

Accounting and Audit Firm Technical Consultations with GAAP Consulting – The Protocol

Introduction

1. The application of accounting, auditing and ethical standards and the governing legislation to an assurance engagement may give rise to *difficult or contentious matters* that need to be resolved. These matters can also arise in accounting services engagements. The failure to appropriately consult with experts may lead to:
 - Breaches of accounting, auditing and ethical standards by auditors and accountants
 - Increased business risks
 - Loss of Professional Indemnity cover due to non-compliance with specific standards, and
 - Sub-optimum client service.
2. Where an audit firm does not have sufficient internal resources to undertake consultations on difficult or contentious matters, they are required by APES 320 ‘Quality Control of Firms’, ASQC 1 ‘Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements’ and ASA 220 ‘Quality Control for an Audit of a Financial Report and Other Historical Financial Information’ to consult externally to ensure compliance with Australian Auditing Standards, and to reduce audit risk to an acceptably low level.
3. Technical consultations are not restricted to the assurance part of the practice and are also required for others parts of the practice under the ethical standards, such as APES 110 ‘Code of Ethics for Professional Accountants’, APES 320 ‘Quality Control of Firms’; and the services standards, such as, APES 315 ‘Compilations of Financial Information’.
4. There are four levels of technical consultations that may occur between a firm and *GAAP Consulting* as a recognised and authoritative source on Generally Accepted Accounting Standards (GAAP), Generally Accepted Auditing Standards (GAAS), Superannuation, and Ethics:
 - Level 1: Help Desk Queries
 - Level 2: Consulting Review
 - Level 3: Formal Independent Opinion, and
 - Level 4: Second Opinion.
5. The purpose of this protocol is to:
 - Describe the consultation requirements of Australian Auditing Standards and Ethical Standards (for accountants and auditors in public practice), and
 - Provide information about how to access *GAAP Consulting* (www.gaap.com.au) for such consultations.

Consultation Requirements of Auditing and Ethical Standards

Auditing Standards

6. Auditing Standard ASA 220 ‘Quality Control for an Audit of a Financial Report and Other Historical Financial Information’ (ASA 220), inter alia, sets out engagement performance requirements, including direction, supervision, reviews, consultations, and quality control reviews. Consultation is required on difficult or contentious matters. Under ASA 220, the engagement partner must:
 - Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters

- Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm
- Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted, and
- Determine that conclusions resulting from such consultations have been implemented (ASA 220.18).

7. Also if differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team must follow the firm's *policies and procedures* for dealing with and resolving differences of opinion (ASA 220.22). There must be such a policy and procedures to comply with ASA 220, and also Auditing Standard ASQC 1 'Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements' (ASQC 1). Such policies and procedures may require such a matters to be resolved using a resource outside the firm, such as *GAAP Consulting*.

8. The auditor must include in the audit documentation, such matters, as the nature and scope of, and conclusions resulting from, *consultations* undertaken during the course of the audit engagement (ASA 220(d)). Also under ASA 230 'Audit Documentation' (ASA 230) an auditor must prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- The nature, timing, and extent of the audit procedures performed to comply with the Australian Auditing Standards and applicable legal and regulatory requirements
- The results of the audit procedures performed, and the audit evidence obtained, and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions (ASA 230.8). Significant matters would include *difficult or contentious matters*.

9. The recent ASIC surveillance program findings identified a number of matters which could be considered difficult or contentious matters that may require consultation within the firm or with external experts:

- Operating and financial review, alternative profits, and segment reporting
- Control and significant influence
- Current market conditions (going concern; asset impairment including assets denominated in foreign currencies, and reversal of impairments; fair value of assets including investment properties, and financial assets; financial instrument disclosures; current vs non-current classifications; and disclosures for estimates and accounting policy judgements), and
- Other matters (business combinations; debt vs equity; and other comprehensive income.

10. Considerations regarding determination of accounting policies, qualified or modified audit opinions, appropriateness and sufficiency of audit evidence, fraud, and reporting significant matters to governance and regulators may well form considerations for a policy on consultations.

11. For accounting engagements consultations may be required in relation to such as matters as:

- General purpose financial statements ('full' or 'RDR') and special purpose financial statement decisions-making
- Application of the financial reporting framework, e.g., Corporations Act and Superannuation Industry (Supervision) Act
- Adherence and interpretation of the 'Code of Ethics for Professional Accountants' regarding fundamental principles, such as, professional competence and due care
- Use of appropriate safeguards regarding threats (self-interest, self-review, advocacy, familiarity, and intimidation), and

- Application of mandatory requirements in APES 315 ‘Compilation of Financial Information’.

12. The specific circumstances where consultations are required would be reflected in the firm’s consultation policy as required by ASQC 1 ‘Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements’ and APES 320 ‘Quality Control of Firms’.

13. Auditing Standard ASA 102 ‘Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements’ (ASA 102) requires that the auditor, assurance practitioner, engagement quality control reviewer, and firm must comply with relevant ethical requirements, including those pertaining to independence, when performing audits, reviews and other assurance engagements (ASA 102.5), i.e., APES 110 ‘Code of Ethics for Professional Accountants’ issued by the Accounting Professional and Ethical Standards Board (APESB).

Ethical Standards

14. The ‘Code of Ethics for Professional Accountants’ sets out requirements regarding professional competence and due care (Section 130), inter alia, the principle of professional competence and due care imposes the following obligations on members (e.g., accountants and auditors in public practice) to:

- Maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service, and
- Act diligently in accordance with applicable technical and professional standards when providing their services.

15. Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. The exercise of such sound judgement, inter alia, may involve external technical consultation.

16. Under APES 320 ‘Quality Control of Firms’ (APES 320), a firm (not just the audit practice) must establish policies and procedures designed to provide it with reasonable assurance that:

- Appropriate consultation takes place on difficult or contentious matters
- Sufficient resources are available to enable appropriate consultation to take place, and
- Conclusions resulting from consultations are implemented (APES 320.64).

17. In addition, the audit practice must document the nature, scope, and conclusions arising from consultations. These must be agreed by both the individual seeking consultation and the individual consulted (APES 320.64).

18. APES 320 describes considerations specific to smaller firms. A firm needing to consult externally, for example, a firm without appropriate internal resources may take advantage of advisory services provided by: other firms; professional and regulatory bodies; or commercial organisations that provide relevant quality control services. Before contracting for such services, consideration of the competence and capabilities of the external provider helps the firm to determine whether the external provider is suitably qualified for that purpose (APES 320.68). *GAAP Consulting* has competence and capabilities (see www.gaap.com.au).

Levels of Consultation with GAAP Consulting

19. *Effective* consultation on significant technical, ethical, and other matters within the firm or, where applicable, *outside the firm* can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice, and
- Have appropriate knowledge, seniority and experience. *GAAP Consulting* has such attributes.

20. Effective consultation occurs when the firm identifies a consultation issue early during the course of an audit which allows sufficient time for all parties to resolve the difficult or contentious matter. Ideally, the auditor and technical expert will be consulted prior to the finalisation of the transaction to allow accounting consequences to be considered and amendments to the transaction made, if necessary.

21. There are four levels of technical consultations that may occur between an accounting and audit firms and *GAAP Consulting*. Each level of consultation is undertaken by one of our partner equivalents and reviewed by a second. Level 2-4 engagements are subject to a blind review by a third partner equivalent. All of consultations will include an appropriate disclaimer and distribution restrictions. For documentation purposes, all technical consultations occur by email with subsequent discussions documented. The four levels of technical consultations are:

Level 1: Help Desk Queries

Type:	Minor queries to assist firm in its deliberation
Typical Time Commitment:	1-3 hours
Client Discussion:	Normally not required
Turnaround Time:	Usually 24 hours
Response Format:	Succinct response in originating email by GAAP Consulting

Level 2: Consulting Review

Type:	Significant issue where the firm has identified an issue, conducted research, and formed a preliminary conclusion and seeks a review the rationale and the preliminary conclusion reached. The opinion reached is that of the firm, however the audit file would note technical consultation has occurred
Typical Time Commitment:	3-10 hours
Discussion:	May involve discussion with the originator
Turnaround Time:	Usually 3 days
Response Format:	Mark-up of draft prepared by accounting firm with a covering response from GAAP Consulting

Level 3: Formal Independent Opinion

Type:	Significant issue where the firm has identified an issue and the facts are presented. Generally, the firm has not conducted in-depth research, articulated its rationale, or formed a preliminary view. GAAP Consulting is requested to provide a formal independent opinion for consideration by the accounting firm. Such opinions normally contain the following:
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- An Executive Summary
- Identification of Issue(s)
- Information Relied On
- Facts Presented
- Authority Sighted
- Rationale
- Conclusions

Typical Time Commitment:	20 hours plus
Discussion:	Normally involves discussion with the firm
Turnaround Time:	Usually 7-10 days
Response Format:	Independent Opinion by <i>GAAP Consulting</i>

Level 4: Second Opinion

Type:	Significant issue where the accounting firm has presented with a technical opinion from the client. GAAP Consulting is requested to
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provide a second formal independent opinion on first opinion for consideration by accounting firm. Such opinions normally contain the following:

- An Executive Summary
- Identification of Issue(s)
- Information Relied On
- Facts Presented
- Authority Sighted
- Rationale
- Conclusions

Typical Time Commitment: 20 hours plus
 Discussion: Normally involves discussion with the accounting firm
 Turnaround Time: Usually 7-10 days
 Response Format: Independent Opinion by *GAAP Consulting*

22. *GAAP Consulting* has eight partner equivalents that provide access to *some of Australia's best* to address financial reporting, auditing, superannuation, and ethical issues:

- **Colin Parker** – GAAP, GAAS, and Ethics
- **Michal Cain** – GAAP, GAAS, and Ethics
- **Jim Dixon** – GAAP, GAAS, and Ethics
- **Stephen LaGreca** – GAAP
- **Susan Orchard** – Superannuation, GAAS, and Ethics
- **Carmen Ridley** – GAAP
- **Justin Reid** – GAAS, and Ethics, and
- **David Sauer** – GAAP, GAAS, and Ethics.

23. When seeking to use the technical services of *GAAP Consulting* the firm should:

- Assemble all the relevant facts for consideration including entity type, legislative, professional and/or other frameworks, and reporting period
- Pose the question(s) on which a response is required
- Identify the level of response required (Levels 1-4)
- Identify the accounting firm contact points for further discussion, and
- Identify the deadline when the response is preferred.

24. An accounting firm can also select from over 30 services provided by *GAAP Consulting* covering the disciplines of financial reporting, superannuation, professional ethics, and auditing. These services are provided under the following captions:

- Technical Advice: Access to some of Australia's Best
- Methodology Update: Improved Business Practices
- Technical Resources: Proprietary Information and Tools
- Training (In-house): Tailor-made and Passionate
- Quality Assurance: Better Risk Management
- Alliance Partner Access: Other Technical Services Available, and
- Marketing: Profile and Practice Growth.

25. Existing clients of *GAAP Consulting* have designated primary and secondary points of contacts. Requests for consultations should be directed to them. New clients should direct initial enquires to *Colin Parker, Head of the GAAP Consulting Network*, colin@gaap.com.au or 0421 088 611.