

# APESB Professional and Ethical Standards

**CPA Australia**

**International Partnership Program (IPP)**

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Accounting Professional & Ethical Standards Board

# Overview

- Why accounting ethics and professional standards matter?
- History and structure of APESB
- Structure of APESB pronouncements
- APESB pronouncements to date
- APES 110 *Code of Ethics for Professional Accountants*
- APES 215 *Forensic Accounting Services*
- APES 220 *Taxation Services*
- APES 225 *Valuation Services*

# Why accounting ethics and professional standards matter?

- Collapse of Arthur Anderson
- Arthur Anderson's problem clients (refer table 1)
- Increased regulations such as CLERP 9 in Australia and Sarbanes & Oxley in the US
- Recent corporate collapses brought on by the global financial crisis (refer table 2)
- Insider Job Trailer  
<http://www.youtube.com/watch?v=FzrBurlJUNk>
- Madoff Auditor – CNBC Fast Money:  
<http://video.cnbc.com/gallery/?video=1065066565>

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

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

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

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

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

Source: [www.google.com](http://www.google.com)

# APESB History

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

# APESB Vision

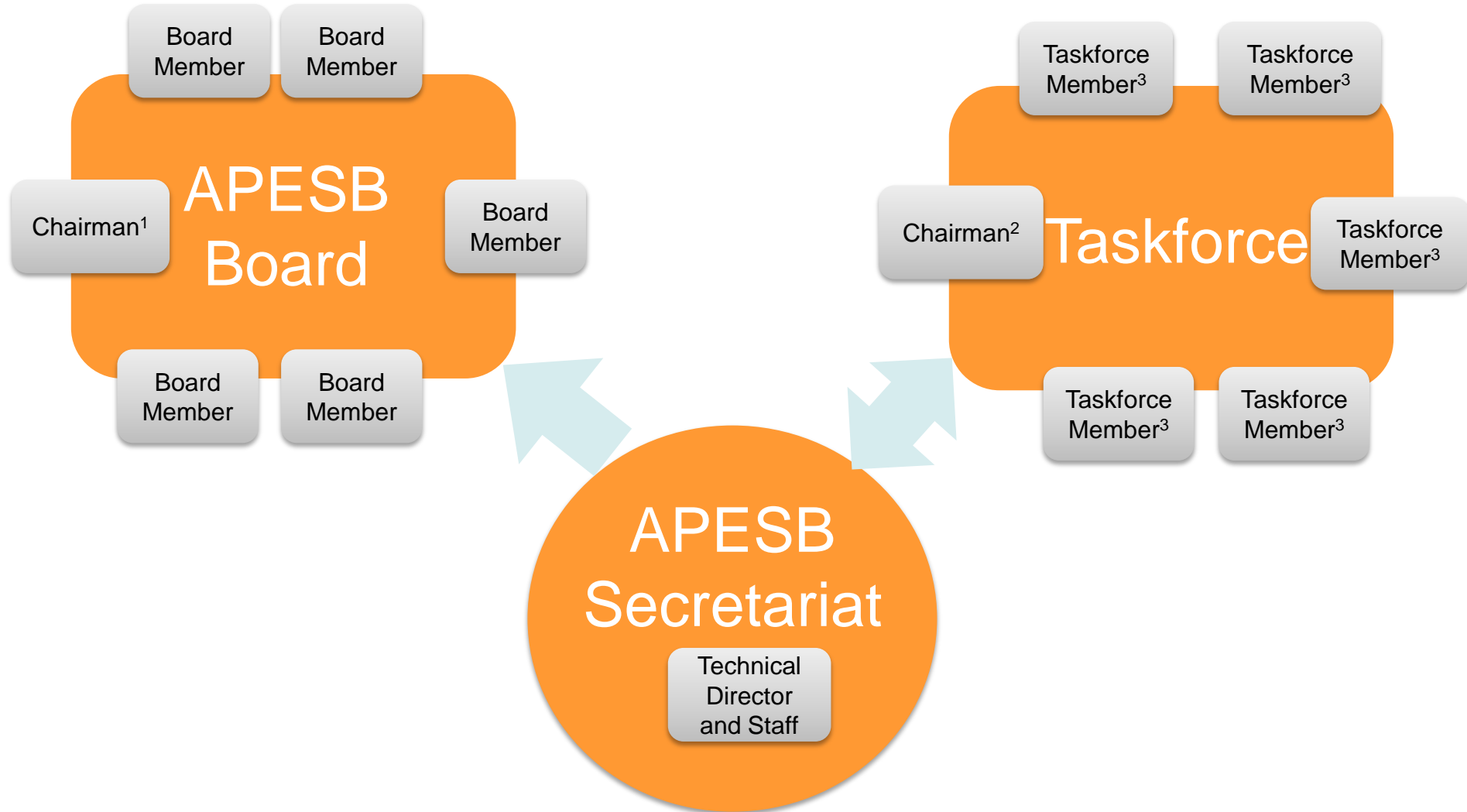
*“To be recognised by our stakeholders for our leading contribution in achieving the highest level of professional and ethical behaviour in the accounting profession”*

# Board Composition

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

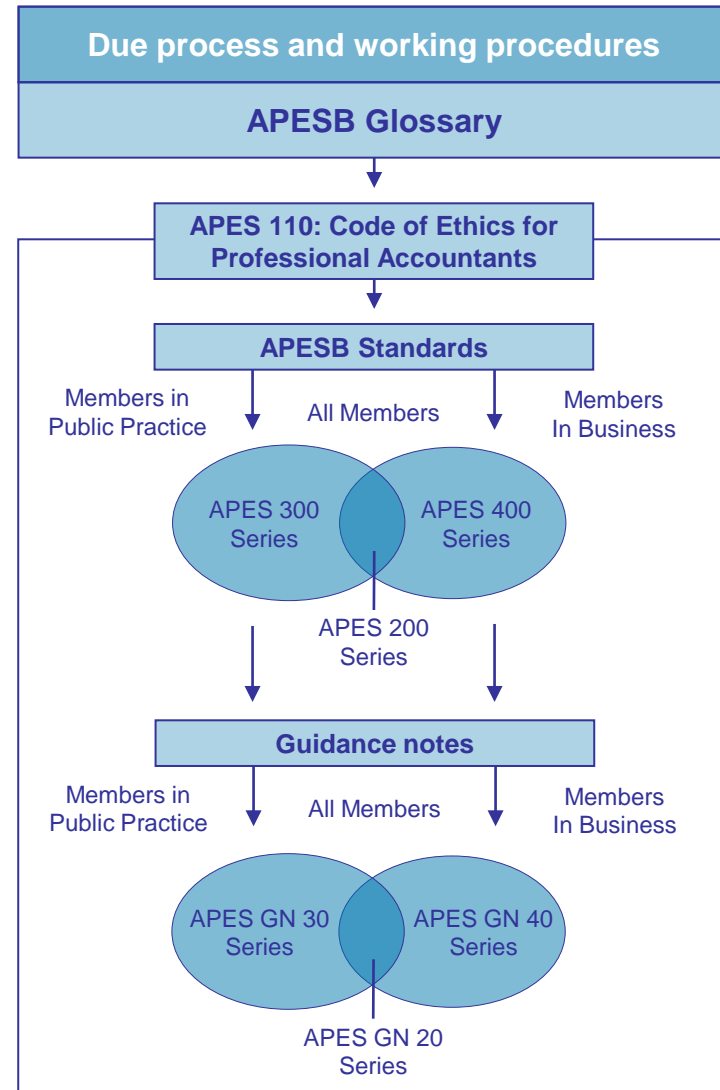


# APESB Functional Structure



# Structure of APESB pronouncements

- **Conceptual Framework**
  - Principles based
  - Mandatory for professional accountants
  
- **Standard**
  - Introduces principles
  - Mandatory requirements in black letter
  - Guidance and/or explanation in grey letter
  
- **Guidance notes**
  - Do not introduce new principles
  - Guidance on a specific matter on which the Principles are already stated in a Standard
  - Guidance is only in grey letter



# APESB Pronouncements to date

## All members

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

*\* Projects are currently in progress*

# APESB Pronouncements to date

## Members in Public Practice

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

\* *Projects are currently in progress*

# APESB Pronouncements to date

## Members in Business

- APES GN 40 Ethical Conflicts in the Workplace

***APES 110***  
***Code of Ethics for Professional Accountants***

# APES 110 *Code of Ethics* for *Professional Accountants*

- Based on the IESBA Code
- APES 110:
  - the framework within which APESB develops all of its professional standards and guidance notes
  - has 3 main categories:
    - Part A: General Application
    - Part B: Members in Public Practice
    - Part C: Members in Business

# APES 110 *Code of Ethics for Professional Accountants*

## **Part A: General Application**

- Fundamental Principles:
  - Section 110 – Integrity
  - Section 120 – Objectivity
  - Section 130 – Professional competence and due care
  - Section 140 – Confidentiality
  - Section 150 – Professional behaviour



# APES 110 *Code of Ethics for Professional Accountants*

## **Part B: Members in Public Practice**

- Section 210 – Professional Appointment
- Section 220 – Conflicts of Interest
- Section 230 – Second opinions
- Section 240 – Fees and Other Types of Remuneration
- Section 250 – Marketing Professional Services
- Section 260 – Gifts and Hospitality
- Section 270 – Custody of Client Assets
- Section 280 – Objectivity – All Services
- [AUST Preface: Sections 290 and 291]
- Section 290 – Independence – Audit and Review Engagements
- Section 291 – Independence – Other Assurance Engagements

# ***APES 110 Code of Ethics for Professional Accountants***

## **Part C: Members in Business**

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

# APES 110 *Code of Ethics for Professional Accountants*

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

(S. 290.6 and Definitions)

# APES 110 *Code of Ethics for Professional Accountants*

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

(S.100.12)

# APES 110 *Code of Ethics for Professional Accountants*

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

(S. 100.13 to 100.16)

# APES 110 Section 290 Independence

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

***APES 215***  
***Forensic Accounting Services***

# APES 215 *Forensic Accounting Services*

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



# APES 215 *Forensic Accounting Services*

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

# APES 215 *Forensic Accounting Services*

## Expert Witness Services

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

# APES 215 *Forensic Accounting Services*

## Revision of APES 215

- Revised APES 215 proposed to be issued in 2013
- Materials added:
  - Decision tree schematic on the determination whether a professional service constitutes a Forensic Accounting Service
  - Examples for the classification of the type of Forensic Accounting Services provided by Members

***APES 220***  
***Taxation Services***  
***(Revised March 2011)***

# APES 220 *Taxation Services*

- Formerly APS 6
- Applies to Members in Public Practice as well as Members in Business
- Includes mandatory requirements and guidance for Taxation Services
- Operative on or after 1 May 2011

# APES 220 *Taxation Services*

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

# APES 220 *Taxation Services*

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

***APES 225***  
***Valuation Services***  
***(Revised May 2012)***



# APES 225 *Valuation Services*

## Australian perspective

- ATO
  - Market Value Guidelines (2002)
- ASIC
  - RG 111: Contents of experts reports (Oct 2007)
  - RG 112: Independence of experts (Oct 2007)
- APESB
  - APES 225 *Valuation Services* (May 2012)
  - APES 110 *Code of Ethics for Professional Accountants* (Dec 2010)

# APES 225 *Valuation Services*

## International perspective

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

# APES 225 *Valuation Services*

## Scope and application

- Engagement → Members in Public Practice
- Assignment → Members in Business
- Mandatory for the Members of the three Professional Bodies
- Effective for Valuation Engagements or Assignments commencing on or after 1 September 2012
  - All Members who provide an estimate of value for a business, business ownership interest, security or intangible asset are required to comply with APES 225

# APES 225 *Valuation Services*

## Reporting

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

# APES 225 *Valuation Services*

## Reporting cont.

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

# APES 225 *Valuation Services*

## Use of a glossary of business valuation terms

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

## What constitutes a valuation service

- Refer to appendix including schematic and examples

# Questions?

For more information visit:

[www.apesb.org.au](http://www.apesb.org.au)

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