

AGENDA PAPER

Item Number: 11.1

Date of Meeting: 16 - 17 November 2009

Subject: Proposed Standard APES 350 *Participation by a Member in Public Practice in Due Diligence Committees in connection with a Public Document*

Action Required

For Information Only

Purpose

To obtain Board approval to issue the proposed Standard APES 350 *Participation by a Member in Public Practice in Due Diligence Committees in connection with a Public Document* with an effective for date of 1 January 2010.

Background

The Financial Reporting Council (FRC) informed the APESB of the need to develop a professional & ethical standard in respect of Due Diligence Committees in May 2008. At the time APESB was developing APES 345 ED *Reporting on Prospective Financial Information prepared in connection with a Disclosure Document* which referred to Due Diligence Committees. Based on feedback received on APES 345 ED in July 2008, the Board recognised the need for a comprehensive pronouncement in this area of practice for professional accountants. Accordingly, the Board instructed technical staff to prepare a project proposal to develop a proposed pronouncement on the involvement of Members in Public Practice in Due Diligence Committees. Subsequently, in October 2008 the Board approved the creation of a taskforce to develop APES 350 ED.

The APES 350 Due Diligence Committees taskforce prepared an exposure draft which was released for public comment in May 2009. APESB received eight submissions from firms, professional bodies, and the Australian Financial Markets Association (AFMA).

Consideration of Issues

The key issues identified in the exposure process were:

- The role of the observer in Due Diligence Committees;
- Independence Requirements;
- Engagement Document versus Due Diligence Planning Memorandum;
- A Member in Public Practice's legal obligation of disclosure;
- Verification obligations of a Member in Public Practice.

The Board considered these issues at the September 2009 Board meeting (Refer extract of September 09 Agenda paper on key issues).

The taskforce has now taken in to consideration the Board's preliminary review comments and the respondents' comments and completed its review of the amendments to the proposed APES 350.

The key changes since the September 2009 Board meeting are:

- The previous paragraph 1.4 which dealt with circumstances in which the transaction is undertaken in a foreign jurisdiction is now incorporated into paragraph 1.3;
- Simplifying paragraph 1.10 to state the different roles that may be undertaken in a Due Diligence Committee and to move the detail in to the relevant definitions of DDC Member, DDC Observer and Reporting Person in Section 2;
- Inclusion of the definitions of Assurance Client, Audit Client, Audit Engagement Network and Network Firm and Listed Entity from APES 110;
- Editorial changes to paragraphs 3.6 - 3.8 to deal with the independence requirements for Assurance Clients and Audit Clients;
- Paragraph 3.19 – clarifying ethical wall arrangements;
- Paragraph 4.3 – clarifying the circumstances in which amendments to the Engagement Document would be required;
- Editorial and clarifications in Section 5, including the different roles in a Due Diligence Committee, provision of legal services and provision of verification assistance;
- Paragraph 7.2/7.3 – redrafted to address respondents comments in respect of draft DDC Sign-Offs and pathfinder documents;
- Editorial and format changes to the DDC Sign-Off in Appendix 1.

Staff Recommendations

Subject to the Board's review comments and editorials, the Board approve the issue of APES 350 *Participation by a Member in Public Practice in Due Diligence Committees in connection with a Public Document* with an effective date of 1 January 2010 (Early adoption will be permitted).

Material Presented

- Proposed Standard (in marked up mode) APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*;
- Proposed Standard (in clean mode) APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*;
- Extract of September 2009 Board Meeting Agenda paper on key issues;
- Specific comments table – Outstanding issues only;
- Basis for Conclusions;
- Minutes of Taskforce meetings.

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Date: 10 November 2009