ETHICAL AND LEGAL

⇒ *Evaluate independence, Assess competence to perform audit, Ability to use due care*

<table>
<tr><td colspan="3">APES 110 Code of Ethics for Professional Accountants
a) Responsibility to act in the public interest from a macro perspective; b) Fundamental principles for the profession; c) Specific requirements for members in public practice and/or members in business</td></tr>
<tr><td colspan="2">1) Circumstances may lead to threats to compliance with the <u>fundamental principles</u></td><td rowspan="8">2) Evaluate the <u>threats</u>:
- Self-interest (financial or other interest);
- Self-review (not appropriately evaluating judgments or work performed);
- Advocacy (promote client position)
- Familiarity (long or close relationship);
- Intimidation (deterred from acting appropriately due to actual or perceived pressure)

3) Eliminate or reduce the threats with <u>safeguards</u>
- Created by the profession, e.g. education, CPD requirements, professional standards
- Developed by the firm – general, e.g. quality control, policies and procedures
- Developed by the firm – Engagement specific, e.g. personnel rotation, professional review</td></tr>
<tr><td>a) Integrity
* Straightforward and honest in professional and business relationships</td><td>A member shall not knowingly be associated with reports, returns, communications or other information where the Member believes that the information contains a materially false or misleading statement</td></tr>
<tr><td>b) Objectivity</td><td>Not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others</td></tr>
<tr><td>c) Professional competence and due care
* There is continuous development of this profession</td><td>Maintain professional knowledge and skill … [and] act diligently in accordance with applicable technical and professional standards</td></tr>
<tr><td>d) Confidentiality
* <u>Exception</u> if legal requirement to disclose</td><td>Refrain from disclosing or using confidential information</td></tr>
<tr><td rowspan="3">e) Professional behaviour</td><td>Comply with relevant laws and regulations and avoid any action or omission that may bring discredit to the profession</td></tr>
<tr><td>Do not claim to provide services they cannot provide, or qualifications they do not possess, or experience they do not have</td></tr>
<tr><td>Do not undermine the reputation of, or quality of work produced by, others</td></tr>
<tr><td rowspan="2">Independence
* <u>not</u> a fundamental principle</td><td>Independence of mind
⇒ Ensure not affected by influences that compromise professional judgment (‘State of mind’)</td><td rowspan="2"><u>THREATS</u>
Financial interests;
Loan and guarantees;
Close business, family, and personal relationships;
Employment relationships;
Long association;
Gifts and hospitality</td></tr>
<tr><td>Independence in appearance
⇒ Avoid the appearance (look) that integrity, objectivity and professional skepticism has been compromised
[<u>Apply ‘reasonable person test’ on the specific facts and circumstances</u>]</td></tr>
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SUBSEQUENT EVENTS

<u>Financial report is based on events up to, and conditions existing at, year-end</u>.
However, there are three other key dates, including a) date the financial report is approved by management; b) date of the auditor's report; and c) date that the financial report is publicly released.

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<tr><td rowspan="3">STEP 1</td><td>Period 1
* Events occurring up to the date of the audit report</td><td>If the auditor becomes aware of an adjusting or a non-adjusting event before the date of the auditor's report, the auditor
has full responsibility to consider the event;
discusses the matter with the client;
takes action appropriate to the circumstance.</td></tr>
<tr><td>Period 2
* Events occurring after the date of the audit report, but before the financial statements are issued</td><td>If the auditor becomes aware of an adjusting event after the date of the auditor's report, but before the financial report is issued, the auditor
considers whether the financial report needs changing – is it so material that it is going to change the opinion or the way people view the financial statement and the audit opinion;
discusses the matter with the client;
takes action appropriate to the circumstance.</td></tr>
<tr><td>Period 3
* Events discovered after the financial statements are issued</td><td>If the auditor becomes aware of an adjusting or a non-adjusting event after the date that the company issues the report to the public, the auditor considers whether the event relates to a situation that existed at the audit report date and if so,
discusses the matter with the client; and
takes appropriate actions in the circumstance.</td></tr>
<tr><td colspan="3">Subsequent events are events that occur between year-end and the date of the auditor's report or facts that are discovered after the date of the auditor's report.</td></tr>
<tr><td rowspan="3">STEP 2</td><td rowspan="2">a) Adjusting events
* Events that provide additional evidence with respect to the conditions that existed at year-end

(It does not matter if it only came to the auditor's attention after year-end)</td><td>Because they can affect estimates in financial report or indicate that the going concern assumption is not appropriate, the accounting treatment is to <u>adjust the amount</u> recognised in the reports to reflect the situation that existed at balance date, given the additional information, where material.</td></tr>
<tr><td>For example,
Bankruptcy of customer after year-end which would be considered when evaluating the provision for doubtful debts. If a customer is declared insolvent after balance date, that indicates that the amount was not collectable at the end of the reporting period, so that adjustment is required to show that the receivable was not collectable
Amount received for an insurance claim in negotiation at year-end
Deterioration in operating results after year-end that means that the going concern is not appropriate.</td></tr>
<tr><td>b) Non-adjusting events
* Events that provide evidence with respect to the conditions that are developed subsequent to year-end</td><td>Because they do not result in changes to the amounts in the financial report, it <u>does not require accounts to be adjusted</u>; however, might be so significant to require <u>disclosure</u>. Otherwise, these new information about something that did not exist at balance date but may also be disclosed via way of a <u>note to the accounts</u>.</td></tr>
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