the restructured Code.

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

APESB has also taken the opportunity to address matters that have been noted on the Issues Register in respect of the guidance notes in this Exposure Draft. These matters include:

- inclusion of NOCLAR requirements paragraphs (APES GN 40 and APES GN 41); and
- inclusion of references to the updated whistleblowing legislation (APES GN 40 and APES GN 41).

(iv) **Minor editorials**

Minor editorials, primarily dealing with capitalisation of lists, is not captured in the tables of proposed revisions in this Exposure Draft

Section 2.3 sets out a table which summarises the proposed revisions to the Guidance Notes in Exposure Draft 02/19 not addressed in Section 2.2.

2.2 Table of proposed revisions to reflect the restructured Code

The table below provides a summary of the proposed revisions to the Guidance Notes in this Exposure Draft to align the definitions and relevant cross-references to the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued in November 2018.

Revisions to reflect the restructured Code	Pronouncements	
	APES GN 40	APES GN 41
Amendments to definitions to align with the restructured Code		
Acceptable Level	✓	
Close Family [<i>New definition</i>]	✓	
Code	✓	✓
Financial Statements		✓
Immediate Family [<i>New definition</i>]	✓	
Inducement [<i>New definition</i>]	✓	
Member		✓
Member in Business	✓	✓
Member in Public Practice		✓
Professional Activity	✓	✓
Those Charged with Governance	✓	✓
Update cross-references to the restructured Code		
Paragraph 1.3	✓	
Paragraph 3.2		✓
Paragraph 3.4	✓	
Paragraph 5.2	✓	✓
Paragraph 5.3		✓
Paragraph 5.4 – part of extant paragraph 5.3 relocated and amended	✓	
Paragraph 5.6		✓
Paragraph 5.7 – extant paragraph 12.1 relocated and amended	✓	
Paragraph 6.1	✓	
Paragraph 6.2	✓	✓
Paragraph 6.3	✓	
Paragraph 7.2	✓	
Paragraph 8.1	✓	
Paragraph 8.2	✓	
Paragraph 11.4 – extant paragraph 11.3 relocated and amended	✓	
Amendment to align obligations with the restructured Code		
Paragraphs made consistent with restructured Code paragraph R1.4	1.8	1.8

Revisions to reflect the restructured Code	Pronouncements	
	APES GN 40	APES GN 41
Amendments to align with the enhanced conceptual framework approach to addressing threats		
Paragraph 4.1	✓	
Paragraph 4.2	✓	
Paragraph 4.4	✓	
Paragraph 5.1	✓	
Paragraph 5.3	✓	
Paragraph 5.5 <i>[New paragraph]</i>	✓	
Paragraph 9.2	✓	
Paragraph 10.1	✓	
Amendments for new or revised Sections in the restructured Code		
Revised Section 250 <i>Inducements, Including Gifts and Hospitality</i> – extant Section 350 relocated and amended	Section 11	
- Paragraph 11.1	✓	
- Paragraph 11.2	✓	
- Paragraph 11.3 <i>[New paragraph]</i>	✓	
New Section 270 <i>Pressure to Breach the Fundamental Principles</i>	Section 13	
- Paragraph 13.1 <i>[New paragraph]</i>	✓	
- Paragraph 13.2 <i>[New paragraph]</i>	✓	

2.3 Table of other proposed revisions

The table below provides a summary of the proposed revisions to the guidance notes in the Exposure Draft and the impact on the existing pronouncements. Note that this summary does not include the revisions noted in Section 2.2 relating to the restructured Code.

Summary of proposed amendments	Pronouncements	
	APES GN 40	APES GN 41
Effective date (paragraph 1.2)	✓	✓
Inclusion of scope paragraph to be consistent with other pronouncements and Due Process document (paragraph 1.5)		✓
Matters on the Issues Register		
Update to refer to NOCLAR requirements	Section 12	5.7
- Paragraph 12.1 [<i>New paragraph</i>]	✓	
- Paragraph 12.2 [<i>New paragraph</i>]	✓	
- Paragraph 12.7 – extant paragraph 12.9 relocated and amended	✓	
Update references to whistleblowing legislation	Section 12	5.6
- Paragraph 12.3 – extant paragraph 12.5 relocated and amended	✓	
- Paragraph 12.4 – extant paragraph 12.6 relocated	✓	
- Paragraph 12.5 – extant paragraph 12.7 relocated and amended	✓	
Editorials		
Paragraph 1.1	✓	
Paragraph 1.4	✓	
Paragraph 1.5	✓	
Introduction, Section 2	✓	✓
Definition – Employer	✓	
Definition – Group Financial Report		✓
Definition – Internal Control		✓
Paragraph 3.1	✓	
Paragraph 3.3	✓	
Paragraph 4.1		✓
Paragraph 5.4		✓
Paragraph 5.6 – extant paragraph 5.5 relocated	✓	
Paragraph 5.8 – extant paragraph 12.2 relocated	✓	
Paragraph 5.9 – extant paragraph 12.3 relocated	✓	
Paragraph 5.10 – extant paragraph 12.4 relocated and amended	✓	
Paragraph 6.1		✓
Paragraph 7.3		✓

Summary of proposed amendments	Pronouncements	
	APES GN 40	APES GN 41
Editorials		
Paragraph 7.10		✓
Paragraph 8.2		✓
Paragraph 8.3		✓
Paragraph 8.4		✓
Paragraph 10.2 – part of extant paragraph 10.1 relocated	✓	
Paragraph 12.6 – extant paragraph 12.8 relocated	✓	
Paragraph 12.8 – extant paragraph 12.10 relocated	✓	
Section 14 Case Studies – extant Section 13 relocated and amended	✓	
Bibliography	✓	
Deletions		
Extant paragraph 5.4 - deleted	✓	

Appendix 2

APESB Guidance Notes in ED 02/19

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APES GN 40 Ethical Conflicts in the Workplace – Considerations for Members in Business

[Supersedes APES GN 40 Ethical Conflicts in the Workplace – Considerations for Members in Business issued in ~~March 2012~~ October 2015]

~~Prepared and issued by
Accounting Professional & Ethical Standards Board Limited~~

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<i>Appendix 1: Summary of revisions to the previous APES GN 40 (Issued in <u>March 2012</u><u>October 2015</u>)</i> <i>[Not included as the summary of revisions is set out in the <u>explanatory memorandum for this exposure draft</u>]</i>	

1. Scope and application

- 1.1 The objectives of APES GN 40 *Ethical Conflicts in the Workplace – Considerations for Members in Business* are to provide guidance to a **Member in Business** in respect of:
- fundamental responsibilities of the **Member in Business** when dealing with ethical conflicts in the workplace;
 - the application of the conceptual framework in the **Code** to identify, evaluate and address ethical issues;
 - specific circumstances such as dealing with conflicts of interest, reporting of information, acting with sufficient expertise, financial interests, and inducements, responding to non-compliance with laws and regulations and pressure to breach the fundamental principles; and
 - the disclosure of confidential information of an **Employer** to a third party and whistleblowing.
- 1.2 Accounting Professional & Ethical Standards Board Limited (APESB) has revised professional guidance note APES GN 40 *Ethical Conflicts in the Workplace – Considerations for Members in Business* (the Guidance Note). This Guidance Note is effective from the date of issue and supersedes APES GN 40 issued in ~~March 2012~~October 2015.
- 1.3 APES GN 40 provides guidance to **Members in Business** on the application of the fundamental principles contained within Part A: General Application Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework and Part C:2 – Members in Business (including employment relationships of Members in Public Practice) of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the **Code**). The Guidance Note provides examples for **Members in Business** of situations that require professional judgement in the application of the principles of the **Code**.
- 1.4 **Members in Business** working in Australia should follow the guidance in APES GN 40 when they provide ~~services~~Professional Activities to their **Employer**.
- 1.5 **Members in Business** ~~working~~ outside of Australia should follow the guidance in APES GN 40 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.
- 1.6 The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.
- 1.7 All references to **Professional Standards**, guidance notes and legislation are references to those provisions as amended from time to time.
- 1.8 **Members in Business** ~~should be required to comply with other applicable~~ be familiar with relevant~~Professional Standards~~ and be familiar with relevant guidance notes when performing **Professional Activities for Employers**. All Members are required to comply with the requirements of the Code.
- 1.9 In applying the guidance outlined in APES GN 40, **Members in Business** should be guided not merely by the words but also by the spirit of this Guidance Note and the **Member's** professional obligation to comply with the requirements of the **Code**.
- 1.10 In this Guidance Note, 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

Defined terms are shown in the body of the Guidance Note in title case.

For the purpose of this Guidance Note:

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

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

Code means APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards).

Employer ~~within the context of this Guidance Note~~ means an entity or person that employs, engages or contracts a **Member in Business**.

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

Inducement means an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

Member means a member of a Professional Body that has adopted this Guidance Note 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 working in areas such~~ as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory ~~bodies~~ or professional bodies, ~~or a Member contracted by such entities, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.~~

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

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

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

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance ~~may~~ might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3. Fundamental responsibilities of Members in Business

3.1 The **Code** is the conceptual framework and foundation on which all APESB pronouncements are based. Compliance with, and application of, the **Code** is fundamental to the ethical behaviour of **Members in Business**. Non-compliance with the **Code** can lead to disciplinary proceedings being initiated by the **Professional Body** to which the **Member** belongs.

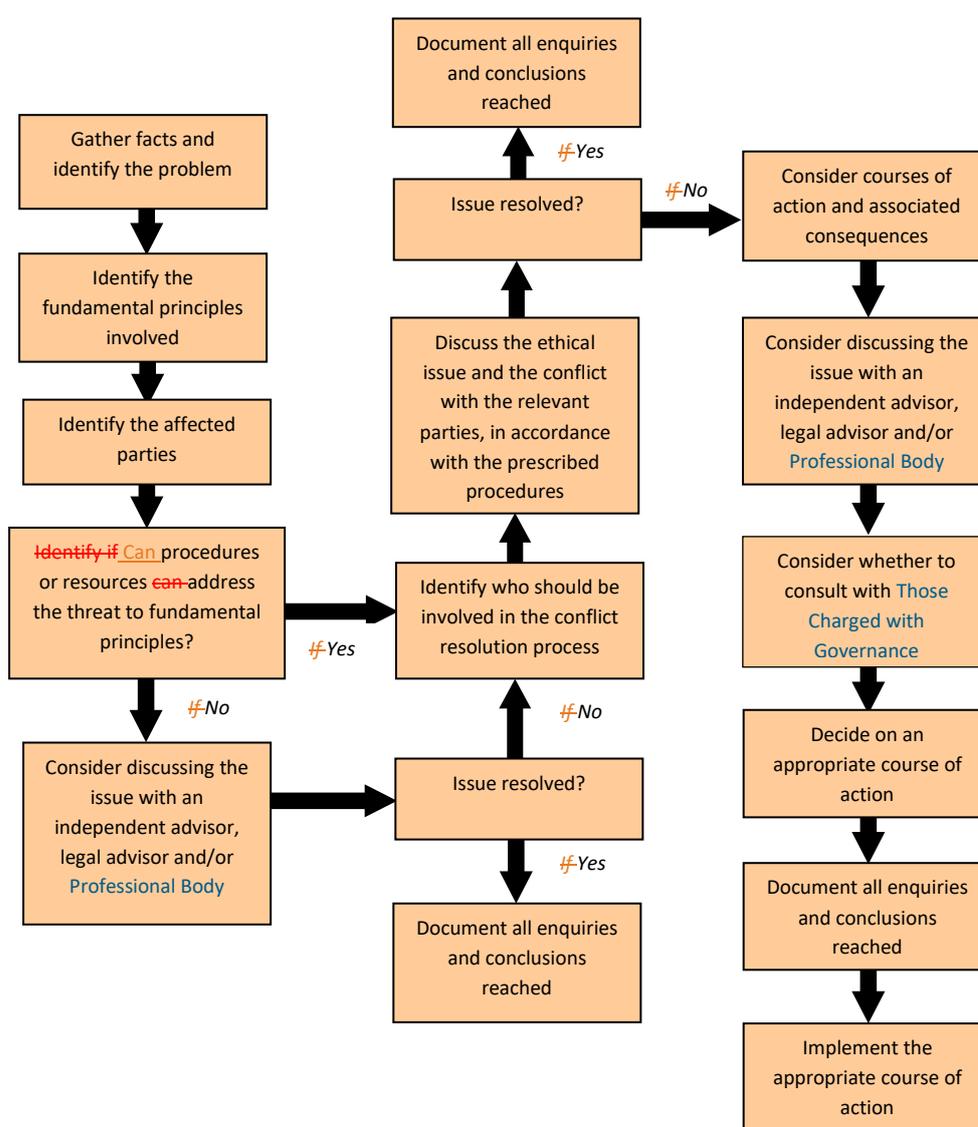
- 3.2 Professional obligations and ethical requirements that **Members in Business** are required to comply with are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in the **Code**.
- 3.3 The term Professional Activity is defined as an activity requiring accountancy or related skills performed by a **Member** including accounting, auditing, taxation, management consulting and financial management services. Activities performed by **Members in Business** for ~~the an~~ **Employer** are captured by the definition of **Professional Activity**. Typically, this includes activities performed by financial accountants, tax accountants, financial analysts, financial planners, management accountants, internal auditors and financial controllers.
- 3.4 A **Member in Business** who performs a **Professional Activity** is required to comply with:
- (a) ~~Part A – General Application of the Code~~ **Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework of the Code;**
 - (b) ~~and Part C-2 Members in Business (including employment relationships of Members in Public Practice) of the Code; including Section 100 Complying with the Code Introduction and Fundamental Principles~~ and
 - (c) any relevant laws or regulations.
- ~~Part C-2 of the Code~~ is specific to **Members in Business** and describes the application of the fundamental principles to some of the more commonly encountered situations that may create threats to compliance with the fundamental principles.

4. Conceptual framework approach

- 4.1 **Members in Business** may encounter situations that give rise to threats to compliance with the fundamental principles. This Guidance Note uses the framework in the **Code** to assist **Members** to identify, evaluate and respond to threats to compliance with the fundamental principles. **Members** are required to address threats to compliance with the fundamental principles by either implement safeguards to eliminate eliminating the threats or reducing them to an **Acceptable Level** so that compliance with the fundamental principles is not compromised. The Guidance Note provides a range of examples dealing with a variety of circumstances in which threats may arise and provides guidance on safeguards that may be adopted how these threats may be addressed. **Members** should use the framework to address ethical issues arising from their work at an early stage to enable them to adopt appropriate safeguards methods which are suitable to the circumstance, and address the relevant threats.
- 4.2 When considering situations that threaten compliance with the fundamental principles, **Members in Business** need to retain their objectivity and should use the following structured approach to ethical decision-making:
- i. Gather the facts and identify the problem or threat;
 - ii. Identify the fundamental principles involved;
 - iii. Identify the affected parties;
 - iv. Determine whether established organisational procedures and conflict resolution resources exist to address the threat to compliance with the fundamental principles;
 - v. Identify the relevant parties who should be involved in the conflict resolution process;
 - vi. Discuss the ethical issue and the conflict with the relevant parties, and in accordance with the prescribed procedures evaluate the significance of the threats identified and safeguards actions available to address these threats;
 - vii. Consider courses of action and associated consequences;

- viii. Consider whether to consult confidentially with external advisers such as an independent adviser, legal advisor and/or the **Professional Body** to which the **Member** belongs;
- ix. Consider whether to consult **Those Charged with Governance**;
- x. Decide on an appropriate course of action;
- xi. Document all enquiries and conclusions reached; and
- xii. Implement the appropriate course of action. In the event that the **Member** believes that the threat to compliance with the fundamental principles has not been satisfactorily resolved, the **Member** should determine whether it is appropriate to resign.

The process to be followed as indicated above may vary with each particular circumstance and a flow diagram is set out below to provide guidance to a **Member** on how to arrive at an appropriate course of action:



4.3 When resolving an ethical issue, a **Member in Business** should document the substance of the issue and details of any discussions held and conclusions reached concerning that issue. The **Member** should take qualitative as well as quantitative factors into account when evaluating the significance of an ethical issue, and be alert to the fact that reassessment of

the issue may need to occur on an ongoing basis. If, after exhausting all relevant possibilities, the ethical issue remains unresolved, the **Member** should, where possible, refuse to remain associated with the matter creating the conflict. The **Member** should determine whether, in the circumstances, it is appropriate to refuse to perform the duties in question or be associated with information the **Member** knows is misleading, or whether it is appropriate to resign altogether from the employing organisation.

- 4.4 The case studies in Section 134 illustrate the application of the fundamental principles and how threats to the fundamental principles can be addressed~~the types of safeguards that can be implemented~~. The case studies follow the structured approach noted above in analysing the relevant ethical considerations. These case studies are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances likely to be experienced by **Members in Business** that create threats to compliance with the fundamental principles of the **Code**. Consequently, it is not sufficient for **Members** to seek compliance in situations corresponding with these case studies. **Members** need to apply the principles of the **Code** to all situations facing them in which compliance with the fundamental principles of the **Code** are at risk.

5. Threats to the fundamental principles and safeguards

Threats

- 5.1 Compliance with the **Code** may be threatened by a broad range of circumstances and relationships. Any given circumstance may create more than one threat, and the threats that arise may affect compliance with more than one fundamental principle. A **Member in Business** is required to address threats not an Acceptable Level by implement safeguards to eliminate eliminating the threats or ~~reduce-reducing~~ them to an **Acceptable Level** so that compliance with the fundamental principles is not compromised.
- 5.2 Threats to the fundamental principles are discussed in Part A—General Application of the CodePart 1 Complying with the Code, Fundamental Principles and Conceptual Framework of the Code. Threats fall into one or more of the following categories:
- Self-interest – the threat that a financial or other interest will inappropriately influence a **Member in Business**' ~~the~~ judgement or behaviour ~~of a Member in Business~~;
 - Self-review – the threat that a **Member in Business** will not appropriately evaluate the results of a previous judgement made, or a **Professional Activity** performed by the **Member**, or by another individual within the ~~Employer~~employing organisation, on which the ~~Member in Business~~ will rely when forming a judgement as part of providing a current **Professional Activity**;
 - Advocacy – the threat that a **Member in Business** will promote the **Employer's** position to the point that the **Member's** objectivity is compromised;
 - Familiarity – the threat that due to a long or close relationship with the **Employer**, a **Member in Business** will be too sympathetic to the **Employer's** interests or will accept the **Employer's** view on certain matters without sufficient scrutiny; and
 - Intimidation – the threat that a **Member in Business** will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the **Member**.

SafeguardsAddressing threats

- 5.3 The **Code** requires Members in Business to address threats that are not at an Acceptable Level by classifies safeguards that may eliminateing or reducinge threats faced by **Members in Business** to an **Acceptable Level**. This may be done by into two broad categories:
- safeguards created by the profession, legislation or regulationeliminating the circumstances, including interests and relationships, that are creating the threats;

- applying safeguards, where available and capable of being applied, to reduce threats to an Acceptable Level; and/or
- safeguards in the work environment declining or ending the specific Professional Activity.

~~Examples of such safeguards are outlined in paragraphs 100.14 – 100.16 and 300.14 – 300.15 of the Code.~~

5.4 Examples of actions that might address threats (including eliminating circumstances and relevant ~~such safeguards~~) are outlined in Sections 210 to 270 ~~paragraphs 100.14 – 100.16 and 300.14 – 300.15~~ of the Code.

~~In addition to the categories above, safeguards may also be created by the Member in Business. Such safeguards may include but are not restricted to:~~

- ~~— keeping records of contentious issues and the action taken to resolve them;~~
- ~~— maintaining a broader perspective on how similar organisations function through establishing business relationships with other professionals; and~~
- ~~— using an independent advisor.~~

5.5 In extreme situations where threats cannot be eliminated or safeguards are not available or cannot be applied to reduce the threats to an Acceptable Level, it might be appropriate for a Member in Business to resign from the employing organisation.

5.56 Discussion of ethical issues with the Professional Body to which the Member in Business belongs is strongly encouraged as the Professional Bodies are able to provide valuable advice in line with the behaviour expected of their Members and within the limits of acceptable practice and the law.

Disclosure of information

5.7 In accordance with Subsection 114 *Confidentiality* of the Code, a Member in Business who acquires confidential information in the course of performing a Professional Activity is prohibited from disclosing that information without proper and specific authority or unless there is a legal, regulatory or professional duty or right to disclose it.

5.8 The *Privacy Act 1988* (Cth) (*Privacy Act*) prohibits the disclosure of personal information about an individual, other than in certain limited circumstances including circumstances where the individual has consented to the disclosure or the disclosure is required or authorised by or under law.

5.9 Whistleblower laws at Federal and State and Territory levels prohibit the disclosure of certain information obtained from and about a whistleblower unless such disclosure is required or authorised by such laws.

5.10 Examples of the disclosure of information that may in certain circumstances be required or authorised by the law include:

- reporting of suspected money laundering activities to AUSTRAC⁸ in accordance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth); and
- where a Member in Business is authorised by the Member's Employer to receive whistleblower information, disclosure by the Member of such information to an eligible recipient under the *Corporations Act 2001* (Cth) (*Corporations Act*).

⁸ AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit

6. Overview of **APES 110 Part 2 C: Members in Business of the Code**

- 6.1 ~~APES 110 Part C-2~~ *Members in Business (including employment relationships of Members in Public Practice) (Part 2) of the Code* illustrates how the conceptual framework ~~contained in APES 110 Part A-1– Complying with the Code, Fundamental Principles and Conceptual Framework of the Code~~ is to be applied by **Members in Business**.
- 6.2 ~~APES 110 Part C-2~~ Section ~~300-200~~ of **Part 2** provides an overview of the various types of threats encountered by **Members in Business** in their work environment and ~~appropriate safeguards that can be considered~~ how to address threats that are not at an Acceptable Level. In certain circumstances there may be no actions or no available safeguards to reduce the threats to an **Acceptable Level** and the **Member** may need to consider refusing to perform the duties in question or resigning from the employing organisation (e.g. paragraphs ~~300-15200.8 A2, 320.7 R220.8~~ and ~~330.4 R230.4~~ of the **Code**).
- 6.3 ~~APES 110 Part C-2~~ Sections ~~340-210 - 350-270~~ of **Part 2** specifies professional obligations of **Members in Business** in the following circumstances:
- Section ~~340-210~~ – *Conflicts of Interest*;
 - Section ~~320-220~~ – *Preparation and Reporting-Presentation of Information*;
 - Section ~~330-230~~ – *Acting with Sufficient Expertise*;
 - Section ~~340-240~~ – *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*; ~~and~~
 - Section 350-250 – *Inducements, Including Gifts and Hospitality*;
 - Section 260 – *Responding to Non-compliance with Laws and Regulations*; and
 - Section 270 – *Pressure to Breach the Fundamental Principles*.

7. Potential conflicts arising from responsibilities to the Employer

- 7.1 Potential conflicts may arise from the obligation of a **Member in Business** to comply with the fundamental principles of the **Code** whilst fulfilling responsibilities to the **Employer**. Ordinarily the **Member** is required to support the legitimate and ethical objectives established by the **Employer** and rules and procedures in support of those objectives. However, as a consequence of responsibilities to the **Employer**, the **Member** may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles of the **Code**.
- 7.2 Where potential conflicts arise, a **Member in Business** is required to comply with ~~s~~Section ~~340 210~~ *Conflicts of Interest* of the **Code**. Examples and the potential approaches to resolving such conflicts are shown in Case Studies 1 – 4.

8. Preparation and reporting-presentation of information to be used by internal and external parties

- 8.1 **Members in Business** are often involved in the preparation and reporting-presentation of information that may either be made public or used by others inside or outside the **Employer**. When preparing and reporting-presenting such information, **Members** are required to comply with ~~s~~Section ~~320-220~~ *Preparation and Reporting-Presentation of Information* of the **Code**.
- 8.2 A **Member in Business** is required to prepare or present information fairly, honestly and in accordance with relevant **Professional Standards** so that the information will be understood in its context. Threats to the **Member's** ability to do so may arise from pressure (intimidation or self-interest) to become associated with misleading information. Where the threats have been evaluated, sa guards-appropriate actions such as those discussed in ~~s~~Section ~~320~~

~~220 Preparation and Reporting–Presentation~~ of Information of the Code should be ~~applied/undertaken~~. Examples addressing the analysis of threats and ~~application of appropriate actions/safeguards~~ are shown in Case Studies 5 - 9 and 20 - 21.

9. Member in Business's responsibility to **Act** with sufficient expertise

9.1 The fundamental principle of professional competence and due care requires that a **Member in Business** should only undertake tasks for which the **Member** has, or can obtain, sufficient specific training or experience. **Members** should not intentionally mislead **Employers** as to how much expertise or experience they have, nor should they fail to seek appropriate expert advice and assistance when required.

9.2 Where the ability of a **Member in Business** to perform duties with the appropriate degree of professional competence and due care is threatened by factors such as insufficient time, inadequate information, inadequate resources or insufficient knowledge, ~~appropriate actions/safeguards~~ such as those in ~~Section 330-230~~ *Acting with Sufficient Expertise* of the Code should be ~~applied/undertaken~~. ~~The appropriate actions include the application of safeguards or declining to perform the duties in question.~~ Examples addressing the need to act with sufficient expertise are provided in Case Studies 10 and 19.

10. Financial interests of a Member in Business

10.1 Financial interests of a **Member in Business** or their ~~Immediate~~ or ~~Close~~ **Family** members may give rise to threats to compliance with the fundamental principles of the Code. ~~In such circumstances, The Member~~ is required to comply with section ~~340-240~~ *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making* of the Code, ~~and to in such circumstances. The Code requires the Member to~~ evaluate the significance of ~~such any identified~~ threat, and ~~undertake the~~ appropriate ~~safeguards actions to be applied to~~ reduce the threat to an Acceptable Level.

10.2 The **Member** should examine the nature of the financial interest which includes considerations such as the significance of the interest and whether it is direct or indirect, as well as the value of the interest. An example showing considerations which may be applied by **Members** where financial interests threaten compliance with the fundamental principles of the Code is provided in Case Study 11. An additional example of personal financial gain for a **Member** is provided in Case Study 13.

11. Inducements offered **by or** to a Member in Business

11.1 **Inducements** refer to both the ~~receiving/acceptance~~ of offers and ~~the~~ making of offers. Inducements may take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship or loyalty.
- Employment of other commercial opportunities.
- Preferential treatment, rights or privileges.

11.2 A **Member in Business** or an ~~Immediate~~ or ~~Close~~ **Family** member may be offered an ~~inducement such as gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty to influence their behaviour~~. Alternatively, a **Member** may experience

pressure to offer **Inducements** to subordinate the judgement of another individual or organisation, influence a decision-making process or obtain confidential information.

11.3 In addition to complying with relevant laws and regulations, a Member in Business is required to assess whether the offering or acceptance of an Inducement is made with the intent to improperly influence the behaviour of the Member or another individual. This includes the consideration of how others would perceive the offering or acceptance of an Inducement (i.e., what would a reasonable and informed third party think is the intent of the Inducement).

11.34 Where threats to the fundamental principles arise from **Inducements**, the Member in Business is required to follow comply with the principles requirements and guidance in **Section 350 250 Inducements, Including Gifts and Hospitality** of the Code. Examples showing approaches that can be adopted by the Member where **Inducements** threaten compliance with the fundamental principles of the Code are provided in Case Studies 12 - 14 and 18.

12. Member in Business’s responsibility to respond to non-compliance with laws and regulations

Disclosure of information

12.1 In accordance with **Section 140 114 Confidentiality** of the Code, a Member in Business who acquires confidential information in the course of performing a Professional Activity is prohibited from disclosing that information without proper and specific authority or unless there is a legal or professional right or duty to disclose it.

12.2 The *Privacy Act 1988 (Cth)* (Privacy Act) prohibits the disclosure of personal information about an individual, other than in certain limited circumstances including circumstances where the individual has consented to the disclosure or the disclosure is required or authorised by or under law.

12.3 Whistleblower laws at Federal and State and Territory levels prohibit the disclosure of certain information obtained from and about a whistleblower unless such disclosure is required or authorised by such laws.

12.4 Examples of the disclosure of information that may in certain circumstances be required or authorised by the law include:

- reporting of suspected money laundering activities to AUSTRAC⁹ in accordance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth)*; and
- where a Member in Business is authorised by the Member’s Employer to receive whistleblower information, disclosure by the Member of such information to an authorised person under the *Corporations Act 2001 (Cth)* (Corporations Act).

12.1 Members in Business may suspect or be aware that their Employer has done something illegal and is not complying with laws and regulation. This could be in relation to laws and regulation specific to financial statements or those that would affect the continued operation of the Employer. Examples of relevant laws and regulations include:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.

⁹ AUSTRAC is Australia’s anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit

- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

12.2 In the circumstances when a Member suspects or is aware of non-compliance with laws and regulations (NOCLAR), the Member is required to comply with Section 260 *Responding to Non-compliance with Laws and Regulations* of the Code. Section 260 sets out a framework to assist Members to respond to the suspected or actual NOCLAR, including considering relevant laws and regulations, reporting to management or the board, and disclosing to an appropriate authority if it is appropriate.

Protection of whistleblowers

~~12.35~~ Whistleblower laws in Australia provide whistleblowers with certain legal protection against liability for making certain disclosures and a specific process to follow when disclosing such information which may include, for example, information about a breach of the law by the business or persons in the business for or in which the whistleblower works. For example, under the Corporations Act whistleblowers will generally qualify for the protection if:

- the whistleblower is (or was) an officer, employee, ~~associate,~~ or contractor or employee of a contractor of the company, suppliers and their employees, as well as relatives or dependents of these parties thereof;
- ~~the whistleblower first identifies themselves before making the disclosure (anonymous reports are not protected);~~
- the report is made by the whistleblower to a prescribed entity (such as the Australian Securities and Investments Commission or the Australian Prudential Regulation Authority), an eligible recipient, legal practitioner, or person such as the Australian Securities and Investments Commission, a company auditor or member of an audit team conducting an audit of the company, a director, secretary or senior manager of the company or other person authorised by the company to receive such disclosure. Disclosures to Members of Parliament and journalists are permissible under limited circumstances. Members in Business are strongly advised to obtain legal advice before making such a disclosure;
- the whistleblower had reasonable grounds to suspect that the information indicates that the company or an officer or employee of the company has or may have contravened a provision of the Corporations Act; and
- the report is not related to a personal work-related grievance made in good faith.

~~12.46~~ A Member in Business who is considering disclosing information about the Member's Employer or persons in the Employer's business in circumstances which would otherwise be a breach of the Member's professional obligation of confidentiality or statutory obligations is strongly advised to first obtain legal advice. Whistleblower laws establish the scope of the protection offered to the Member and the process which the Member is required to follow to obtain that protection. Where the Member needs further clarification or guidance concerning the Member's obligations under the Code, the Member should consult with the Member's Professional Body without disclosing confidential information.

Decision-making process

~~12.57~~ Sometimes confidentiality, privacy and whistleblowing are the subject of internal business policies and procedures¹⁰. In circumstances where a Member in Business is considering disclosing information, the Member should follow any relevant internal policies and procedures of the business which employs the Member. In addition to these requirements,

¹⁰ From 1 July 2019 all public companies, and some large proprietary companies, are required under law to have an internal whistleblowing policy

where the **Member** is employed by a government entity or in the public sector, the **Member** is required to consider any public sector rules to which the **Member** is bound, prior to disclosing confidential information.

- 12.68 If the **Employer** does not have internal policies, procedures or rules that deal with the matter, a **Member in Business** should, amongst other things, consider the following when considering disclosing information about the **Member's Employer** or persons in the **Employer's** business in circumstances which would otherwise be a breach of their professional obligation of confidentiality:
- (a) Statutory constraints and obligations on disclosure including those contained in Federal and State and Territory privacy and whistleblower laws;
 - (b) Statutory protection for whistleblowers contained in Federal and State and Territory whistleblower laws;
 - (c) Whether the information relates to conduct which constitutes a breach of or an offence under any laws;
 - (d) Whether members of the public are likely to be adversely affected by the disclosure or non-disclosure of the information;
 - (e) The gravity of the matter, such as the size and extent of likely financial loss;
 - (f) The possibility or likelihood of repetition;
 - (g) The reliability and quality of the information available;
 - (h) The reasons for the **Employer's** unwillingness to disclose matters to the relevant authority;
 - (i) When the **Employer** gives authorisation to disclose information, whether or not the interests of all parties, including third parties whose interests might be affected, could be harmed;
 - (j) Whether or not all the relevant information is known and has been substantiated. Where the situation involves unsubstantiated or incomplete information and conclusions, professional judgement should be applied to determine the appropriate type of disclosure to be made, if any. The **Member** requires a reasonable belief that wrongdoing has occurred, before disclosure can be made;
 - (k) The type of communication that is expected and to whom it is addressed. In particular, the **Member** should be satisfied that the parties to whom the communication is addressed are authorised recipients; and
 - (l) The possible implications of disclosure for the **Member** and the **Member's** reputation.

12.79 Examples that address **NOCLAR and** whistleblowing are included in Case Studies 15 - 17.

Prohibited dealing with information

12.840 A **Member in Business** should be aware that there are laws which make it an offence for a person to take certain actions in respect of documents or related material that are, or are reasonably likely to be, required in evidence in legal proceedings (whether in progress or to be commenced in the future). These actions include for example, destroying, concealing or rendering the documents or material illegible, undecipherable or unidentifiable or authorising or permitting another to do so.¹¹ The **Member** is strongly advised to take care to ensure that the **Member** does not take any prohibited action in respect of such information.

¹¹ See for example the *Crimes Act 1958 (Vic)*

13. Pressure to breach the fundamental principles

13.1 At times, a Member in Business may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles of the Code. The pressure might be explicit or implicit and might come from:

- within the employing organisation, for example, from a colleague or supervisor.
- an external individual or organisation such as a vendor, customer or lender.
- internal or external targets and expectations.

13.2 Where threats to the fundamental principles arise from pressure, the Member in Business is required to comply with the requirements and guidance in Section 270 *Pressure to Breach the Fundamental Principles* of the Code, and also in Sections 210 to 260 of the Code. Examples showing approaches that can be adopted by the Member to address pressure to breach the fundamental principles of the Code are provided in Case Studies 2, 5, 7, 9, 13, 14, 20 and 21.

143. Case Studies

No	Title	Issues Discussed
1	Significant personal expenses claimed as company expenses	Potential conflicts
2	Council rates	Potential conflicts/ <u>Pressure to breach the fundamental principles</u>
3	Inappropriate small expense claim	Potential conflicts
4	Unlicensed software	Potential conflicts
5	Incorrect reporting of financial information	Preparation and reporting - <u>presentation</u> of information/ <u>Pressure to breach the fundamental principles</u>
6	Inappropriate capitalisation of research and development costs	Preparation and reporting - <u>presentation</u> of information
7	Inappropriate contractor claims	Preparation and reporting - <u>presentation</u> of information/ <u>Pressure to breach the fundamental principles</u>
8	Loss leaders or divisional failure?	Preparation and reporting - <u>presentation</u> of information
9	Satisfying the bank's lending criteria	Preparation and reporting - <u>presentation</u> of information/ Financial interests of a Member/ <u>Pressure to breach the fundamental principles</u>
10	Valuing share options	Acting with sufficient expertise
11	Personal financial interest in a proposal	Financial interests of a Member
12	Inducements for non-disclosure of information	<u>Inducements</u>
13	Earnings management	Financial interests of a Member/ <u>Inducement/Pressure to breach the fundamental principles</u>
14	Tender bids	<u>Inducement/Pressure to breach the fundamental principles</u>
15	Non-disclosure to auditors and corrupt business practices	<u>NOCLAR/Whistleblowing</u>
16	Inappropriate expense claims lodged by the Chief Executive	<u>NOCLAR/Whistleblowing</u>
17	Inappropriate recording of patient attendance at a doctors' medical practice	Whistleblowing
18	Insider information	Public Sector - <u>Inducement</u>

19	Demonstrating due diligence in a voluntary position	Public Sector - Acting with sufficient expertise
20	Potential breach of not-for-profit status	Charitable organisation - Preparation and reporting <u>presentation</u> of information/ <u>Pressure to breach the fundamental principles</u>
21	Ignorance is no excuse	Preparation and reporting <u>presentation</u> of information/ Acting with sufficient expertise/ <u>Pressure to breach the fundamental principles</u>

Introduction

Case Studies have been presented to illustrate the application of a structured approach to the resolution of ethical issues. **Members in Business** should read the Case Studies whilst referring to the conceptual framework approach in Section 4, to gain an understanding of the process that should be adopted when faced with ethical issues in the workplace. The Case Studies are not intended to be conclusive but rather provide a framework that leads **Members** to a course of action that is consistent with the principles and requirements of the **Code** and this Guidance Note.

These Case Studies are fictitious and any similarities to actual events or circumstances are merely coincidental.

The presentation of each Case Study follows the following pattern:

- Case outline: basic facts are described;
- Fundamental principles of the **Code**: those identified as the key principles in the Case Study;
- Ethical decision-making approach: selected steps from the conceptual framework approach in the **Code**; and
- Suggested possible courses of action are discussed.

Case Study 1 – Significant personal expenses claimed as company expenses

Potential Conflicts

Case outline

Alex (**Member in Business**) is the finance manager of an organisation. Alex is concerned that the Chief Executive has been making frequent interstate trips to Perth and charging expenses to the company. The trips and the activities undertaken appear to have only partial relevance to the company's activities. Alex is aware of the fact that the Chief Executive recently moved from Perth and still has a number of **Celose** ~~f~~**Family** members residing there.

Alex discusses the issue with the Chief Executive who explains that there is a verbal understanding with the Chairman of the company who is aware of the nature and purpose of the visits.

Fundamental principles of the Code

Integrity

Would processing the payments without an adequate explanation or supporting documentation be seen as being honest and fair?

Objectivity

How will the **Member in Business** demonstrate his objectivity, actual or perceived, in his dealings with the Chief Executive?

Professional competence and due care

How can allowing the expense payments to be processed without adequate explanation and supporting documentation be seen as acting with due skill, care and diligence?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit himself? Would it be considered legal and acceptable to taxation authorities?

Ethical decision-making approach

Identify relevant facts

Has the **Member in Business** discussed the matter adequately to ensure the facts are correct? If so, is it possible to obtain support for the Chief Executive's understanding with the Chairman? Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Identify affected parties

Key affected parties are the **Member in Business**, the Chief Executive, the Chairman and the Board. Other possible affected parties are the accounts payable department, human resources, internal audit, the Australian Taxation Office, the audit committee, employees, shareholders and financial backers.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues with whom the **Member in Business** can discuss his position? When do the Board and audit committee need to become involved?

Discuss the ethical dilemma with relevant parties

Does further discussion need to take place with the Chief Executive? Do the discussions need to extend to the Chairman?

Consider possible course of action

The **Member in Business** can discuss the issue further with his direct manager who may be in a position such as the Chief Financial Officer (CFO). Discussion could focus on the **Member in Business** obtaining clarity on the arrangement which may lead to documentary evidence supporting the understanding with the Chairman.

If the issue is not resolved, the CFO and **Member in Business** may consider requesting evidence from the Chief Executive together and can explain that it is required to conform to the company's policies and procedures. If an appropriate response is not received, the **Member in Business** and CFO can request a meeting with the Chief Executive and the Chairman to clarify the issue. Where this is not successful, additional discussions with the Board, internal audit, the audit committee or the external auditors may be required. All enquiries and conclusions reached should be documented by the **Member in Business**. Where such documentation is maintained, the **Member in Business** needs to consider the legal ramifications of doing so.

The **Member in Business** may also consider the ethical conflict resolution processes of his **Professional Body**.

Case Study 2 – Council rates

Potential Conflicts/Pressure to breach the fundamental principles

Case outline

Jane (**Member in Business**) has just been appointed as the new financial controller of XYZ Ltd after 12 months of job hunting. Her first task is to prepare the annual financial report for the year ended 30 June 20X1.

Although XYZ Ltd appears solvent, when reviewing the figures, Jane notes that the company is in quite a weak cash position. She also notices that based on her limited understanding of the business, there appears to be an unusually high accruals figure. On discussion with the Managing Director (MD), Jane finds that the balance relates to 4 years of unpaid council rates. Further discussions reveal that the company has not received a rates notice since the breakup of the council and rezoning of the company premises, 4 years ago.

Jane is concerned about this matter and discusses it further with the Managing Director who becomes annoyed. He does not consider this to be a significant issue due to the fact that it is the council's mistake and not the company's. The company has been recording the amount in accordance with accounting standards and he believes that is the extent of the company's obligation. He then goes on to make it clear that the company's interests should be put first, particularly when the issue impacts the business's cash flow. Further if the company were to pay 4 years of back rates, its cash flow position would be severely weakened which may lead to potential job losses.

Fundamental principles of the Code

Integrity

How does the **Member in Business** maintain her integrity when she is being asked to undertake a course of action which she clearly has doubts about?

Objectivity

How would the **Member in Business** maintain her objectivity given that her **Employer** is operating under difficult economic conditions and has the added pressure of possibly disagreeing with her boss whom she hardly knows?

Confidentiality

Is there any basis on which the **Member in Business** could make disclosures given the **Employer** obviously believes that the company's non-payment of rates is confidential information.

Professional behaviour

How does the **Member in Business** proceed in order to not discredit herself?

Ethical decision-making approach

Identify relevant facts

Are there any other reasons why the company has not received a bill for rates? Can the **Member in Business** continue to merely accrue an estimate for the rates bill for the year? If not, does she go back to the Managing Director and advise that the company should contact the local council and inform them of the situation? Is there a supportive environment for open discussion of practical dilemmas without a recriminatory or 'blame' culture?

Identify affected parties

Key affected parties are the **Member in Business**, the Managing Director, the other directors, the company's employees, the shareholders (if different from the directors), the local council and the general public.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures and applicable accounting standards.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom she can discuss her position? Is there anyone else within the company that the **Member in Business** should speak to regarding this matter? Are the other directors aware of this issue? Has the **Member in Business** discussed the matter with the Board?

Discuss the ethical dilemma with relevant parties

Do further discussions need to be held with the Managing Director or extend to other members of the Board?

Consider possible course of action

The **Member in Business** could try to ~~use her interpersonal skills~~ speak to the Managing Director in a non-confrontational way to offer to find a solution to the underlying problem. She may consider explaining the potential consequences ~~to the Managing Director~~ if the error is discovered by the council. There may be interest or penalties imposed on the company which may impact on the company's good reputation. If at some future date there are plans to sell the company – any due diligence is likely to discover this non-payment of rates which could easily impact on a potential sale. Given all of this, the **Member in Business** could also highlight the need for the company to get legal advice on its obligations. The **Member in Business** could also ask the Managing Director to consider the company's moral obligation to the local community. All enquiries and conclusions reached should be documented by the **Member in Business**. Where such documentation is maintained, the **Member in Business** needs to consider the legal ramifications of doing so.

To resolve the problem, the **Member in Business** could suggest to the Managing Director that they ~~ask~~ the local council to agree to a payment plan. It is unlikely that the council would want XYZ Ltd to go out of business potentially resulting in unemployment for a number of members of the community.

Case Study 3 – Inappropriate small expense claim**Potential Conflicts****Case outline**

After several months of job searching, Jeremy (**Member in Business**) secured a position as a financial accountant with a sales company. The company is very small with only 12 employees, most of whom work in the sales area. Given the size of the company, there are very few formally documented policies and procedures in place. Two days before the completion of Jeremy's 3 month probationary period and formal performance review, Jeremy's supervisor, who is also a senior sales person, tells him that he incurred ~~expenses of \$175~~ expense entertaining a client the previous evening. He requests a cheque reimbursement and submits receipts from a restaurant and bar to support the amount. At the end of the day, the supervisor's wife comes to the office to meet her husband and drive him home. Jeremy overhears the wife talking to another employee about what a wonderful night she had last evening with her husband at dinner and at the bar.

Key Fundamental principles and duties of the Code**Integrity**

Can the **Member in Business** overlook the information he overheard and maintain his integrity?

Objectivity

How will the **Member in Business** manage the conflict between integrity and his desire to secure his job at the company at the completion of his probationary period?

Professional behaviour

Can the **Member in Business** ignore the information acquired and still satisfy the principle of professional behaviour?

Ethical decision-making approach**Identify relevant facts**

Does the **Member in Business** have all of the facts? Can he discuss the nature of the expense further with the supervisor? What is the **Member in Business's** specific role in relation to expense claims and reimbursement? Is there an internal process for querying and reviewing expense claims?

Identify affected parties

The key affected parties are the **Member in Business** and the supervisor. Other possible affected parties are the supervisor's wife, the Australian Taxation Office and other employees and stakeholders of the company.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the [Member in Business](#) have trusted colleagues with whom he can discuss his position?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the supervisor to clarify the [Member in Business's](#) understanding? Does the [Member in Business](#) need to discuss the issue with anyone else in the company?

Consider possible course of action

The [Member in Business](#) may consider further discussions with the supervisor to clarify his understanding of the evening. He may approach such discussions in a non-confrontational manner and explain that he needs a complete understanding of the expense in order to appropriately classify it for financial reporting and taxation purposes. What client was entertained? Which account/product or service does this expense pertain to? If the [Member in Business](#) is unable to corroborate the expense claim he could highlight the implications of allowing inappropriate expense claims to continue such as Australian Taxation Office investigations and potentially fines. Where this approach is unsuccessful the [Member in Business](#) may need to initiate discussions with another manager within the company to assist in resolution of the problem.

Case Study 4 – Unlicensed software

Potential Conflicts

Case outline

Jamie ([Member in Business](#)) is a young accountant with qualifications in accounting as well as in information technology. Jamie has recently been hired as an accounting assistant by a medium-sized retail company and is looking forward to the challenges the work force presents. On his first day at work, the financial controller hands Jamie a copy of [Microsoft Office accounting software](#) and asks him to install the software on 25 computers around the office. The financial controller states that the new software is required in order for Jamie to perform his accounting role. Jamie is about to commence the installation when he asks the financial controller if the company holds the licence for the software. The financial controller laughs and says Jamie has a lot to learn. He explains that the purchase of a licence would result in unnecessary expenditure with no added benefit to the company.

Key Fundamental principles of the Code and duties

Integrity

Can the [Member in Business](#) overlook the fact that the company does not have the appropriate licences to use the software and maintain his integrity?

Objectivity

How will the [Member in Business](#) manage the conflict between integrity and his desire to secure his job at the company at the completion of his probationary period?

Professional behaviour

How should the [Member in Business](#) proceed in order to comply with relevant laws and avoid any action that discredits the profession?

Ethical decision-making approach

Identify relevant facts

Can the [Member in Business](#) discuss the matter further with the financial controller?

Identify affected parties

The key affected parties are the **Member in Business**, ~~Microsoft Corporation~~ the software provider, the financial controller and the company.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Is there someone else within the organisation with which the **Member in Business** can discuss his position?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the financial controller to explain the risks of breaching copyright? Does the **Member in Business** need to discuss the issue with anyone else in the company?

Consider possible course of action

The **Member in Business** may consider further discussions with the financial controller to highlight the importance of obtaining a licence for use of the product. The **Member in Business** could highlight advantages such as support from the software provider and the tax deductible nature of the expense.

Case Study 5 – Incorrect reporting of financial information

Preparation and ~~Reporting~~ Presentation of Information/Pressure to breach the fundamental principles

Case outline

Robyn (**Member in Business**) is the financial accountant in a company and is preparing the quarterly accounts. Robyn's immediate manager is a very forceful, domineering individual and Robyn has accepted his views over the last two years on the level of work in progress. The manager has instructed Robyn to report a 100% increase in work in progress during the current quarter. The year-end draft financial statements show that the company has only just met its business plan financial targets.

New evidence subsequently becomes available to suggest that something is clearly wrong and the work in progress had not increased at anywhere near the rate advised by Robyn's manager.

Fundamental principles of the Code

Integrity

Can the **Member in Business** show that the accounts are true and fair without amending them?

Objectivity

Given the manager is a forceful and intimidating individual, how would the **Member in Business** maintain her objectivity?

Professional competence and due care

Have the draft accounts been prepared in accordance with reporting requirements including applicable accounting standards, laws and regulations, and **Professional Standards**?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself or the company?

Ethical decision-making approach

Identify relevant facts

Do other balances and analyses provide evidence that work in progress is incorrectly stated? For example, cost of sales analytical review, margin analysis and cash flows.

Identify affected parties

The **Member in Business** and her immediate manager are the key affected parties. Others that may be affected include other levels of management, recipient of the management accounts, users of the financial accounts, finance, purchasing, accounts payable, human resources, internal audit, audit committee, board, external auditors, shareholders, financial backers and the [Australian Taxation eOffice](#).

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? The **Member in Business** may discuss the matter with her immediate line manager given the available evidence and possible consequences. Can the **Member in Business** discuss the matter with other affected parties such as the recipients of the management and financial accounts? What is the appropriate timing for such discussions?

Discuss the ethical dilemma with relevant parties

Does further discussion need to take place with the immediate manager? Do discussions need to extend to more senior levels of management?

Consider possible course of action

The **Member in Business** may corroborate the facts with other available documentation such as cost of sales calculations, previous stock counts and other financial information. The appropriate course of action such as undertaking a stock count can then be discussed with the **Member in Business's** immediate line manager. If the manager's response is not what the **Member in Business** considers appropriate, the matter may then be discussed with recipients of the management and financial accounts and the next level of management. Other steps could include, where appropriate, discussion with the senior management, internal audit, audit committee, the Board and external auditors.

In the case of a small business, the **Member in Business** may not have the ability to hold the detailed discussions suggested above. In this case, the main course of action would be to corroborate the facts and report in line with statutory requirements. The **Member in Business** may discuss the requirements with the line manager using facts as the basis for this discussion.

The **Member in Business** can also consider the ethical conflict resolution resources of her **Professional Body**. The **Member in Business** should also consider her employment options.

Case Study 6 – Inappropriate capitalisation of research and development costs

Preparation and Reporting/Presentation of Information

Case outline

Nathan (**Member in Business**), the finance director of ABC Ltd, has become aware of a \$1.5 million investment in relation to a research and development (R&D) project. This project has not been properly assessed and therefore its chances of success are unknown. The company's policy on R&D clearly states that such costs are capitalised and deferred only where it is reasonable to expect a successful outcome and an associated revenue stream - a policy that is consistent with the *Income Tax Assessment Act 1997* research and development provisions.

Nathan approaches his long time good friend, Doug, the project leader, about the costs incurred and receives a response that there is no problem because he will provide some numbers that will keep the auditors happy.

It is only 1 week before the financial year-end and writing off the \$1.5 million at such a late stage would result in significant difficulties with the Board for Nathan. His relationship with Doug will also be impacted and he would be placed in a very precarious position with the Board.

Fundamental principles of the Code

Integrity

How does the **Member in Business** maintain his integrity with the project leader, the Board and the auditors? Can the **Member in Business** retain his integrity without bringing the matter to the Board's attention?

Objectivity

How does the **Member in Business** remain objective as to the true nature of the research and development expenditure and their appropriate accounting treatment considering the long term friendship with the project leader?

Professional behaviour

How does the **Member in Business** proceed in order to not discredit himself?

Professional competence and due care

Have the accounts been prepared in accordance with applicable accounting standards, laws and regulations, and **Professional Standards**?

Ethical decision-making approach

Identify relevant facts

Should the **Member in Business** discuss the matter further with the project leader prior to taking the matter to the Board? What information will the **Member in Business** disclose to the auditors?

Other points to consider include whether there is a supportive environment for open discussion of practical dilemmas or is there a recriminatory or 'blame' culture in the company? Is there a problem with the company's internal controls in relation to the correct treatment of expenditure on R&D? Have similar incidences occurred in the past? Is there any commercial pressure on the project leader to defer expenditure items inappropriately?

Identify affected parties

The main affected parties are the **Member in Business**, the project leader, the directors, the company's employees and the shareholders (if different from the directors), and the Australian Taxation Office.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues with whom the **Member in Business** can discuss his position?

Discuss the ethical dilemma with relevant parties

Does further discussion need to take place with Doug? Do discussions need to be held with other levels of management and the Board?

Consider possible course of action

Commercial pressures on Doug may be forcing him to defer this expenditure. However, transparent reporting may require write-off of the \$1.5 million. Initially the **Member in Business** may need to have further discussions with Doug to obtain a more comprehensive understanding of the project and its current status. The **Member in Business** should explain to Doug the potential implications of inappropriate treatment of the \$1.5 million. Such implications would include a qualified audit report and its impact on the company. In addition, capitalisation of the costs is inconsistent with the requirements of the *Income Tax Assessment Act 1997* research and development provisions. This may lead to penalties and other negative consequences under the Act. If this approach fails then the **Member in Business** will have to approach senior management, the Chief Executive or the Board and explain the situation and work through how this issue can be resolved. The **Member in Business** could consider highlighting the expense as an exceptional item in order to provide a true and fair view.

Case Study 7 – Inappropriate contractor claims

Preparation and Reporting/Presentation of Information/Pressure to breach the fundamental principles

Case outline

William ([Member in Business](#)) is employed as the financial accountant in a medium-sized engineering firm. The firm specialises in the development and design of steel frames and pumps used to purify oil. Due to the fluctuation in demand the company maintains only a small permanent workforce with at times, up to 65% of the labour provided by external contractors.

William developed an innovative accounting system that analysed project costs against the work done and in doing so, found a significant fraud in contractor claims at the company. He incorporated the variances into his monthly report and approached the engineering manager with his findings. The engineering manager was clearly agitated by William's findings. He stated that William's job was to pay employees and creditors, meet statutory requirements, and that project reporting was the responsibility of project cost engineers.

Key Fundamental principles of the Code and duties

Integrity

Can the [Member in Business](#) overlook his findings and maintain his integrity?

Objectivity

Knowing that something may be wrong, how can the [Member in Business](#) maintain his objectivity?

Confidentiality

Does the [Member in Business](#) have a legal or professional right or duty to disclose the information acquired? What whistleblowing obligations and protection does the [Member in Business](#) have?

Professional behaviour

How should the [Member in Business](#) proceed in order to comply with relevant laws and regulations and avoid any action that discredits the profession?

Professional competence and due care

Is the [Member in Business](#) able to check that his findings are correct?

Ethical decision-making approach

Identify relevant facts

Does the [Member in Business](#) have all of the facts? Is the new accounting system he developed performing a correct analysis? Can the results of the system be substantiated in an alternative way? Are there ~~are~~ other costs associated with employing contractors that may not have been taken into consideration (costs such as relocation costs)? Can the [Member in Business](#) discuss the matter further with the engineering manager or other recipients of his monthly report? What are the potential factors that would influence the engineering manager to conceal fraud in contractor claims?

Identify affected parties

The key affected parties are the [Member in Business](#), the contractors, the engineering manager and the company itself. Other possible affected parties include the Australian Taxation Office.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the [Member in Business](#) have trusted colleagues with whom the [Member](#) can discuss his position?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the engineering manager? Do discussions need to be held directly with the contractors in question?

Consider possible course of action

The **Member in Business** should explain to the engineering manager the requirement to substantiate the alleged fraudulent claim and that the matter is to be investigated. The **Member in Business** may consider approaching the contractor in question with his findings and request supporting documentation for excess money paid. He would also then need to approach the relevant project cost engineer with the outcome so that the project can be appropriately costed. The **Member in Business** would also need to consider the fraudulent implications that arise from deceitful billing practices and determine whether any further sort of legal or other action is required. All enquiries and conclusions reached should be documented by the **Member in Business**. Where such documentation is maintained, the **Member in Business** needs to consider the legal ramifications of doing so. The **Member in Business** should consider reporting the outcomes to **Those Charged with Governance**.

Case Study 8 – Loss leaders or divisional failure?

Preparation and *Reporting/Presentation* of Information

Case outline

Rebecca (**Member in Business**) is the accountant for the processed foods division of a manufacturing company. Rebecca's role involves the preparation of financial reports determined by corporate management to assist in the assessment of the team's performance. When preparing the regular financial reports Rebecca noticed some products appeared to have experienced lower sales in the last quarter. With further analysis she found that there were a significant number of products that had been sold at a net financial loss with some sold at below prime cost.

The company structure means that Rebecca reports to the divisional manager as opposed to the head office Chief Financial Officer (CFO). On reporting her results the divisional manager was agitated and advised Rebecca that her financial reports are not acceptable and inconsistent with general commercial practice. The manager then performed his own analysis of the division's products and concluded that all products were sold at positive margins. He did not provide Rebecca with any details of his study.

Key Fundamental principles of the Code and duties

Integrity

Can the **Member in Business** overlook her findings and maintain her integrity?

Objectivity

Knowing that something may be wrong, how can the **Member in Business** maintain her objectivity?

Professional behaviour

How should the **Member in Business** proceed?

Professional competence and due care

Is the **Member in Business** able to check that her findings are correct?

Ethical decision –making approach

Identify relevant facts

Does the **Member in Business** have all of the facts? Does she need to consider other issues such as the overall profitability of the division and the necessity to produce complementary items to support profit leaders? Can the **Member in Business** discuss the matter further with the divisional manager?

Identify affected parties

The key affected parties are the **Member in Business**, the divisional manager, the head office CFO and the company itself.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom she can discuss her position?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the divisional manager? Do discussions need to be held with the head office CFO?

Consider possible course of action

The **Member in Business** may consider discussing the matter further with the divisional manager. She may approach the issue in a non-confrontational way by requesting that the manager provide her with feedback on what she did not consider as part of her analysis. Alternatively the **Member in Business** may approach the head office CFO directly to discuss the issue. All enquiries and conclusions reached should be documented by the **Member in Business**. The **Member in Business** should also ensure that she maintains a copy of her analysis.

Case Study 9 – Satisfying the bank's lending criteria

Preparation and Reporting/Presentation of Information/Financial interests of a Member/Pressure to breach the fundamental principles

Case outline

Sandra (**Member in Business**) is the Chief Financial Officer (CFO) of a large manufacturing company. It is November and the Chief Executive has just returned from a meeting with the company's bankers and calls Sandra into her office to discuss the results of negotiations. The Chief Executive explains that the company requires a significant capital injection in order to modernise its manufacturing equipment. This will enable the company to secure a large ongoing order from China which will result in all employees of the company receiving sizeable Christmas bonuses.

The Chief Executive explains to Sandra that the lending criteria of the bank require that the company demonstrate an adequate current and strong projected cash flow as well as a profitability level that will enable repayments of the loan to be made from an early date. The Chief Executive has told the bank that the company is in a strong position. However, Sandra knows that the company will not satisfy the bank's criteria. The Chief Executive has promised that Sandra (CFO) will deliver a financial report to the bank within 3 business days. The Chief Executive tells Sandra that it is up to her to decide the contents of the report.

Fundamental principles of the Code

Integrity

How does the **Member in Business** maintain her integrity with the Chief Executive and the bank?

Objectivity

How does the **Member in Business** remain objective as to the reporting on the company's financial status considering the pressure to misstate the accounts?

Professional behaviour

How does the **Member in Business** proceed in order to not discredit herself?

Ethical decision-making approach

Identify relevant facts

Can the **Member in Business** retain her integrity without reporting false information to the bank? Should the **Member in Business** discuss the matter further with the Chief Executive prior to presenting her report? What information will the **Member in Business** disclose to the bank?

Identify affected parties

The main affected parties are the **Member in Business**, the bank, the Chief Executive and the company's employees and the shareholders.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues with whom the **Member in Business** can discuss her position? The **Member in Business** should consider whether to consult confidentially with external advisers such as the **Professional Body** to which she belongs and whether to consult **Those Charged with Governance**.

Discuss the ethical dilemma with relevant parties

Does further discussion need to take place with the Chief Executive? Do discussions need to be held directly with the bank?

Consider possible course of action

Commercial pressures and the potential for personal financial gain by the **Member in Business** may encourage her to produce a report that satisfies the bank's criteria; however, this would be materially misrepresenting the company's position, which would mean that she would be in breach of the **Code** if they prepared or were associated with it. To produce such a report may actually jeopardise future borrowing activities of the company with this and other banks. The **Member in Business** may have additional discussions with the Chief Executive to explain the future implications of providing a report to the bank which misrepresents the company's position.

Case Study 10 – Valuing share options

Acting with Sufficient Expertise

Case outline

Olivia's **Employer** has requested that she (**Member in Business**) perform a valuation of share options. Olivia is not comfortable with the work as she does not have the required expertise to value options, and is uncertain about what to say to her **Employer**.

Fundamental principles of the Code

Professional competence and due care

Does the **Member in Business** have the necessary skills and experience to undertake the work?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself or the company?

Ethical decision-making approach

Identify relevant facts

Can the **Member in Business** demonstrate her lack of expertise in this area and the potential impact on the company and offer alternatives? Consider the objective and time scale for the valuation in planning the next steps.

Identify affected parties

The **Member in Business** and the **Employer** are the key affected parties. Other parties that may be affected include the auditors, employees, human resources, shareholders and financial backers.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, accounting standards, best practices, applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues with whom the **Member in Business** can discuss her position?

Discuss the ethical dilemma with relevant parties

Does further discussion need to take place with the **Member in Business's** manager? At what point will the **Member in Business** consider involving the next level of management?

Consider possible course of action

The **Member in Business** may consider discussing her concern about the lack of knowledge to value share options with her immediate manager. The **Member in Business** could suggest clearly defining the scope of the project and a course of action for addressing issues such as lack of knowledge or expertise. An appropriate course may be for example, employing a person with the necessary expertise. The focus during the discussion should be on the potential consequences to the business. The **Member in Business** could explain that employing a person with the necessary expertise does not affect her own obligation to ensure that the work is conducted in accordance with applicable accounting standards, laws and regulations. If the **Member in Business** does not consider her manager's reaction to be satisfactory, it may be appropriate to discuss the matter with the next level of management. If this response is not satisfactory, the **Member in Business** may need to involve internal audit, the audit committee and/or investment committee or the Board. Note that the substance of all discussions held, who was involved, what conclusions were reached and why, and her involvement should all be documented by the **Member in Business**. When doing so, the **Member in Business** may need to consider whether there are legal implications of maintaining such documentation in compliance with relevant laws and regulations.

The **Member in Business** could also consider the ethical conflict resolution resources of her **Professional Body**.

Case Study 11 – Personal financial interest in a proposal

Financial Interests

Case outline

Stella (**Member in Business**) has been appointed finance director of a public company which has difficulties attracting and retaining skilled staff. Stella's first task from the Board is to develop a benefits package to assist the company in overcoming this problem. Her own entitlement to benefits will also be in accordance with the new scheme. Based on extensive research and analysis, Stella concludes that in order to achieve the Board's objective, a significant increase in the whole range of benefits is required.

Fundamental principles of the Code

Integrity

In view of the **Member in Business's** personal interest, how will she ensure that her honesty remains unquestionable?

Objectivity

How will the **Member in Business** remain unbiased, and consider only the relevant facts, despite her personal interest in the benefits package?

Professional competence and due care

Does the **Member in Business** have all the necessary skills to draw up such a package?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit her behaviour?

Ethical decision-making approach

Identify relevant facts

Consider the business's policies, procedures and guidelines, accounting standards, best practices, applicable laws and regulations. Is the information used for assessing the potential new benefits package independent? Who else has been involved in the proposal for the new benefits package?

Identify affected parties

The **Member in Business** and the Board are the key affected parties. Others that may be affected include employees, human resources, shareholders and financial backers.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom she can discuss her position? Has the **Member in Business** discussed the matter with the Board and/or human resources?

Discuss the ethical dilemma with relevant parties

Do further discussions need to take place with the Board or the directors individually prior to undertaking the task?

Consider possible course of action

Prior to explaining the findings to the Board, it may be advisable that the **Member in Business** informs the Board how she approached the project and who else was involved in the process (such as human resources). The **Member in Business** may find it helpful to document the substance of all discussions held, who was involved, what conclusions were reached and why, including her involvement. When maintaining such documentation, the **Member in Business** may need to consider the legal implications of doing so. When it is time to propose the new benefits package, the **Member in Business** may need to declare her conflict of interest. Findings may need to be presented to the Board by human resources or another independent party.

Case Study 12 – Inducements for non-disclosure of information

Inducement

Case outline

John (**Member in Business**) has been with his current **Employer** for 8 months. However, things have not turned out well and he is moving on. John has significant concerns about the business conduct of the company, and believes there may be issues that require disclosure to the auditors or the regulator. A compromise agreement is currently being negotiated in which John will not receive a settlement if he reports any concerns, whereas if he agrees to a gagging clause then there will be a substantial payoff.

Fundamental principles of the Code

Integrity

What does the **Member in Business** need to do to demonstrate his integrity? How far does the **Member in Business** need to go?

Objectivity

How will the **Member in Business** manage the conflict between financial benefit and integrity?

Confidentiality

Is there any basis on which the **Member in Business** could make disclosures?

Ethical decision-making approach

Identify relevant facts

Are the **Member in Business's** concerns based on facts and does he have relevant facts to back his concerns? Are all the facts available or only a selection? Can the rest be established? Identifying the relevant facts could include understanding any requirements of legislation to make disclosures, and any protection that the **Member in Business** may seek from relevant legislation. Have any steps already been taken to try to resolve the **Member in Business's** concerns? Have these steps been documented?

Identify affected parties

The **Member in Business** and the **Employer** are the key affected parties. Other parties that may be affected are the regulator, auditor and the public, as well as the **Member in Business's** family.

Determine whether a procedure of conflict resolution exists within the organisation

Given the nature of the dilemma, there may not be an internal conflict resolution process available. The **Member in Business** can also consider the ethical conflict resolution resources of his **Professional Body**.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom he can discuss his position? Can the **Member in Business** speak with his **Employer** about his concerns? Has the **Member in Business** made full disclosures to his solicitor, and received advice? Has the **Member in Business** discussed the matter with his family? Are there any external organisations that the **Member in Business** can contact such as public authorities?

Discuss the ethical dilemma with relevant parties

Do any additional discussions need to be held with the **Member in Business's** current **Employer**?

Consider possible course of action

There are two issues that need to be resolved:

1. How to address the matters of concern; and
2. How to achieve a satisfactory financial settlement.

Given the nature of the dilemma, the **Member in Business** may need to take advice early and often. The **Member in Business** may need to establish whether the facts support his concerns. If so, he may need to decide if there is a basis for disclosure and if so, what the value and consequences of that disclosure might be for the **Member in Business** and his family, the **Employer**, the industry and the profession. If the evidence available is considered sufficient, the **Member in Business** may resist the gagging clause, and argue for the concerns raised to be documented and considered by **Those Charged with Governance** of the company. The **Member in Business** should always ensure his family is aware of his concerns and actions, and their implications, without revealing confidential information.

The **Member in Business** may find it helpful to document the substance of all discussions held, who was involved, the conclusions reached and why, including his involvement. When doing so, legal implications of maintaining such documentation in compliance with relevant laws and regulations may need to be considered by the **Member in Business**.

Case Study 13 – Earnings management

Financial Interest of a Member/Inducement/Pressure to breach the fundamental principles

Case outline

Phil (**Member in Business**) has been the accountant for a family business for a few years. The business has recently encountered some operating difficulties and associated financial difficulties. Subsequently a bank and a venture capitalist have invested and acquired over 35% of the company's shares. However, no board seats have been made available to the purchasers. The ongoing support of the bank and venture capitalist are dependent on the company's performance figures.

The Managing Director tells Phil that if he produces the 'right' figures he will receive a significant Christmas bonus and a 1% share option. The company is secretive, and as little information as possible is being given to the auditors and the investors.

Phil is preparing the quarterly management accounts and on review of the balances, believes that some figures are being 'massaged'. Phil has tentatively raised his concerns with the father and son Chairman and Chief Executive. Phil is then told that if he pursues the matter or fails to produce the 'right' figures, his bonus and share options will be forfeited.

Key Fundamental principles of the Code and duties

Integrity

It is possible to support the business without being involved in reporting potentially misleading information?

Objectivity

How can the **Member in Business** avoid his professional judgement being influenced by the financial interest resulting from the bonus?

Professional behaviour

How will the **Member in Business** manage relationships with the affected parties?

Ethical decision-making approach

Identify relevant facts

Consider the business's policies, procedures and guidelines, accounting standards, applicable laws and regulations. The facts need to be double checked with a focus on significant figures in the accounts and their underlying assumptions. The **Member in Business** should consider whether the nature of the family business and its apparent secrecy means that he is not in possession of material facts.

Identify affected parties

The **Member in Business**, the family business, professional advisers, bankers and venture capitalists are the key affected parties. Others that may be affected are the **Member in Business's** own family and the profession.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations. Given the nature of the dilemma, there may not be an internal conflict resolution process available. The Member in Business can also consider the ethical conflict resolution resources of his Professional Body.

Consider who should be involved in the conflict resolution process

Consider who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues or friends with whom the **Member in Business** can discuss his position? Can the **Member in Business's Professional Body** provide advice and provide assistance?

Discuss the ethical dilemma with relevant parties

Do further discussions need to take place with the Chairman and the Chief Executive?

Consider possible course of action

The **Member in Business** may approach the Chairman and Chief Executive and explain the long term implications of reporting inaccurate figures. He could focus discussions on the need to address the underlying business issues and the best way to address them to increase the long-term value of the company. Prior to having this discussion, the **Member in Business** may prepare realistic figures for presentation and explain the importance of presenting these for the company and his professional standing.

During the resolution process, the Member in Business may find it helpful to document the substance of all discussions held, who was involved, what conclusions were reached and why, and his involvement. Note that the legal implications of maintaining such documentation in compliance with

relevant laws and regulations may need to be considered. The [Member in Business](#) may also need to consider his employment options.

Case Study 14 – Tender bids

Inducement/Pressure to breach the fundamental principles

Case outline

Paula ([Member in Business](#)) is a recently qualified professional accountant working in the accounting department of a property investment firm. The company is selling a piece of land and has stipulated that bids have to be submitted via email by 5pm of a specified date. All tender bids are to be considered as confidential and Paula is the initial point of contact for the tender bids. A few tender bids have been received prior to the deadline but not as many as initially anticipated.

At 4:30pm Paula receives a call from an anonymous prospective buyer who informs Paula that he is willing to pay a premium of 20% above the highest bid received by 4:55pm, provided he is informed beforehand of the highest bid received. The caller explains that in this way, all parties benefit. A higher fee is received for the land, the buyer does not have to make an unnecessarily high bid and Paula will be rewarded by the buyer for her hard work. He continues to explain that this type of activity is common in this industry and implies without naming names that other more senior personnel within the firm have taken advantage of these very generous financial terms in the past and would expect Paula to do the same.

Key Fundamental principles of the Code and duties

Integrity

Can the [Member in Business](#) retain her integrity if she distorts the tender process? How does the [Member in Business](#) deal with the caller's allegations about more senior personnel within her company?

Objectivity

The [Member in Business](#) needs to consider the interest of all of the other parties involved in the tender process.

Confidentiality

How could one justify divulging confidential information to the callers in the interest of maximising the selling price of the land?

Professional behaviour

How does the [Member in Business](#) ensure that ~~he~~ she handles the client's allegations sensitively and professionally? Particularly given that the [Member in Business](#) has no knowledge of the accuracy of the allegations made by the caller?

Ethical decision-making approach

Identify relevant facts

Consider any further information the [Member in Business](#) may require to make a decision including consulting with relevant stakeholders of the company who may have a perspective on the tender process.

Identify affected parties

Key affected parties are the [Member in Business](#), the caller, the directors and staff at the property investment firm, the bank, other creditors and other prospective buyers.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, best practices, applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Consider who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? The first issue is does the **Member in Business** immediately raise this with her manager before the caller phones back? Secondly, when the caller does phone back does the **Member in Business** transfer the call to her manager, does she get her manager to listen in to the conversation or does she merely deal with the caller?

Discuss the ethical dilemma with relevant parties

Does the **Member in Business** need to hold discussions with her manager or senior management of the company?

Consider possible course of action

From the given information, the company may benefit financially if the information is divulged. However, this is not certain as a late bid from another prospective buyer may yet be received prior to the deadline. The **Member in Business** needs to ensure that a fair tender process is held despite the short-term commercial pressure. The **Member in Business** also needs to ensure that any actions taken are within the confines of the law. The **Member in Business** may need to disclose the receiving of the call and the content of the discussion to **Those Charged with Governance**.

Case Study 15 – Non-Disclosure to auditors and corrupt business practices

NOCLAR/Whistleblowing

Case outline

Sarah (**Member in Business**) is newly employed as an accounting systems manager and recently heard a rumour that the company recently paid a bribe to win overseas work. She has also noticed that the company culture appears to be that everyone has an attitude of getting away with as much as possible. Sarah goes to make her morning cup of coffee where she overhears a discussion with a divisional accountant about the fact that certain information had not been disclosed to the auditors. Sarah has not yet developed a strong working relationship with her line manager and as yet is not sure that her line manager will be supportive of her comments and desire to explore the accuracy of statements made.

Key Fundamental principles of the Code and duties

Integrity

Can the **Member in Business** overlook the divisional accountant's comments, her impressions of organisational culture and the bribe allegedly paid to the overseas company and still demonstrate integrity?

Objectivity

Knowing that something may be wrong, how can the **Member in Business** maintain her objectivity?

Confidentiality

On what basis could or should the **Member in Business** make disclosures?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself or the company?

Ethical decision-making approach

Identify relevant facts

Consider the business's policies, procedures and guidelines, accounting standards, best practices, applicable laws and regulations. Can the facts be corroborated with documentation or discussion with relevant parties? If proven would the conduct constitute a breach of any laws and if so, which ones? Is there an internal process for whistleblowing? Has the **Member in Business** taken the appropriate steps to understand her legal rights and responsibilities?

Identify affected parties

The **Member in Business**, the divisional accountant, the employee raising allegations about the bribe, the line manager and the auditor are the key affected parties. Other parties that may be affected are the company's other employees and where present, internal audit, the audit committee, the board, shareholders and financial backers.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? Do any confidentiality, privacy or whistleblower constraints prevent or restrict their involvement? What is the appropriate timing of their involvement? Has the **Member in Business** considered contacting her **Professional Body** for advice and guidance? Does the **Member in Business** have trusted colleagues with whom she can discuss her position? At what point will the **Member in Business** consider involving her line manager, the next level of management, the Board and the audit committee?

Discuss the ethical dilemma with relevant parties

Do further discussions with the divisional accountant need to take place? Similarly, do additional discussions need to be held with the employee raising bribery allegations?

Consider possible course of action

The **Member in Business** may consider checking the facts and discussing the matter with her immediate line manager. If the **Member in Business** feels that the response from the line manager is not satisfactory, the next step may be to discuss the matter further with the next level of management, internal audit, the audit committee or the Board.

The **Member in Business's** suspicions or rumours of criminal or corrupt activity are not sufficient for her to form a reasonable basis that wrongdoing has occurred. However, if there is evidence of wrongdoing, the **Member in Business** may contact her **Professional Body** (subject to confidentiality, privacy and whistleblower obligations) and consider obtaining legal advice. During the resolution process, it may be helpful to document the **Member in Business's** involvement in the resolution of the matter, the substance of all discussions held, the names of others involved, the decisions made by her and the basis for those decisions. When doing so, the **Member in Business** always needs to keep the legal considerations in mind.

Case Study 16 – Inappropriate expense claims lodged by the Chief Executive

NOCLAR/Whistleblowing

Case outline

Crystal (**Member in Business**), the financial controller of the Australian division of an international company was reviewing the expense claims of senior management when she became aware of a claim from the Chief Executive Officer that was contrary to local tax laws. On further investigation, she found that this was not an isolated incident and claims of a similar nature added up to a significant amount. All claims were approved by the same international manager.

Key Fundamental principles of the Code and duties

Integrity

Can the **Member in Business** overlook the Chief Executive Officer's expense claim and maintain her integrity?

Objectivity

Knowing that something may be wrong, how can the **Member in Business** maintain her objectivity?

Confidentiality

On what basis could or should the **Member in Business** make disclosures?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself or the company?

Professional competence and due care

How can allowing the expense payments to be processed when they are contrary to local tax laws be seen as acting with due skill, care and diligence?

Ethical decision –making approach

Identify relevant facts

Does the **Member in Business** have all of the facts? Can the **Member in Business** discuss the matter further with the international manager that approved the expenses? If proven would the conduct constitute a breach of any laws and if so, which ones? Does the company have an internal process for whistle-blowing? What steps has the **Member in Business** taken to understand her legal rights and responsibilities?

Identify affected parties

The key affected parties are the **Member in Business** and the Chief Executive Officer. Other possible affected parties are the Australian Taxation Office, human resources, the Board and/or audit committee and other employees.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies and procedures, applicable accounting standards, best practice and applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? Do any confidentiality, privacy or whistleblower constraints prevent or restrict their involvement? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom she can discuss her position? Has the **Member in Business** discussed the matter with local management and/or human resources?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the international manager? Do discussions need to be held with the local senior management?

Consider possible course of action

The **Member in Business** may consider contacting the international manager who approved the expenses to clarify her understanding of the transactions. The **Member in Business** may consider quantifying the impact of the claims made by the Chief Executive from a taxation perspective and explain the problem to the international manager using this as a basis. The **Member in Business** could also then highlight the local implications of allowing such claims to continue. Implications may include fines from the Australian Taxation Office and unfavourable publicity to the company. Depending on the response received, the **Member in Business** may need to consider the likelihood of further assistance being provided by the international manager in relation to this wrongdoing and the impact that this may have on her actions. Enquiries of this nature, together with the details of the parties involved and reasons for any conclusions reached, should be documented by the **Member in Business**. The **Member in Business** may also consider raising the matter with the audit committee, once she has substantiated her belief that wrongdoing has occurred.

Case Study 17 – Inappropriate recording of patient attendance at a doctors' medical practice

Whistleblowing

Case outline

Rita (**Member in Business**) has recently returned to the workforce following maternity leave. She is employed as a part-time accountant for a local medical practice, reporting to a practice manager who is responsible for a number of doctors working together.

In her second week on the job Rita noticed that one of the doctors appeared to treat more patients than were recorded in the electronic waiting room system used to manage patient attendance. It is the practice's policy that all doctors contribute to the practice half of their income earned from attending patients. Rita approached the doctor who suggested it was merely an oversight and that he would instruct the practice manager to update the records by the end of the week. At the end of the week Rita noticed that the patient attendance records had not been updated so she proceeded to update them herself. On Rita's return to work the following week, she noticed that the entries she made had been erased. When she approached the doctor about this, he snapped that her job was merely to record payments and expenses and any "business" matters were best left to those with the understanding of how to run a business. Rita has serious concerns about the doctor's actions in omitting to record patient attendances correctly.

Key Fundamental principles of the Code and duties

Integrity

Can the **Member in Business** overlook the doctor's actions and maintain her integrity?

Objectivity

Knowing that something may be wrong, how can the **Member in Business** maintain her objectivity?

Confidentiality

On what basis could or should the **Member in Business** make disclosures?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself?

Professional competence and due care

How can omission of patient attendance and therefore the costs and associated revenue be seen as acting with due skill, care and diligence?

Ethical decision-making approach

Identify relevant facts

Does the **Member in Business** have all of the facts? Is this merely a once-off or an ongoing practice by this doctor? Can she discuss the matter further with the doctor? If proven would the conduct constitute a breach of any laws and if so, which ones? Does the practice have an internal process for whistleblowing? What steps has the **Member in Business** taken to understand her legal rights and responsibilities? Has the **Member in Business** considered the application of Privacy laws to the handling of sensitive information within the personal health records of these patients and when and how these records can be amended?

Identify affected parties

The key affected parties are the **Member in Business**, the doctor concerned, other doctors of the practice and the patients whose records are not accurate. Other possible affected parties are the Australian Taxation Office and Medicare.

Determine whether a procedure of conflict resolution exists within the organisation

Given the size of the practice, there may not be formal documented policies available. However, there may be a doctor who has the allocated responsibility for addressing staff issues.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? Do any confidentiality, privacy or whistleblower constraints prevent or restrict their involvement? What is the appropriate timing of their involvement? Does the **Member in Business** have trusted colleagues with whom she can discuss her position? Has the **Member in Business** discussed the matter with any of the other doctors?

Discuss the ethical dilemma with relevant parties

Can further discussions be held with the deceitful doctor? Do discussions need to be held with other doctors? Should she escalate matters given the doctor's previous brusque behaviour?

Consider possible course of action

The **Member in Business** may consider further discussions with the doctor concerned to clarify her understanding of the situation. Prior to discussions, the **Member in Business** may consider quantifying the impact of the doctor's behaviour and the likely impact over time. She may then decide to observe what happens over a longer period of time. All enquiries and conclusions reached may need to be documented by the **Member in Business** and when doing so, the **Member in Business** needs to be aware of the associated legal implications.

Case Study 18 – Insider information

Public Sector – Inducement

Case outline

Sally (**Member in Business**) is the head of internal audit in a public sector organisation which is about to tender for the contract for the internal audit service. She has been in her position for the duration of a five-year contract. A new member of her team has been recruited in the normal course, from the department responsible for reviewing the tender contract. The new team member is employed in internal audit as a support administrator. Although he was not involved with the tender process, his former colleague and friend in the tendering department is responsible for the tender specification document and the evaluation process.

Sally's new employee had sight of some of the requirements and has offered to share with her information that may be of use when preparing the tender. However, this information is confidential and should not be seen by any of the tendering parties.

It will be an open tender process for both external and internal providers. Bids from external providers are being encouraged. The evaluation process has been designed with this in mind.

If the contract is awarded externally, Sally, as the head of internal audit, will be unsure of her personal position in the organisation.

Sally understands the use of any insider knowledge of the tendering process would be inappropriate when preparing the tender proposal, but she feels she would have a better chance of success if she used this confidential information.

Key Fundamental principles of the Code and duties

Integrity

How can the **Member in Business** demonstrate integrity despite the influence of the information available to her?

Objectivity

How can the **Member in Business** maintain her objectivity?

Confidentiality

How should the **Member in Business** act to maintain confidentiality?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself?

Professional competence and due care

How can the **Member in Business** proceed in order to be seen as acting with due skill, care and diligence?

Ethical decision-making approach

Identify relevant facts

What are the risk factors here? What pressures is the **Member in Business** feeling to breach confidentiality principles? The **Member in Business** has a self-interest threat since her employment

position with the company is uncertain if the internal audit contract is awarded to an external provider. The opportunity is present as a new member of her team has access to information that may better her chances. Having this information would compromise the probity of the tender process and increase the [Member in Business's](#) chances to the detriment of a fair and honest tender process.

Identify affected parties

The [Member in Business](#), [Employer](#) and providers involved in the tender bid are the key affected parties.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, best practices, applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Who should be involved in the resolution of this matter and for what reason? What is the appropriate timing of their involvement? Are there trusted colleagues with whom the [Member in Business](#) can discuss her position?

Discuss the ethical dilemma with relevant parties

Should further discussion take place with the [Member in Business's Professional Body](#)?

Consider possible course of action

The [Member in Business](#) may consider disclosing this threat to the tendering department as well as any information she may already have received on the tender. The [Member in Business](#) could then discuss with her new team member from the tendering department the principles which would be compromised should she access this confidential information from the tender requirements and how it is her professional duty to follow these principles. She could also prevent the team member or his friend from providing her with any further confidential information on the tender. The [Member in Business](#) could consider discussing her concerns with [Those Charged with Governance](#) to determine why the contract tender has also gone to external providers and what that could potentially mean for her position with the company should an external party be appointed. The [Member in Business](#) could also examine her other employment options as a worst case scenario.

Case Study 19 – Demonstrating due diligence in an honorary position

Public Sector – Acting with Sufficient Expertise

Case outline

Tammy ([Member in Business](#)) has been appointed as a member of a School Board on a voluntary basis. She has also been appointed to the finance and buildings committee that awards building contracts. The membership of this committee includes a number of individuals with private sector experience and local businessmen. One is a local builder who has been a board member for a number of years and is well respected in the community and by the Board.

At Tammy's first meeting, the committee considers a report from the head teacher about the condition of the school hall and sets out a scheme of remedial building works with estimated costs. After discussion of the scheme, and recognising the need to move quickly if the work is to be carried out during the summer vacation, the board member who is the local builder offers to do the work at a competitive price and the other board members on the committee are minded to accept the offer.

However, although the offer has been made, the board members are not considering the use of a formal tender process or making any reference to governance arrangements that could exist for tenders. Tammy is concerned about the committee being unable to demonstrate reasonable decision making, stewardship of public money, and potential reputational risk.

Key Fundamental principles and duties of the Code

Integrity

Can the [Member in Business](#) maintain her integrity without advising the committee of the need to demonstrate a proper decision-making process that would support any contracts awarded?

Objectivity

The information provided to her could result in the [Member in Business](#) saying nothing. How can she avoid the temptation to agree to the apparently easy solution and instead maintain objectivity?

Confidentiality

On what basis could or should the [Member in Business](#) make disclosures?

Professional behaviour

How should the [Member in Business](#) proceed so as not to discredit herself? Does this matter in cases where the employment is voluntary?

Professional competence and due care

How can the [Member in Business](#) demonstrate she is acting with due skill, care and diligence?

Ethical decision-making approach

Identify relevant facts

Does a voluntary position affect the level of professionalism that one must demonstrate? The [Member in Business](#) is new in her role and it can be assumed she is relatively unfamiliar with the policies, procedures and requirements of the School Board. On the surface it appears that the board member who is the builder seems to be the best person to perform the required works. Since the timeframe is short, using the builder board member's company could potentially facilitate the timely completion of the project, but only by bypassing tendering steps that maintain the probity of the process. Can the [Member in Business](#) act responsibly knowing that the tendering process would not stand up to outside scrutiny and considering that the project is dealing with public funds?

Identify affected parties

The key affected parties are the [Member in Business](#), the School Board, parents, children, staff and other community stakeholders involved with the school.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, best practices, applicable laws and regulations.

Consider who should be involved in [the conflict resolution process](#)

Are there trusted colleagues or friends with whom the [Member in Business](#) can discuss her position? Can the [Member in Business's Professional Body](#) provide advice and provide assistance?

Discuss the ethical dilemma with relevant parties

Since the [Member in Business](#) sits on the School Board, would it be appropriate for her to discuss this with the finance and building committee members? Should she also discuss this with the Board? Should she consider consulting outside of the School Board?

Consider possible course of action

The [Member in Business](#) could bring the matter up before the finance and buildings committee and explain that, although it appears that the builder board member is the best candidate with a competitive bid, acceptance without following a proper tender process could be inappropriate. She could recommend that they follow a tendering process that is in accordance with good practice guidelines to explicitly demonstrate to the community a proper decision-making process that would support any contracts awarded. She may also need to explain to the board members that following a proper decision-making process would protect the committee members and the School Board from any potential reputational risk that the school did not properly award contracts, especially as it is funded by public money.

Case Study 20 – Potential breach of not-for-profit status

Charitable Organisations – Preparation and Reporting-Presentation of Information/Pressure to breach the fundamental principles

Case outline

Robert ([Member in Business](#)) is the Chief Financial Officer for a charitable organisation and has recently been informed by its auditor that preliminary analysis performed on the accounts indicates the organisation may have surpassed a legislative threshold for income from its commercial activities. It is uncertain how this came about, however, it could potentially affect the organisation's tax exempt status with the Australian Taxation Office (ATO) as a registered charity. Robert has brought this matter to the attention of the Chief Executive who has expressed her fears of potential staff layoffs or a reduction in services occurring should there be penalties from the ATO or if the organisation loses its tax exempt status. Then the idea comes to her that the matter should be quietly managed in-house and that it should not be disclosed to the ATO since it was only an oversight in the current year.

Key Fundamental principles of the Code and duties

Integrity

Can the [Member in Business](#) be involved in this decision and maintain his integrity? Is there a 'common sense' argument for not disclosing this unintentional slip to the authorities?

Objectivity

Can the [Member in Business](#) remain objective when deciding how to resolve this matter since his future position with the organisation may be at risk?

Confidentiality

On what basis could or should the [Member in Business](#) make disclosures?

Professional behaviour

How should the [Member in Business](#) proceed so as not to discredit himself?

Professional competence and due care

How can the [Member in Business](#) demonstrate he is acting with due skill, care and diligence?

Ethical decision-making approach

Identify relevant facts

The matter has yet to be analysed to ensure that preliminary findings are substantiated. The [Member in Business](#) should consider the alternatives. Is there any ethical discretion available in making a decision on this matter? Do the facts of the matter overrule any motives or intentions of the organisation when determining the tax implications? Would knowing the responsible party or their intentions affect the [Member in Business's](#) objectivity?

Identify affected parties

The key affected parties are the [Member in Business](#), the auditor, the [Employer](#), the management and staff, and the ATO.

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, best practices, applicable laws and regulations.

Consider who should be involved in the conflict resolution process

Are there trusted colleagues or friends with whom the [Member in Business](#) can discuss his position? Can the [Member in Business's Professional Body](#) provide advice and provide assistance?

Discuss the ethical dilemma with relevant parties

Since the matter has already been discussed with the Chief Executive, should the [Member in Business](#) consider discussion with [Those Charged with Governance](#)?

Consider possible course of action

The **Member in Business** could investigate the auditor's findings in the first instance to determine whether there is any merit to the auditor's preliminary analysis. Should the auditor's findings be substantiated, the **Member in Business** may find it helpful to document the matter thoroughly and then consider whether to consult with internal or external taxation experts on how to approach the matter. The **Member in Business** may need to consider whether there is any legitimate means to deal with the matter and what long term repercussions would be on his professional reputation and on the organisation's reputation and future should they follow the Chief Executive's suggested solution and not disclose the matter to the ATO and its Australian Charities and Not-For-Profits Commission. Legitimate alternatives could be sought to limit the organisation's exposure to potential tax penalties or loss of charitable status. The **Member in Business** may find it useful to make inquiries on the ATO's powers to give relief in the event of loss of charitable status. Immediate contact with the ATO may be warranted in cases where timeliness of notification is a factor in the severity of the ruling by the authorities.

Case Study 21 – Ignorance is no excuse

Preparation and *Reporting/Presentation of Information/Acting with Sufficient Expertise/Pressure to breach the fundamental principles*

Case outline

Jill (**Member in Business**) is a long standing non-executive director for a large publicly listed property management group. The company has been taking advantage of readily available funds through short-term credit and rapidly increasing its portfolio of investment properties. Although this short-term debt has been easily converted into longer term less risky debt in the past, the tightening of the credit market due to a global financial crisis has left a large amount of debt which needs to be refinanced in the short term. Jill has reviewed the draft financial statements and notices that the split between current and non-current debt appears not to reflect this position. Jill makes inquiries of the Chief Financial Officer (CFO) whereupon she receives the response that the accounts have been reviewed by the CFO, the finance team, and preliminary sign-off has been obtained from the company auditor.

Key Fundamental principles of the Code and duties**Integrity**

Can the **Member in Business** overlook the available information and maintain her integrity?

Objectivity

Can the **Member in Business** rely on management and the auditor's judgement and remain objective when deciding how to resolve this matter since she is aware of differences?

Professional behaviour

How should the **Member in Business** proceed so as not to discredit herself?

Professional competence and due care

How can the **Member in Business** demonstrate she is acting with due skill, care and diligence? Should the **Member in Business** ask herself why her analysis is different to that of the others? How does the **Member in Business** ensure that a proper decision-making process is applied? How does she demonstrate the appropriate level of professional judgement?

Ethical decision-making approach**Identify relevant facts**

Can the **Member in Business** rely on management and the company auditor without taking reasonable actions to understand the underlying information in the financial statements? The **Member in Business** is aware that significant events have taken place that are not disclosed in the accounts. What level of inquiry is required by non-executive directors of management in order to discharge their responsibilities?

Identify affected parties

The key affected parties are the **Member in Business**, the CFO, the company auditor, the **Employer**, the shareholders, and the securities regulator(s).

Determine whether a procedure of conflict resolution exists within the organisation

Consider the company's policies, procedures and guidelines, accounting standards, best practices, applicable laws and regulations.

Consider who should be involved in **the conflict resolution process**

Are there trusted colleagues or friends with whom the **Member in Business** can discuss her position? Can the **Member in Business's Professional Body** provide advice and assistance? Is the **Member in Business** able to discuss the matter with a board member?

Discuss the ethical dilemma with relevant parties

Should the **Member in Business** raise this with the Board?

Consider possible course of action

The **Member in Business** may need to consider her professional and legal obligations in this matter and could perform further analysis to determine whether the split between current and non-current debt in the accounts is appropriate. If further review of the accounts indicates that the current/non-current split is not consistent with a true and fair view, then the **Member in Business** may need to make inquiries of the CFO and the auditor and then raise the matter as soon as possible with the Board. The **Member in Business** may find it helpful to document the matter thoroughly and may need to disclose her findings to the Board.

Conformity with International Pronouncements

The International Ethics Standards Boards for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 40.

Acknowledgements

APESB gratefully acknowledges the publications listed below which provided insights into ethical issues faced by **Members in Business** and development of this **Guidance Note**. Further, some of the cases in this **Guidance Note** are based on scenarios described in these publications:

- *Molyneux, David 2008, What do you do now? Ethical Issues Encountered by Chartered Accountants, The Institute of Chartered Accountants of Scotland, retrieved 24th September 2015, <https://www.icas.com/technical-resources/ethical-issues-encountered-by-chartered-accountants>*
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APES GN 41 Management Representations

[Supersedes APES GN 41 Management Representations issued August 2016]

~~Prepared and issued by
Accounting Professional & Ethical Standards Board Limited~~

~~ISSUED~~REVISED: ~~August 2016~~ **XXXX 2019**

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[Appendix 1: Summary of revisions to the previous APES GN 41 \(Issued in August 2016\) \[Not included as the summary of revisions is set out in the explanatory memorandum for this exposure draft\]](#)

1. Scope and application

1.1 The objective of APES GN 41 *Management Representations* is to provide guidance to a [Member in Business](#) in respect of professional and ethical obligations relating to:

- the preparation and/or signing of [Management Representations](#);
- 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.

APES GN 41 does not set out the underlying procedures or processes to be followed by a Member in order to comply with applicable regulatory or other obligations associated with [Management Representations](#).

1.2 Accounting Professional & Ethical Standards Board Limited (APESB) ~~has revised issues~~ professional guidance note APES GN 41 *Management Representations* (the Guidance Note), which is effective from the date of issue ~~and supersedes APES GN 41 issued in August 2016~~.

1.3 APES GN 41 provides guidance to [Members in Business](#), particularly chief financial officers, senior finance personnel and other senior personnel, in understanding their professional and ethical obligations associated with preparing and/or signing [Management Representations](#) to [Those Charged with Governance](#) or an external party. This Guidance Note does not prescribe or create any mandatory requirements.

1.4 [Members in Business](#) using this Guidance Note should refer to APESB's *Due process and working procedures for the development and review of APESB pronouncements* (APESB's Due process document). The APESB's Due process document provides the meaning of the term 'should' used in this Guidance Note¹².

~~1.5~~ [Members in Business working in Australia should follow the guidance in APES GN 41 when they provide Professional Activities to their Employer](#)

~~4.51.6~~ [Members in Business working](#) outside of Australia should follow the guidance in APES GN 41 to the extent to which they are not prevented from doing so by specific requirements of local laws and/or regulations.

~~4.61.7~~ The Guidance Note is not intended to detract from any responsibilities which may be imposed by law or regulation.

~~4.71.8~~ All references to [Professional Standards](#), guidance notes and legislation are references to those provisions as amended from time to time.

~~4.81.9~~ [Members in Business](#) ~~are required to comply with other applicable~~ ~~are required to be familiar with relevant~~ [Professional Standards](#) and ~~be familiar with relevant~~ guidance notes when performing [Professional Activities for Employers](#). ~~All Members are required to comply with the fundamental principles outlined in the Code.~~

~~4.91.10~~ In applying the guidance outlined in APES GN 41, [Members in Business](#) should be guided not merely by the words but also by the spirit of this Guidance Note and the [Member's](#) professional obligation to comply with the requirements of the [Code](#).

~~4.101.11~~ In this Guidance Note, 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.

12 ~~Refer to~~ See APESB's Due Process Document: Section 5 *Drafting Approach*. Paragraph 5.2(f).

2. Definitions

Defined terms are shown in the body of the Guidance Note in title case.

For the purpose of this Guidance Note:

Applicable Financial Reporting Framework means the financial reporting framework adopted by management and, where appropriate, **Those Charged with Governance** in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.

The term *fair presentation framework* means a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

In the context of financial reporting, the term *compliance framework* means a financial reporting framework that requires compliance with the requirements of the applicable framework, but does not contain the acknowledgements in (a) or (b) above.

Code means APES 110 *Code of Ethics for Professional Accountants* (including Independence Standards).

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

Financial Reporting Certification means a **Management Representation** provided by the chief executive officer and chief financial officer to **Those Charged with Governance** in relation to an entity's **Financial Statements**.

Financial Statements means a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements. For the purposes of this Guidance Note, financial report is considered to be an equivalent term to Financial Statements.

Fraud means an intentional act by one or more individuals among management, **Those Charged with Governance**, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Group Financial Report means a financial report that includes the financial information of more than one component. The term "Group Financial Report" also refers to combined financial reports aggregating the financial information prepared by components that have no parent but are under common control.

Group Management means management, or **Those Charged with Governance**, responsible for the preparation of the **Group Financial Report**.

Internal Control means the process designed, implemented and maintained by **Those Charged with Governance**, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term **"controls"** refers to any aspects of one or more of the components of Internal Control.

Management Representations means a written statement by management provided to **Those Charged with Governance** or external parties to confirm certain matters or to support evidence. Management Representations in this context do not include the financial report, the assertions therein, or supporting books and records.

Management's Expert means an individual or organisation possessing expertise in a field other than accounting, whose work in that field is used by management of the entity to assist the entity in preparing the financial report.

Member means a member of a **Professional Body** that has adopted this Guidance Note 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 working in areas such~~ as commerce, industry, service, the public sector, education, the not-for-profit sector, ~~or in~~ regulatory ~~bodies~~ or professional bodies, ~~or a Member contracted by such entities who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.~~

Member in Public Practice means a **Member**, irrespective of functional classification (~~e.g. for example,~~ audit, tax or consulting) in a firm that provides professional services. 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**.

Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported item in financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the **Applicable Financial Reporting Framework**. Misstatements can arise from error or **Fraud**.

Where the financial information is prepared in accordance with a fair presentation framework, **Misstatements** also include those adjustments of amounts, classifications, presentation, or disclosures that, in the judgement of the **Member in Business**, are necessary for the financial information to be presented fairly, in all material respects.

Outsourced Service Provider means an entity including a person that is providing services in accordance with an **Outsourcing** agreement. The Outsourced Service Provider may not be located in the same country as the **Member in Business** and may not even be a **Member**.

Outsourcing means an activity where an entity engages a party, on a continuing basis, to perform a business activity that is being, has been, or could be performed by that entity.

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

Risk means the effect of uncertainty on objectives.

Risk Management Framework means the foundations¹³ and organisational arrangements¹⁴ for designing, implementing, monitoring, reviewing and continually improving Risk management throughout the entity.

Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance ~~may~~ include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3. Fundamental responsibilities of Members in Business

- 3.1 The Code is the conceptual framework and foundation upon which all APESB pronouncements are based. Compliance with and application of the Code is fundamental to the ethical behaviour of Members in Business. Non-compliance with the Code can lead to disciplinary proceedings being initiated by the Professional Body to which the Member belongs.
- 3.2 A Member in Business who performs a Professional Activity, including a Member who provides Management Representations to Those Charged with Governance or external parties on Financial Statements or other relevant matters, is required to comply with Part ~~A~~ *General Application of the Code*¹ *Complying with the Code, Fundamental Principles and Conceptual Framework* and Part ~~C~~ *2 Members in Business (including employment relationships of Members in Public Practice)* of the Code, and applicable laws or regulations.

4. Management Representations

- 4.1 Management Representations provided by Members in Business to Those Charged with Governance or external parties include, but are not limited to:

External Management Representations

- (a) written representations provided to Members in Public Practice (~~e-g-for example,~~ external auditors) in respect of annual Financial Statements and half-year Financial Statements^{15,16};
- (b) written representations provided to Members in Public Practice (~~e-g-for example,~~ external auditors) in respect of subject matters other than historical financial information¹⁷;
- (c) written representations provided to Members in Public Practice (~~e-g-for example,~~ external auditors) to support compliance reporting obligations by insurance companies and Australian Financial Services Licensees¹⁸ (who are regulated by the Australian Securities & Investments Commission and/or the Australian Prudential Regulation Authority);
- (d) Management Representations provided to Members in Public Practice in respect of a compilation engagement;

13 The foundations include the policy, objectives, mandate and commitment to manage Risk.

14 The organisational arrangements include plans, relationships, accountabilities, resources, processes and activities.

15 ~~Corporations Act 2001~~: sections 295A, 300A and 312.

16 Auditing and Assurance Standards Board. Auditing Standard ASA 580 *Written Representations*.

17 Auditing and Assurance Standards Board. ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

18 Auditing and Assurance Standards Board. Guidance Statement GS 003 *Assurance Relating to Australian Financial Services Licenses issued under the Corporations Act 2001*.

- (e) **Management Representations** provided to an **Employer** or **Members in Public Practice** in respect of a valuation service;
- (f) **Management Representations** provided to an **Employer** or **Members in Public Practice** in respect of a due diligence committee, ~~for example, e-g,~~ acquisitions, divestments, restructuring or raising finance from capital and debt markets¹⁹;
- (g) **Management Representations** provided to rating agencies or similar organisations who are performing evaluations of the organisation's financial capacity and stability or governance arrangements;
- (h) **Management Representations** provided to an organisation's financiers or lenders when obtaining, raising or renegotiating finance or in respect of ongoing compliance with loan covenants;
- (i) **Management Representations** provided to external certification bodies that provide independent confirmation on entities' quality management systems (~~for example, e-g,~~ ISO 9001);

Internal Management Representations

- (j) **Financial Reporting Certifications** including **Internal Control** questionnaires;
- (k) declarations provided to the board/audit committee of a local or foreign jurisdiction in accordance with the respective jurisdiction's regulations; or
- (l) **Management Representations** in respect of continuous disclosure obligations provided by management to the chief executive officer, chief financial officer and/or **Those Charged with Governance** to enable the respective party to provide disclosures to the market.

4.2 **Management Representations** are commonly used by **Those Charged with Governance** to assist them in discharging their obligations to external parties.

4.3 Where **Management Representations** are to be provided to an external party, a failure to provide the **Management Representations** may have implications for the external party's report, or impose a regulatory obligation on the external party to report that the applicable **Management Representations** have not been provided.

5. Professional obligations in respect of Management Representations

5.1 **Members in Business** are required to prepare or present **Management Representations** in a manner that is fair and honest, in accordance with applicable **Professional Standards** and where applicable, in accordance with the **Applicable Financial Reporting Framework**. This includes preparing or presenting **Management Representations** in a manner that is intended:

- (a) to neither mislead nor to influence contractual or regulatory outcomes inappropriately; and
- (b) to neither omit nor include information which would cause the **Management Representations** to be misleading.

5.2 When presenting information, **Members in Business** are required to comply with ~~S~~**section 320 220 Preparation and Reporting Presentation of Information** of the **Code**. **Members** should consider the purpose of the **Management Representations**, the context, its users and their decision making processes.

5.3 Where a **Member in Business** prepares and/or signs **Management Representations**, the **Member** is required to comply with section ~~330-230~~ **230 Acting with Sufficient Expertise** of the **Code**. The **Member** is required to maintain professional knowledge and skill at the level required and should be knowledgeable of the entity's industry and other relevant matters to ensure the **Member** is able to perform a **Professional Activity** with the appropriate degree of

¹⁹ *Corporations Act 2001*: sections 710, 1013D.

professional competence and due care. The **Member** is required to have, or obtain sufficient specific training or experience, and possess sufficient time and adequate resources to complete the **Management Representations** within the reporting deadline.

Using the work of others

- 5.4 Where a **Member in Business** uses the work of others (~~for example, e.g.~~ **Management's Expert**, **Outsourced Service Provider** or internal personnel) to provide **Management Representations**, the **Member** should be satisfied that such work enables the **Member** to fulfil the obligations set out in paragraph 5.1.
- 5.5 Where a **Member in Business** has determined that the work of others may include a **Misstatement** or that the **Management Representations** are misleading, the **Member** should consider taking qualitative as well as quantitative factors into consideration when evaluating the significance of the suspected **Misstatement** or the potentially misleading **Management Representations**. The **Member** should consider undertaking the following procedures:
- making enquiries of the work of others to assess the reliability, accuracy and completeness of **Management Representations** provided; or
 - performing verification procedures on the relevant matter; and
 - reassessing the suspected **Misstatement** or potentially misleading **Management Representations** on an ongoing basis.

Confidentiality and disclosure

- 5.6 Where a **Member in Business** is considering disclosing confidential information acquired in the course of providing **Professional Activities**, the **Member** is required to comply with **Subsection 114440 Confidentiality** of the **Code**. The **Member** should also consider relevant laws and regulations²⁰ and refer to the guidance in ~~s~~Section 12-5 *Disclosure of information and whistleblowing* **Threats to the fundamental principles** of APES GN 40 *Ethical Conflicts in the Workplace - Considerations for Members in Business*.

Communication of significant matters

- 5.7 Where a **Member in Business** ~~identifies encounters or becomes aware of instances of any~~ non-compliance with laws and regulations in respect of **Management Representations**, the **Member** is required to comply with Section 260 *Responding to Non-Compliance with Laws and Regulations A – General Application of the Code and Part C – Members in Business* of the **Code**.

6. Management Representation considerations at the entity level

- 6.1 A **Member in Business** who prepares or reviews **Management Representations** at the entity level should consider taking reasonable steps to:
- communicate the group policies and procedures (including any changes) in respect of financial reporting to the entity's personnel in a timely manner, where the entity is part of a group.
 - oversee or obtain comfort regarding the recruitment and selection process of finance personnel who possess the relevant skills and expertise to perform their tasks with integrity and objectivity.
 - develop the competence of personnel who are involved in the **Management Representations** process that includes:

²⁰ In Australia, whistleblower protection is addressed in *Corporations Act 2001* for the private sector (including beaches of the tax laws and regulations) and in other legislation in place federally and in states and territories for the public sector.

- (i) continuing professional development on [Professional Standards](#), legal obligations and other regulations (~~e.g. for example~~, insider trading, corporate governance, applicable accounting, and auditing and assurance standards);
- (ii) providing relevant work experience to continuously develop their skills, and
- (iii) coaching of junior personnel by more experienced personnel.

6.2 During the [Management Representation](#) process, a [Member in Business](#) may encounter circumstances that may create threats to compliance with the fundamental principles of the [Code](#). These circumstances include:

- (a) business transactions or activities that impair or might impair the entity's and group's good reputation;
- (b) potential accounting and tax transactions or arrangements which may not be in accordance with applicable legal and regulatory requirements;
- (c) arrangements which involve documents or accounting entries that are intended to misrepresent a transaction or which is dependent upon its lack of disclosure for its effectiveness;
- (d) potential unethical conduct, or non-compliance with applicable legal and regulatory obligations; or
- (e) participation in incentive compensation arrangements that may influence decisions made by the [Member](#).

In these circumstances, the [Member in Business](#) is required to comply with ~~s~~Section 100 [Introduction and Fundamental Principles Complying with the Code](#) and Part ~~2-C~~ [Members in Business \(including employment relationships of Members in Public Practice\)](#) of the [Code](#) and should consider taking appropriate action in accordance with the entity's or group's policies and procedures, or alternatively inform [Group Management](#) or [Those Charged with Governance](#) to enable them to take appropriate action to eliminate the threat or reduce the threat to an acceptable level.

6.3 A [Member in Business](#) who is taking reasonable steps to make [Management Representations](#) is required to act with integrity and objectivity in accordance with the fundamental principles of the [Code](#) regardless of the outcome of the [Management Representation](#) process.

6.4 A [Member in Business](#) should consider reporting actual or potential [Internal Control](#) weaknesses in the entity's [Internal Control](#) environment identified in a [Management Representations](#) process to [Group Management](#) or [Those Charged with Governance](#), as appropriate.

7. Management Representation considerations at the controlling entity level

7.1 A [Member in Business](#) who prepares and/or reviews the group [Management Representations](#) at the controlling entity level, should consider the policies and procedures designed to provide [Those Charged with Governance](#) with reasonable confidence that the group [Management Representations](#) are appropriate, including:

- (a) promoting consistency in the group [Management Representation](#) process;
- (b) assisting and/or supervising the group [Management Representation](#) process;
- (c) reviewing the group [Management Representation](#) process; and
- (d) taking reasonable steps to create an organisational culture and environment of compliance with the applicable group reporting requirements.

- 7.2 The responsibilities of a **Member in Business** who assists and/or supervises the group **Management Representation** process may include:
- (a) monitoring the process;
 - (b) considering the ability of the personnel to support the **Member's** compliance with the professional and ethical requirements of the **Code**;
 - (c) considering the skills, competency, capabilities and knowledge of the personnel involved and whether they understand group reporting instructions;
 - (d) guiding personnel to complete the **Management Representations**;
 - (e) assessing whether it is carried out in accordance with the group policies and procedures;
 - (f) addressing significant matters or discrepancies arising; and
 - (g) assessing the completeness of group **Management Representations**.
- 7.3 The responsibilities of a **Member in Business** who reviews the group **Management Representation** process may include:
- (a) ensuring personnel with the relevant skills, knowledge and abilities are overseeing the group **Management Representations**;
 - (b) performing sufficient enquiries and reviews to ensure that entities (notwithstanding the complex group structures) are in compliance with the group accounting policies and group **Management Representation** processes;
 - (c) obtaining reasonable confidence of the validity and reliability of the **Management Representations** (e.g. for example, sample reviews by internal audit or the **Member in Business**); and
 - (d) determining if discrepancies exist between **Internal Control** matters reported by the internal auditor, external auditor and the entity's **Management Representations**.
- 7.4 Where a **Member in Business** identifies **Internal Control** weaknesses, **Fraud**, irregularities, suspected non-compliance with laws and regulations or potential issues in a **Management Representations** process that may have not been dealt with by management previously, the **Member** should consider:
- (a) providing appropriate guidance for personnel to communicate within the group in respect of potential next steps including reporting such matters, where material, to **Those Charged with Governance**;
 - (b) taking reasonable steps to ensure that the identified issues are being dealt with appropriately by the relevant personnel;
 - (c) taking reasonable steps to ensure appropriate remedial action is being taken to resolve issues identified by the external auditors and internal auditors (in particular, noting issues which may be pervasive); and
 - (d) documenting and reporting to **Those Charged with Governance** on how material contentious matters are being resolved, such as non-compliance with laws and regulations or **Risk** management issues.

Financial Reporting Certification considerations

- 7.5 A **Member in Business** should consider performing an assessment of how the organisation's **Internal Control** environment and the financial reporting framework support the group's **Financial Reporting Certification**.
- 7.6 A **Member in Business** who uses an **Internal Control** questionnaire or equivalent as a confirmation process to obtain evidence and reasonable confidence regarding the integrity of the **Group Financial Report** or to test the operating effectiveness of the **Internal Control** environment, should consider:

- (a) tailoring the **Internal Control** questionnaire so that it is appropriate, relevant and directed at significant areas of each entity; and
 - (b) requesting feedback from each entity on significant **Risks** that impact the **Group Financial Report**.
- 7.7 A **Member in Business** should consider the roles and responsibilities of all stakeholders in the group financial reporting or in the group **Financial Reporting Certification** process by:
- (a) regularly assessing the group **Financial Reporting Certification**;
 - (b) communicating and explaining to personnel the requirements and importance of the group **Financial Reporting Certification**, and the role the group **Internal Control** environment plays; and
 - (c) reviewing the evidence provided by entities' management to support the group **Financial Reporting Certification** and ensuring its consistency with the overall view of the entity and its operations.
- 7.8 A **Member in Business** who provides a group **Financial Reporting Certification** to **Those Charged with Governance** should:
- (a) consider reviewing **Internal Control** questionnaires and obtaining any necessary clarifications or additional information from entity's management; and
 - (b) be satisfied that the requirements of the relevant laws and regulations^{21,22} are met.
- 7.9 Where the **Member in Business** is unable to resolve matters that have a material impact on the group **Management Representations**, the **Member** should consider referring those matters to **Those Charged with Governance**.
- 7.10 Where a **Member in Business** implements a group **Risk Management Framework**, the **Member** should consider taking reasonable steps to ensure the group **Risk Management Framework**:
- (a) identifies and manages **Fraud Risk** factors, financial reporting **Risks** and corruption **Risks**; and
 - (b) considers non-financial reporting processes that will have an impact on the **Group Financial Reports**, either now or in future, **e.g. for example**, greenhouse gas disclosures, environmental and sustainability reports and information technology matters.

8. Management Representation considerations at the board or audit committee level

- 8.1 A **Member in Business** should consider assessing the entity's or the group's **Management Representation** process, by considering whether the **Group Management**:
- (a) possesses appropriate leadership capabilities;
 - (b) has appropriate expertise, experience, training and/or education;
 - (c) exhibits adherence and commitment to appropriate ethical and **Professional Standards**;
 - (d) appropriately monitors, controls and reviews processes; and
 - (e) effectively documents and communicates policies and procedures.

21 For example, *Corporations Act 2001*: Section 295A.

22 For example, ASX Corporate Governance Council *Corporate Governance Principles and Recommendations*: Recommendation 4.2.

- 8.2 A **Member in Business** should consider evaluating whether the entity's or the group's policies and procedures in a **Management Representations** process:
- (a) support a strong ethical culture;
 - (b) establish clearly defined channels for personnel to raise any concerns to **Group Management** or **Those Charged with Governance** in a manner that enables personnel to come forward without fear of reprisals;
 - (c) maintain a **Risk Management Framework** in respect of the provision of quality and ethical **Professional Activities** that identifies, assesses and addresses material **Risks**; and
 - (d) implement safeguards, conditions, policies and procedures in the work environment (**for example, e.g.** systems of corporate oversight, ethics and conduct programs, recruitment procedures, strong group-wide controls, appropriate disciplinary processes and quality of employee performance) to eliminate or reduce threats of non-compliance with the fundamental principles of the **Code**.
- 8.3 Where a **Member in Business** is assessing the adequacy, efficiency and effectiveness of the **Management Representations** process, the **Member** should consider whether management has adequate processes to monitor the entity's or the group's **Internal Control** environment and information systems.
- 8.4 Where a **Member in Business** is unable to resolve matters that have a material impact on the **Management Representations** process, the **Member** should consider:
- (a) assessing the impact of any deficiencies noted on the entity or the group's **Internal Control** environment, business processes and the resulting impact on the **Group Financial Report**; and
 - (b) discussing the unresolved matter with management, the audit committee or **Those Charged with Governance** of the entity, as appropriate.

Financial Reporting Certification considerations

- 8.5 A **Member in Business** who reviews a **Financial Reporting Certification** in respect of an entity's **Financial Statements**, should consider performing an assessment to determine the quality, reliability and effectiveness of **Management Representations**.
- 8.6 Where a **Member in Business** is part of **Those Charged with Governance** and has received declarations from management that the **Financial Reporting Certification** process is in accordance with legislative or regulatory requirements²³ or a voluntary equivalent, the **Member** should consider its reasonableness and assess:
- (a) the effectiveness of the entity's or the group's strategies and processes adopted to manage material business **Risks** and to support the **Financial Reporting Certification**;
 - (b) the feedback provided by internal auditors and external auditors to the board or audit committee on these business **Risks**; and
 - (c) whether the responses from the **Financial Reporting Certification** are aligned with the actual circumstances of the group's operations.

9. Documentation

- 9.1 A **Member in Business** who prepares and/or signs **Management Representations** should consider whether the entity maintains documentation that appropriately supports the work performed and conclusions reached, for example, the basis, method, calculations, determinations or estimates used in the provision of a **Professional Activity** to the **Member's Employer**.

23 For example, *Corporations Act 2001*, Section 295A.

- 9.2 A **Member in Business** who is at the board or audit committee level should consider taking reasonable steps to ensure that:
- (a) the entity retains relevant documentation in respect of the key matters considered and discussed at the board or audit committee meeting; and
 - (b) the key decisions made at those meetings are appropriately reflected in the minutes of the applicable meeting.

Conformity with International Pronouncements

The International Ethics Standards Board for Accountants (IESBA) has not issued a pronouncement equivalent to APES GN 41.