

APESB Professional and Ethical Standards

CPA Australia

International Partnership Program (IPP)

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

Source: 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

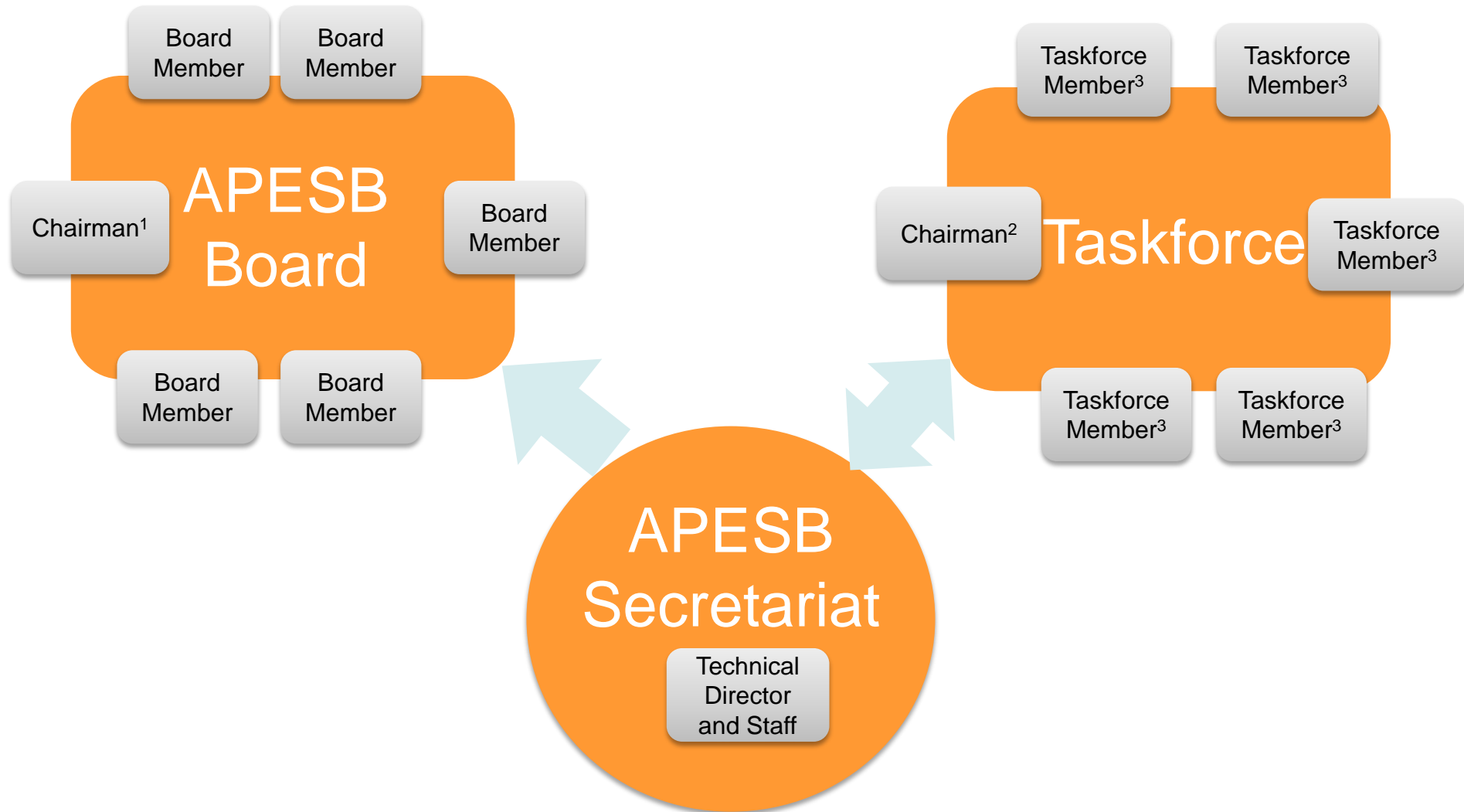
APESB Vision

“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

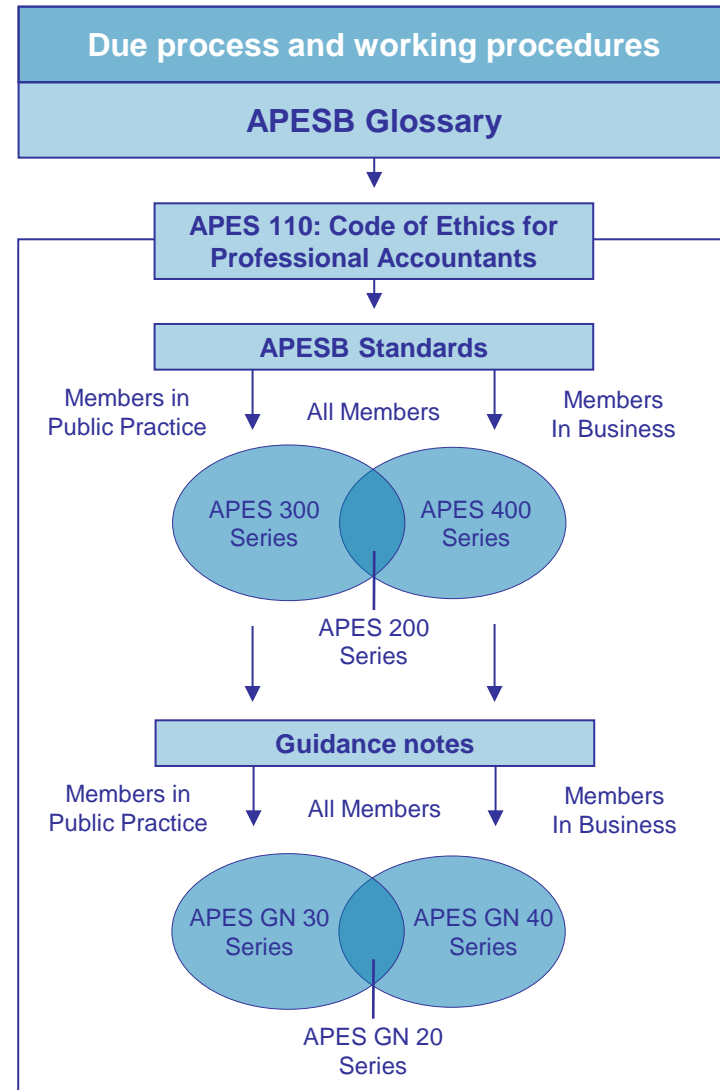


Structure of APESB pronouncements

- **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

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