



INSTITUTE OF
**PUBLIC
ACCOUNTANTS®**

**Submission to APESB:
Exposure Draft ED 01/19
Revision of APESB Pronouncements**

April 2019

17 April 2019

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

Dear Channa

Exposure Draft ED 01/19 *Revision of APESB pronouncements*

On behalf of the Institute of Public Accountants (IPA), I submit our review of Exposure Draft ED 1/19 *Proposed Revisions to APESB pronouncements*.

The IPA broadly supports the revisions to the various APES covered by ED 01/19. Nonetheless, the IPA believes that the APES board has failed to grasp the opportunity to address a number of potential enhancements to the existing guidance, particularly in regard to APES GN 21 *Valuation Services for Financial Reporting*.

Described below are our recommendations and comments on the various standards and guidance notes covered by the Exposure Draft:

APES 220 *Taxation Services*

The IPA believes section 5 on Tax Schemes and Arrangements should address the restrictions embedded within promoter penalty provisions of the Tax Act, especially in relation to prohibited conduct.

APES 225 *Valuation Services*

The IPA is aware of engagements undertaken in respect of valuations where the professional service firm is provided with the valuation model substantially or totally prepared by the client. The reports are often framed as independent valuation engagements.

The IPA believes such engagements are not valuation engagements nor can they be characterised as calculation engagements under APES 325. The IPA recommends that engagements be specifically addressed by APES 325, and identified either as a new type of valuation service or as an assurance engagement (that is, an engagement providing assurance on the appropriateness or otherwise of the valuation technique and assumptions used by the client). Consideration of such engagements will require consequential amendments to APES GN 20 *Scope and Extent of Work for Valuation Services*.

The IPA believes that the reference to the requirements to hold AFS licences to undertake certain valuation services in Appendix 1 is unhelpful. In the IPA experience, practitioners are

often unsure under what circumstances an AFSL is required and the IPA believes it is appropriate for the APES Board to provide guidance in relation to typical circumstances where a licence may be required or not.

APES GN 21 *Valuation Services for Financial Reporting*

The fundamental responsibilities of members should include APES 205 *Compliance with Accounting Standards* as the valuations covered by GN 21 are for financial reporting purposes. The preparers of such valuations should comply with the applicable financial reporting standards.

The report should state the valuation has been prepared in accordance with AASB 13 *Fair Value Measurement* and other applicable standards affecting the valuation, for example, AASB 141 *Investment Properties*.

One of the fundamental principles underpinning AASB 13 is the concept that the valuation is based on assumptions that would be used by market participants and the first step in complying with AASB 13 is the identification of market participants (AASB 13.22). However, the IPA has noted that most valuations do not identify the market participant on which the valuation assumptions are based. The IPA recommends that GN 21 require the identification of the market participants on which valuation assumptions are based.

Valuations should state whether costs of disposal have been included and the amount and basis on which costs of disposal have been determined.

Sufficient information should be provided to ensure the disclosure requirements of AASB 13 can be met, for example, for recurring valuations using level 3 inputs sufficient information should be included to meet the disclosure of sensitivities in accordance with AASB 13.93(h). The APES Board should consider inclusion of guidance in relation to AASB 140 *Investment Properties*, AASB 141 *Agriculture* and AASB 9 *Financial Instruments*.

APES 345 *Reporting on Prospective Financial Information prepared in connection with Public Documents*

The IPA believes it would be useful for section 8.7 in relation to Non-Compliance with Laws and Regulation (NOCLAR) to be expanded to consider specifically the reporting obligations arising from the Corporations Act and continuous disclosure requirements. In particular, the members' responsibilities to due diligence committees and the appropriate regulator(s) should also be addressed.

The IPA believes APES 345 should address the circumstances in which an AFSL is required to report on prospective financial information, as in the IPA experience this is a recurring issue for practitioners.

APES 350 Participation by Members in Public Practice in Due Diligence Committee in Connection with a Public Document

The IPA believes it would be useful for section 5.4 in relation to NOCLAR to be expanded to specifically consider the reporting obligations arising from the Corporations Act and continuous disclosure requirements. In particular, members' responsibilities to due diligence committees and the appropriate regulator(s) should be addressed.

The IPA believes APES 350 should address the circumstances in which an AFSL is required to report on prospective financial information, as in the IPA experience this is a recurring issue for practitioners.

The IPA suggests the example materiality letter in Appendix 2 should include reference to AASB Practice Statement 2 *Making Materiality Judgements*.

The IPA notes the example materiality letter in Appendix 2 includes guidance stating that amounts in excess of 10% of the appropriate base is considered material and less than 5% of the appropriate base is considered immaterial. With the withdrawal of AASB 1031 *Materiality* there is currently no authoritative Australian guidance setting out quantitative benchmarks for materiality. The IPA is concerned the wording in the example materiality letter could be construed to indicate that there is such a quantitative benchmark and recommends that the APES Board should consider revisiting the wording of example materiality letters in this context.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely



Vicki Stylianou
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About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. Since merging with the Institute of Financial Accountants of the UK, the IPA Group is the largest accounting body in the SMP/SME sector in the world.

10 July 2018
The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir

Exposure Draft 2018/1 *Accounting Policy Changes*

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on Exposure Draft ED 2018/1 *Accounting Policy Changes – Proposed amendments to IAS 8*.

The IPA does not support the proposed amendments to IAS 8 espoused in the ED.

The IPA believes changes to accounting policies that result of an agenda decision are in fact errors in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. As agenda decisions do not give rise to interpretations or changes to the accounting standards, the conclusion must be that an application of the accounting standard not consistent with an agenda decision are a misapplication of an accounting standard and, therefore, an error.

The IPA considers the result of the proposed amendments will be detrimental to the quality of financial reporting. The proposals may well encourage “aggressive” and creative interpretation of accounting standards. If an agenda decision confirms that no change is required, and no interpretation required those prepares who have adopted an aggressive

interpretation apply a lower threshold in relation to misstatement and the change is characterised as a voluntary accounting policy change.

The IPA believes the proposals are misleading and will result in an increase in diversity in practice.

The IPA believes that IFRIC agenda decisions lack prominence. They are not readily located on the IFRS website nor do they appear in IFRS publications. The IPA recommends that a tab on the IFRS website directly reference IFRIC agenda decisions. In addition, we suggest a summary of IFRIC agenda decisions be included as an addendum to the Basis of Conclusions for the relevant standard.

Our detailed comments and responses to the questions in the Exposure Draft are set out in Appendix A.

