

## Project Proposal – Management Representation Letters

### Introduction

To develop guidance that assists Members in Business who are Chief Finance Officers (CFOs) in understanding the contents, implications, and responsibilities associated with signing management representation letters for their employer.

### Background and issues

APESB initiated a project in late 2008 to replace the existing GN 1 *Members in Business Guidance Statement* with APES GN 40 *Ethical Conflicts in the Workplace – Considerations for Members in Business*. This Guidance Note was issued in May 2012.

Prior to the release of APES GN 40, APESB's engagement with Members in Business indicated that there were low levels of awareness of APESB Standards within the business community. This was partly due to the focus of the previous professional standards being on Members in Public Practice rather than on Members in Business.

APESB in its development process of the APES series included Members in Business where applicable in the standards development process (i.e. APES 215 *Forensic Accounting Services* and APES 220 *Taxation Services*). However, as historically there were very few professional standards applicable to Members in Business, the level of awareness of Members in Business of Professional Standards continued to be low.

The release of APES GN 40 was intended to raise awareness of APESB standards with Members in Business and provide a greater understanding of Part C of APES 110 *Code of Ethics for Professional Accountants* (the Code).

During development of APES GN 40, the Board identified the need for guidance on management representation letters for Members in Business. Members in Business are commonly required to sign such representations as part of the year-end reporting responsibilities and will benefit from a greater understanding of the contents, implications, and responsibilities associated with doing so particularly in the case of a consolidated group with a large number of subsidiaries. Where there are subsidiaries, the Group CFO is likely to rely on the representations of the CFOs/Financial Controllers of the subsidiaries when making the group representation to the Board and/or the external auditor.

The subject matter a Member in Business who is a CFO will have to consider in making such a representation include:

- The management control environment;
- Legislative and regulatory compliance;
- Accounting records and controls;
- Fraud and irregularities;
- External and internal audit findings;
- Whether all assets and liabilities are properly reflected in the financial statements;
- Potential write-offs;

- Commitments and contingencies;
- Subsequent events; and
- The process to collate the management representation letters from subsidiaries.

In 2012/13 APESB engaged with the G100 National Executive in a joint Taskforce to refresh the G100 CFO Code of Conduct. This project was completed in May 2013. If the Board approves this project proposal the G100 will be considered as a key stakeholder that the APESB Secretariat will contact to request appropriate representation on this proposed Taskforce.

---

**Project Objective:** To develop a pronouncement that provides guidance to Members in Business who are required to sign management representation letters.

---

**Project Steps:**

- Invite APES GN 40 taskforce members to participate in the project and also invite Members to participate in the project via the APESB website. The taskforce should consist of the APESB Technical Director, 1 representative from each of the professional bodies and at least 3 members with demonstrated expertise as CFOs in commercial organisations.
- APESB Board Member Peter Day will function as an observer on the taskforce.
- Conduct taskforce meetings between March 2014 and August 2014 to identify and discuss the approach to be taken in developing the Exposure Draft.
- As a first step develop a “straw man” of the proposed Exposure Draft for the Board’s consideration. Once the Board approves the “straw man” thereafter the drafting on the proposed Exposure Draft can commence. The “straw man” should be developed in time for the August 2014 Board meeting.
- Develop an Exposure Draft for the Board’s review that addresses key issues and provides sufficient guidance on the application of the Code for Members in Business who provide management representation letters.
- Present Exposure Draft for the Board’s consideration at the February 2015 and May 2015 Board meetings.
- Release the guidance note for exposure requesting comments on both specific issues and also general comments on the document as a whole.
- Consider respondents’ comments and their impact on the Exposure Draft and amend as required.
- Prepare a basis of conclusions document detailing key issues that were identified and considered during the development of the pronouncement.
- Present the final pronouncement and basis of conclusions document to the Board for approval at the August 2015 Board meeting.
- Release the pronouncement in September 2015 and upload the pronouncement and basis of conclusions document onto the APESB website.

---

---

<b>Project Structure:</b>	<ul style="list-style-type: none"> <li>• Board – provide feedback and oversee development of the pronouncement</li> <li>• APESB Technical Director – assemble task force, provide technical support, role of principal drafting editor of the pronouncement, provide guidance to the task force on APESB policies and procedures.</li> <li>• Task Force – provide APESB with advice on development and review of pronouncement.</li> <li>• APESB Secretariat – provide administrative support to the taskforce.</li> </ul>
---------------------------	--

---

<b>Project Risk Assessment</b>	<ul style="list-style-type: none"> <li>• Risk area 1: Risk of costs rising significantly during the project <ul style="list-style-type: none"> <li>○ Probability: Low</li> <li>○ Impact: Low</li> <li>○ Effect on Project: Minimal</li> <li>○ Risk reduction actions: Monitoring of costs on a regular basis</li> </ul> </li>   <li>• Risk area 2: Risk of introducing provisions that are not aligned with the Code or making the guidance more complex than necessary <ul style="list-style-type: none"> <li>○ Probability: Medium</li> <li>○ Impact: Medium</li> <li>○ Effect on Project: It may increase the duration of the project and the complexity of the final guidance note.</li> <li>○ Risk reduction actions: <ul style="list-style-type: none"> <li>▪ Liaise and consult with the Members in Business committees of the professional bodies during the project development process;</li> <li>▪ Select taskforce members who have extensive experience as CFOs.</li> </ul> </li> </ul> </li> </ul>
--------------------------------	---

---

<b>Resource Requirements:</b>	<ul style="list-style-type: none"> <li>• Teleconference facilities, travel of APESB Staff (as required) and taskforce members (by invitation only), printing and stationary.</li> <li>• It is estimated that the Technical Staff time on this project will be approximately 2- 3 months.</li> <li>• Budgeted taskforce costs for 10 taskforce meetings: <table border="0" style="margin-left: 40px;"> <tr> <td>Conference calls \$300 per unit (10)</td> <td style="text-align: right;">\$3,000</td> </tr> <tr> <td>Travel &amp; accommodation \$1,000 per unit (8)</td> <td style="text-align: right;">\$8,000</td> </tr> <tr> <td>Sundry expenses \$200 per unit (5)</td> <td style="text-align: right;">\$1,000</td> </tr> <tr> <td><b>Total Budgeted Costs</b></td> <td style="text-align: right;"><b>\$12,000</b></td> </tr> </table> </li> </ul>	Conference calls \$300 per unit (10)	\$3,000	Travel & accommodation \$1,000 per unit (8)	\$8,000	Sundry expenses \$200 per unit (5)	\$1,000	<b>Total Budgeted Costs</b>	<b>\$12,000</b>
Conference calls \$300 per unit (10)	\$3,000								
Travel & accommodation \$1,000 per unit (8)	\$8,000								
Sundry expenses \$200 per unit (5)	\$1,000								
<b>Total Budgeted Costs</b>	<b>\$12,000</b>								

---

<b>Timeline:</b>	<table border="0" style="margin-left: 40px;"> <tr> <td>Jan 2014</td> <td>Approve project proposal</td> </tr> <tr> <td>Feb 2014</td> <td>Assemble task force</td> </tr> <tr> <td>Mar 2014</td> <td>Conduct initial task force meeting</td> </tr> <tr> <td>Apr 2014 – Aug 2014</td> <td>Develop “straw man” of APES GN 41</td> </tr> </table>	Jan 2014	Approve project proposal	Feb 2014	Assemble task force	Mar 2014	Conduct initial task force meeting	Apr 2014 – Aug 2014	Develop “straw man” of APES GN 41
Jan 2014	Approve project proposal								
Feb 2014	Assemble task force								
Mar 2014	Conduct initial task force meeting								
Apr 2014 – Aug 2014	Develop “straw man” of APES GN 41								

---

---

Aug 2014	Present “straw man” of APES GN 41 for Board for approval
Sep – Dec 2014	Develop Exposure Draft
Feb 2015	Present Exposure Draft for the Board’s initial review
May 2015	Present Exposure Draft for the Board’s final review and release Exposure Draft for a 45-60 day comment period
July 2015	Collate feedback received
July 2015	Revise pronouncement taking into consideration feedback received and prepare basis of conclusions
Aug 2015	Present final pronouncement and basis of conclusions to Board for approval
Sep 2015	Issue pronouncement and basis for conclusions

---

**Impact on other APESB pronouncements**

Part C Members in Business of the APES 110 *Code of Ethics for Professional Accountants* and APES GN 40 *Ethical Conflicts in the Workplace – Considerations for Members in Business* will be complemented by the issue of this proposed guidance note.

**Impact on accounting, auditing or other relevant standards**

Auditing standard ASA 580 *Written Representations* to be considered during the development process.

**Related legislative developments**

None noted.

**Related international developments**

The project to revise Part C of the IESBA *Code of Ethics for Professional Accountants* is likely to impact on this proposed pronouncement. Technical Staff will engage with representatives of IESBA and monitor the revision of IESBA’s Part C project for the likely impact on this pronouncement.

**Benefits of developing the pronouncement**

Development of a pronouncement will assist Members in Business who are CFOs to understand their professional and ethical responsibilities associated with signing a management representation letter for their Employer and the related implications.