

4 March 2020

APESB issues revised APES GN 41 *Management Representations*

Accounting Professional & Ethical Standards Board Limited (APESB) today announced the issue of the revised APES GN 41 *Management Representations* (APES GN 41) to replace the existing APES GN 41 (Issued August 2016).

The key changes in the revised APES GN 41 consist of:

- Revisions to reflect the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, issued in November 2018;
- Addition of a reference to the whistleblower protection provisions in the *Corporations Act 2001*; and
- Amendments to the Scope and Application section to align with other APESB pronouncements.

Please refer to Appendix 1 of this technical update for details of all the revisions. The revised APES GN 41 will be effective as at the date of issue.

APESB has incorporated the following interactive PDF features within the revised APES GN 41:

- Bookmark tab section for contents page;
- Dynamic links to sections and paragraphs;
- Pop-up definitions upon mouse rollover for defined terms; and
- Links to external websites.

The revised guidance note is available from APESB's website: www.apesb.org.au

– ENDS –

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Appendix 1

Revision to APES GN 41 (Issued August 2016)

Accounting Professional & Ethical Standards Board Limited (APESB) has approved the following revisions to APES GN 41 *Management Representations* which was originally issued in August 2016 (extant APES GN 41).

Paragraph Reference	Revisions
1.2	Accounting Professional & Ethical Standards Board Limited (APESB) issues <u>has revised</u> professional guidance note APES GN 41 <i>Management Representations</i> (the Guidance Note), which is effective from the date of issue and supersedes APES GN 41 issued in August 2016.
1.4	Members in Business using this Guidance Note should refer to APESB's <i>Due process and working procedures for the development and review of APESB pronouncements</i> (APESB's Due p <u>ro</u> cess document). The APESB's Due p <u>ro</u> cess document provides the meaning of the term 'should' used in this Guidance Note. ¹
Footnote 1	See Refer to APESB's Due Process D <u>o</u> document; Section 5, Drafting Approach . Paragraph 5.2(ef).
1.5	<u>Members in Business working in Australia should follow the guidance in APES GN 41 when they provide Professional Activities to their Employer.</u>
1.6 <u>5</u>	Members in Business working outside of Australia should follow the guidance in APES GN 41 to the extent to which they are not prevented from <u>so</u> doing se by specific requirements of local laws and/or regulations.
1.7 <u>6</u> to 1.8 <u>7</u>	<i>[Paragraphs 1.6 to 1.7 of the extant APES GN 41 remain unchanged, but have been renumbered as paragraphs 1.7 to 1.8.]</i>
1.9 <u>8</u>	Members in Business are required to be familiar <u>comply with relevant other applicable</u> Professional Standards and <u>be familiar with relevant</u> guidance notes when performing Professional Activities for Employers. <u>All Members are required to comply with the fundamental principles outlined in the Code.</u>
1.1 <u>0</u> 9 to 1.1 <u>1</u> 4 <u>0</u>	<i>[Paragraphs 1.9 to 1.10 of the extant APES GN 41 remain unchanged, but have been renumbered as paragraphs 1.10 to 1.11.]</i>
2.	<u>Defined terms are shown in the body of the Guidance Note in title case.</u> For the purpose of this Guidance Note:
2.	Code means APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> .
2.	Financial Statements mean a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements. <u>For the purposes of this Guidance Note, financial report is considered to be an equivalent term to Financial Statements.</u>

Paragraph Reference	Revisions
2.	Group Financial Report means a financial report that includes the financial information of more than one component. The term “Group Financial Report” also refers to combined financial reports aggregating the financial information prepared by components that have no parent but are under common control.
2.	Internal Control means the process designed, implemented and maintained by Those Charged with Governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of Internal Control.
2.	Member means a member of a Professional Body that has adopted this Guidance Note as applicable to their membership, as defined by that Professional Body.
2.	Member in Business means a Member employed or engaged <u>working in an executive or non-executive capacity in such areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory bodies or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer</u> a Member contracted by such entities.
2.	Member in Public Practice means a Member, irrespective of functional classification (e.g. for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.
2.	Misstatement means a difference between the amount, classification, presentation, or disclosure of a reported item in financial information, and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the Applicable Financial Reporting Framework. Misstatements can arise from error or Fraud. Where the financial information is prepared in accordance with a fair presentation framework, Misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the judgement of the Member in Business, are necessary for the financial information to be presented fairly, in all material respects.
2.	Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.
Footnote 2 [to the definition of Risk Management Framework]	The foundations include the <u>policies</u> , objectives, mandate and commitment to manage Risk.
2.	Those Charged with Governance means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance may <u>might</u> include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Paragraph Reference	Revisions
3.2	<p>A Member in Business who performs a Professional Activity, including a Member who provides Management Representations to Those Charged with Governance or external parties on Financial Statements or other relevant matters, is required to comply with Part A—General Application of the Code—1 <i>Complying with the Code, Fundamental Principles and Conceptual Framework</i> and Part C— 2 <i>Members in Business (including employment relationships of Members in Public Practice)</i> of the Code, and applicable laws or regulations.</p>
4.1	<p>Management Representations provided by Members in Business to Those Charged with Governance or external parties include, but are not limited to:</p> <p><u>External Management Representations</u></p> <ul style="list-style-type: none"> (a) written representations provided to Members in Public Practice (e.g. for example, external auditors) in respect of annual Financial Statements and half-year Financial Statements^{4,5}; (b) written representations provided to Members in Public Practice (e.g. for example, external auditors) in respect of subject matters other than historical financial information⁶; (c) written representations provided to Members in Public Practice (e.g. for example, external auditors) to support compliance reporting obligations by insurance companies and Australian Financial Services Licensees⁷ (who are regulated by <u>the</u> Australian Securities & <u>and</u> Investments Commission and/or <u>the</u> Australian Prudential Regulation Authority); (d) Management Representations provided to Members in Public Practice in respect of a compilation engagement; (e) Management Representations provided to an Employer or Members in Public Practice in respect of a valuation service; (f) Management Representations provided to an Employer or Members in Public Practice in respect of a due diligence committee, e.g. for example, acquisitions, divestments, restructuring or raising finance from capital and debt markets⁸; (g) Management Representations provided to rating agencies or similar organisations who are performing evaluations of the organisation’s financial capacity and stability or governance arrangements; (h) Management Representations provided to an organisation’s financiers or lenders when obtaining, raising or renegotiating finance or in respect of ongoing compliance with loan covenants; (i) Management Representations provided to external certification bodies that provide independent confirmation on entities’ quality management systems (e.g. for example, ISO 9001); <p><u>Internal Management Representations</u></p> <ul style="list-style-type: none"> (j) Financial Reporting Certifications including Internal Control questionnaires; (k) declarations provided to the board/audit committee of a local or foreign jurisdiction in accordance with the respective jurisdiction’s regulations; or (l) Management Representations in respect of continuous disclosure obligations provided by management to the chief executive officer, chief financial officer and/or Those Charged with Governance to enable the respective party to provide disclosures to the market.

Paragraph Reference	Revisions
Footnote 4	<i>Corporations Act 2001</i> : sections 295A, 300A and 312.
Footnote 5	Auditing and Assurance Standards Board: Auditing Standard ASA 580 <i>Written Representations</i> .
Footnote 6	Auditing and Assurance Standards Board: ASAE 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> .
Footnote 7	Auditing and Assurance Standards Board: Guidance Statement GS 003 <i>Assurance Relating to Australian Financial Services Licenses issued under the Corporations Act 2001</i> .
Footnote 8	<i>Corporations Act 2001</i> : sections 710, and 1013D.
5.2	When presenting information, Members in Business are required to comply with Section 320 <u>220</u> <i>Preparation and Reporting Presentation of Information</i> of the Code. Members should consider the purpose of the Management Representations, the context, its users and their decision-making processes.
5.3	Where a Member in Business prepares and/or signs Management Representations, the Member is required to comply with Section 330 <u>230</u> <i>Acting with Sufficient Expertise</i> of the Code. The Member is required to maintain professional knowledge and skill at the level required and should be knowledgeable of the entity's industry and other relevant matters to ensure the Member is able to perform a Professional Activity with the appropriate degree of professional competence and due care. The Member is required to have, or obtain sufficient specific training or experience, and possess sufficient time and adequate resources to complete the Management Representations within the reporting deadline.
5.4	Where a Member in Business uses the work of others (e.g. for example, Management's Expert, Outsourced Service Provider or internal personnel) to provide Management Representations, the Member should be satisfied that such work enables the Member to fulfil the obligations set out in paragraph 5.1.
5.6	Where a Member in Business is considering disclosing confidential information acquired in the course of providing Professional Activities, the Member is required to comply with Subsection 440 <u>114</u> <i>Confidentiality</i> of the Code. The Member should also refer to the consider relevant laws and regulations ⁹ and guidance in Section 12 <i>Disclosure of information and whistleblowing</i> <u>5</u> <i>Threats to the fundamental principles</i> of APES GN 40 <i>Ethical Conflicts in the Workplace - Considerations for Members in Business</i> .
Footnote 9	In Australia, whistleblower protection is addressed in the <i>Corporations Act 2001</i> for the private sector (including breaches of tax laws and regulations) and in other legislation in place federally and in states and territories for the public sector.
5.7	<u>Communication of significant matters</u> Where a Member in Business identifies any encounters or becomes aware of instances of non-compliance or suspected non-compliance with laws and regulations in respect of Management Representations, the Member is required to comply with Part A – General Application of the Code and Part C – Members in Business <u>Section 260</u> <i>Responding to Non-Compliance with Laws and Regulations</i> of the Code.

Paragraph Reference	Revisions
6.1	<p>A Member in Business who prepares or reviews Management Representations at the entity level should consider taking reasonable steps to:</p> <ul style="list-style-type: none"> (a) communicate the group policies and procedures (including any changes) in respect of financial reporting to the entity's personnel in a timely manner, where the entity is part of a group. (b) oversee or obtain comfort regarding the recruitment and selection process of finance personnel who possess the relevant skills and expertise to perform their tasks with integrity and objectivity. (c) develop the competence of personnel who are involved in the Management Representations process that includes: <ul style="list-style-type: none"> (i) continuing professional development on Professional Standards, legal obligations and other regulations (e.g. <u>for example</u>, insider trading, corporate governance, applicable accounting, and auditing and assurance standards); (ii) providing relevant work experience to continuously develop their skills, and (iii) coaching of junior personnel by more experienced personnel.
6.2	<p>During the Management Representation process, a Member in Business may encounter circumstances that may create threats to compliance with the fundamental principles of the Code. These circumstances include:</p> <ul style="list-style-type: none"> (a) business transactions or activities that impair or might impair the entity's and group's good reputation; (b) potential accounting and tax transactions or arrangements which may not be in accordance with applicable legal and regulatory requirements; (c) arrangements which involve documents or accounting entries that are intended to misrepresent a transaction or which is dependent upon its lack of disclosure for its effectiveness; (d) potential unethical conduct, or non-compliance with applicable legal and regulatory obligations; or (e) participation in incentive compensation arrangements that may influence decisions made by the Member. <p>In these circumstances, the Member in Business is required to comply with section 100 Introduction and Fundamental Principles <u>Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework</u> and Part 2 Members in Business (including employment relationships of Members in Public Practice) <u>Part 2 Members in Business (including employment relationships of Members in Public Practice)</u> of the Code and should consider taking appropriate action in accordance with the entity's or group's policies and procedures, or alternatively inform Group Management or Those Charged with Governance to enable them to take appropriate action to eliminate the threat or reduce the threat to an acceptable level.</p>
6.4	<p>A Member in Business should consider reporting actual or potential Internal Control weaknesses in the entity's Internal Control environment identified in a Management Representations process to Group Management or Those Charged with Governance, as appropriate.</p>

Paragraph Reference	Revisions
7.3	<p>The responsibilities of a Member in Business who reviews the group Management Representation process may include:</p> <ul style="list-style-type: none"> (a) ensuring personnel with the relevant skills, knowledge and abilities are overseeing the group Management Representations; (b) performing sufficient enquiries and reviews to ensure that entities (notwithstanding the complex group structures) are in compliance with the group accounting policies and group Management Representation processes; (c) obtaining reasonable confidence of the validity and reliability of the Management Representations (e.g. for example, sample reviews by internal audit or the Member in Business); and (d) determining if discrepancies exist between Internal Control matters reported by the internal auditor, external auditor and the entity's Management Representations.
7.4	<p>Where a Member in Business identifies Internal Control weaknesses, Fraud, irregularities, suspected non-compliance with laws and regulations or potential issues in a Management Representations process that may have not been dealt with by management previously, the Member should consider:</p> <ul style="list-style-type: none"> (a) providing appropriate guidance for personnel to communicate within the group in respect of potential next steps including reporting such matters, where material, to Those Charged with Governance; (b) taking reasonable steps to ensure that the identified issues are being dealt with appropriately by the relevant personnel; (c) taking reasonable steps to ensure appropriate remedial action is being taken to resolve issues identified by the external auditors and internal auditors (in particular, noting issues which may be pervasive); and (d) documenting and reporting to Those Charged with Governance on how material contentious matters are being resolved, such as non-compliance with laws and regulations or Risk management issues.
Footnote <u>109</u> [to paragraph 7.8]	For example, <i>Corporations Act 2001</i> : Section 295A.
Footnote <u>110</u> [to paragraph 7.8]	For example, ASX Corporate Governance Council- <i>Corporate Governance Principles and Recommendations</i> : Recommendation 4.2.
7.10	<p>Where a Member in Business implements a group Risk Management Framework, the Member should consider taking reasonable steps to ensure the group Risk Management Framework:</p> <ul style="list-style-type: none"> (a) identifies and manages Fraud Risk factors, financial reporting Risks and corruption Risks; and (b) considers non-financial reporting processes that will have an impact on the Group Financial Reports, either now or in future, e.g. for example, greenhouse gas disclosures, environmental and sustainability reports and information technology matters.

Paragraph Reference	Revisions
8.2	<p>A Member in Business should consider evaluating whether the entity's or the group's policies and procedures in a Management Representations process:</p> <ul style="list-style-type: none"> (a) support a strong ethical culture; (b) establish clearly defined channels for personnel to raise any concerns to Group Management or Those Charged with Governance in a manner that enables personnel to come forward without fear of reprisals; (c) maintain a Risk Management Framework in respect of the provision of quality and ethical Professional Activities that identifies, assesses and addresses material Risks; and (d) implement safeguards, conditions, policies and procedures in the work environment (e.g. for example, systems of corporate oversight, ethics and conduct programs, recruitment procedures, strong group-wide controls, appropriate disciplinary processes and quality of employee performance) to eliminate or reduce threats of non-compliance with the fundamental principles of the Code.
8.3	<p>Where a Member in Business is assessing the adequacy, efficiency and effectiveness of the Management Representations process, the Member should consider whether management has adequate processes to monitor the entity's or the group's Internal Control environment and information systems.</p>
8.4	<p>Where a Member in Business is unable to resolve matters that have a material impact on the Management Representations process, the Member should consider:</p> <ul style="list-style-type: none"> (a) assessing the impact of any deficiencies noted on the entity or the group's Internal Control environment, business processes and the resulting impact on the Group Financial Report; and (b) discussing the unresolved matter with management, the audit committee or Those Charged with Governance of the entity, as appropriate.
Footnote 124 [to paragraph 8.6]	<p>For example, <i>Corporations Act 2001</i>: Section 295A.</p>
Appendix 1	<p>Summary of revisions to the previous APES GN 41 (Issued in August 2016) – added</p>