



The Institute of  
Chartered Accountants  
in Australia



14 September 2007

Ms Kate Spargo  
Chairperson  
Accounting Professional & Ethical Standards Board Limited  
Level 7, 600 Bourke Street  
MELBOURNE VIC 3000

Via email: [sub@apesb.org.au](mailto:sub@apesb.org.au)

Dear Kate

**Re: Exposure Draft ED 04/07 Proposed Standard: APES 305 Terms of Engagement  
(Formerly APS 2)**

CPA Australia, the Institute of Chartered Accountants in Australia (the Institute) and the National Institute of Accountants (NIA) are pleased to respond to the request for comments from the Accounting Professional and Ethical Standards Board (APESB) on Exposure Draft 04/07.

**General Comments**

The professional bodies support the need for a standard requiring members to document and communicate the terms of their engagements with clients.

We have received comments from members in respect of the exposure draft. Among these comments, two insolvency practitioners queried who would be the client in an insolvency engagement, particularly in respect of court appointments. The professional bodies believe that it would be appropriate for the Terms of Engagement standard to address itself to this question of client identification for insolvency engagement purposes, to clarify what would be appropriate documentation and communication of the terms of engagement in these circumstances.

We have received comments from some members indicating that they would not see the documentation and communication of terms of engagement as an appropriate requirement in all engagements, specifically in relation to low fee engagements and engagements with high net worth clients, and would be happy to supply these comments to the APESB.

We have also received comments calling for the inclusion of mandatory items in the documentation of terms. The current exposure draft does not require any specific items to be covered in the documented terms, but only provides guidance in this regard. It has been suggested that, as a minimum, documentation of terms should cover the scope of the engagement, relative responsibilities and fee and billing arrangements. We believe that this question of whether the standard should nominate some terms as mandatory inclusions should be considered by the APESB. In our view many of the disputes which arise between members in public practice and their clients would be eliminated if fee and billing arrangements were identified at the commencement of the engagement.

## Comments on specific paragraphs

### Definition of Engagement Letter

It is submitted that the definition of Engagement Letter is unhelpful, and that a simpler definition would be to state that an Engagement Letter is a letter which sets out the terms of the Engagement. However, we submit that this term does not need to be defined.

### Definition of Member

The definition of Member differs from that contained in APES 110, by omission of the words “as defined by that professional body”. It is submitted that the definition should be standardised across all APES Standards, and that for clarity it should contain these additional words.

### Definition of Non-assurance Services

Although Non-assurance Services is a defined term, it is used only once in the standard, at paragraph 4.3 (b), which states:

4.3 Objectives of the Engagement: A brief summary of the objectives of the Engagement including reference to the fact that: ...

(b) neither an audit nor a review will be conducted and, accordingly, no assurance will be expressed (applicable to Non-assurance Services only);

In our view it would be preferable to use the words “(where applicable)”, and avoid the need to define Non-assurance Services altogether, which is a difficult concept to define.

### Paragraph 1.7

Paragraph 1.7 states that references to professional standards and guidance notes are references to those provisions as amended from time to time. Since paragraphs 4.5, 6.1 and 6.2 make reference to Professional Standards Legislation, we believe it would be appropriate to amend paragraph 1.7 to also include references to legislation.

### Paragraph 3.4

In paragraph 3.4, there is a statement that the documentation of terms of engagement need not be in the form of a letter, and examples are given of other forms of documentation which “may be acceptable in certain circumstances”. It is the view of the professional bodies that alternatives to engagement letters would be acceptable in any circumstances.

We understand that the intention behind the revision of APS 2 was to recognise the importance of documenting and communicating the terms of engagement to the client. As long as the terms are documented and communicated, it should not matter what form that documentation takes. We would therefore recommend that paragraph 3.4 be amended to remove the words “in certain circumstances”.

### Overall focus on the Engagement “Letter”

In line with the preceding comment, we do not believe it is appropriate for Sections 4 and 5 of the exposure draft to make continual reference to the engagement “letter”. The term appears in paragraphs 4.1, 4.2, 4.8, 4.9 and 5.1 in contexts where it would be appropriate to refer to the documented terms of engagement (in whatever form), rather than to an engagement letter. The professional bodies believe that it would be preferable to amend these paragraphs to refer to “engagement document”, rather than “engagement letter”.

### Paragraph 3.5

Paragraph 3.5 deals with the fact that the terms of some engagements are established by law. What it does not state, and what in our view would be useful to state, is that it would be preferable to have such terms overtly incorporated into the terms documented and communicated by the member, by reference to the relevant law. In other words, the member would not need to reproduce all of the terms imposed by the law, but could incorporate them by merely making reference to them. This would assist in ensuring that the client understood the complete terms of the engagement.

### Paragraph 4.8

Paragraph 4.8 contains the words “If a Member in Public Practice retains a lien over such documents, this should be set out in the Engagement Letter”. We believe that the sense of this wording is problematic, because the member will not “retain a lien” at the time of documenting the terms of the engagement, but only at some later time.

We believe it would be preferable to rewrite this sentence as:

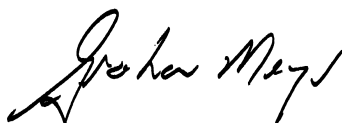
*If a Member in Public Practice has a policy of seeking to exercise a right of lien over such documents in the event of a dispute with the Client, this policy should be disclosed in the Terms of Engagement communicated to the Client, including the process of dealing with disputes over the lien.*

The accounting bodies appreciate the opportunity to comment and would be able to provide more detail on these issues if required. In this regard please contact Paul Meredith, the Institute’s Manager Professional Standards [paul.meredith@charteredaccountants.com.au](mailto:paul.meredith@charteredaccountants.com.au), Denis Pratt, Director Professional Standards at CPA Australia [denis.pratt@cpaaustralia.com.au](mailto:denis.pratt@cpaaustralia.com.au), or Peter Goujon, Manager Member Integrity at the NIA [peter.goujon@nia.org.au](mailto:peter.goujon@nia.org.au).

Yours faithfully



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