



Annual Review of APES 110 Code of Ethics for Professional Accountants

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1. Executive Summary

1.1. Background

Accounting Professional and Ethical Standards Board (APESB) issued APES 110 *Code of Ethics for Professional Accountants* (the Code) in June 2006 with an effective date of 01 July 2006. Subsequently, in 2008 APESB issued a compiled version of the Code incorporating network firm amendments and Corporations law amendments.

1.2. Reason for this report

In accordance with the constitution of APESB, an annual review needs to be performed for the Code to identify issues reported by stakeholders. This report presents a review of the issues identified and the proposed or actual action taken to address them.

1.3. Issues identified

The concerns identified by stakeholders since the standard was issued in 2006 are summarised below.

Carry Forward Issues from the 2008 Annual Review:

1. Impact of international exposure draft of Sections 290/291 Independence part II.
2. Definition of an assurance engagement.
3. Definition of an audit engagement.
4. Drafting of paragraph 200.3 of the Code – discussion of threats and safeguards.
5. Use of footnoting of the Code to identify the corresponding reference/section in the *Corporations Act*.
6. Use of terminology “Financial Statement Audit Client”.
7. Use of terminology “Financial Statement” rather than “Financial Report”.

New Issues Raised:

Stakeholders have not reported any additional matters.

1.4. Summary of Recommendations/Actions Taken

The following is a summary of the recommendations or actions taken in respect of the identified issues.

Carry Forward Issues from the 2008 Annual Review yet to be resolved:

1. APESB is currently reviewing sections 290/291 of the Code as part of the APES 110 Code of Ethics project to update and reissue a revised Code.
2. The definition of an assurance engagement is being considered as part of the APES 110 Code of Ethics project to update the Code in line with the AUASB's changes to the *Framework for Assurance Engagements*.
3. The definition of an audit engagement is being considered as part of the APES 110 Code of Ethics project to update the Code.
4. The wording of section 200.3 will be considered for amended in the revision of the Code to improve clarity.
5. It is recommended that APESB remove this issue from the issues register as no concerns have been raised in relation to footnoting of the Code to date.
6. The term "Financial Statement Audit Client" has been replaced by "Audit Client" in the revised Code. This change will be considered as part of the APES 110 Code of Ethics project to update the Code.
7. APESB is currently considering use of the term "financial report" as part of its APES 110 Code of Ethics project to update the Code.

2. Review of Implementation Issues

Carry forward issues from 2008 Annual Review

2.1 Impact of IESBA revision of Sections 290/291 Independence Part II

Issue

IESBA has revised Section 290/291 Independence of the Code and issued a revised version of the Code in July 2009.

Analysis of issue

In the revised international Code, the independence requirements are in section 290 addressing audit and review engagements and section 291 addressing other assurance engagements.

Stakeholders

Firms, members in public practice and professional accounting bodies.

Recommendation/Status

The IESBA issued a revised version of the Code in July 2009. The APESB is currently undertaking a project to update APES 110 in line with the revised IESBA Code. Sections 290/291 are currently being reviewed as part of this project.

2.2 Definition of an Assurance Engagement

Issue

The definition of an assurance engagement in the Code refers to AUS108 which has been replaced by the *Framework for Assurance Engagements* by the AUASB in July 2007.

Analysis of issue

The definition of assurance engagement is no longer accurate following the replacement of AUS108 in July 2007. The revised definition of Assurance Engagement should incorporate the following: “This would include an Engagement in accordance with *Framework for Assurance Engagements* issued by the Auditing and Assurance Standards Board (AUASB) or in accordance with the specific relevant standards for Assurance Engagements, such as International Standards on Auditing, for assurance engagements.”

Stakeholders

Professional Accountants, Auditors

Recommendation/Status

APESB has commenced a project to update the Code consistent with the international Code. The definition of assurance engagement will be reviewed and amended as part of this process.

2.3 Definition of an Audit Engagement

Issue

The definition of audit engagement in the Code refers to a high level of assurance whilst the AUASB standards refer to a reasonable level of assurance.

Analysis of issue

The definition of Audit Engagement in the Code reads as follows: “*An Assurance Engagement to provide a high level of assurance that a financial report is free of material misstatement, such as an Engagement in accordance with Australian Auditing Standards.*” The provision of a “high level” of assurance reflects outdated terminology with current Australian auditing standards describing audit engagements as providing a reasonable level of assurance.

Stakeholders

Professional Accountants, Auditors

Recommendation/Status

APESB has commenced a project to update the Code consistent with the international Code. The definition of an audit engagement will be reviewed and amended as part of this process.

2.4 Drafting of paragraph 200.3 of the Code – discussion of threats and safeguards

Issue

On review of section 200.3 of the Code, the ICAA has suggested a minor drafting revision to enhance clarity of the paragraph.

Analysis of issue

The Code currently reads as follows: *“The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to a Financial Statement Audit Client, a non-financial statement audit Assurance Client or a non-Assurance Client.”*

The ICAA have proposed the following amendment: *“The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to a Financial Statement Audit Client, an Assurance Client that is not a non-Financial Statement Audit Assurance Client, or a non-Assurance Client.”*

Stakeholders

APESB, Professional Bodies, Members

Recommendation/Status

We agree that the revised wording improves the clarity and this issue will be considered as part of the APES 110 Code of Ethics project.

2.5 Draft footnoting of the Code to identify the corresponding reference/section in the Corporations Act.

Issue

At the time of issuing the standard in 2006, APESB considered the need to footnote the Code to identify the corresponding reference/section to the *Corporations Act*. However, it was expected that stakeholders will comment on this issue and the Board decided to revisit this issue at a later date.

Analysis of the issue

As the Code currently stands, no cross references have been provided against the *Corporations Act*. ASIC has raised a few concerns in respect of consistency of terminology between the Code and the *Corporations Act*. However, the examples given to date are not significant. During the post implementation period, members have not raised any concerns or requested a mechanism to cross reference the Code with the *Corporations Act*.

Impacted Stakeholders

Professional Accountants, Auditors, Regulatory Bodies

Recommendation

As no concerns have been raised to date in relation to this issue by members, firms or regulatory bodies since the issue of the Code in 2006, it is recommended that this issue be removed from the APESB issues register.

2.6 Use of terminology “Financial Statement Audit Client”

Issue

The Board has been advised that the International Ethics Standards Board for Accountants (IESBA) is considering a change in the use of this terminology, and resolved to monitor this issue.

Analysis of the issue

In the revision of the Code, IESBA has removed the definition of the term “Financial Statement Audit Client” and has included a definition of “Audit Client”.

Stakeholders

Auditors, Professional Accountants

Recommendation/Status

This issue is currently being considered as part of the APES 110 Code of Ethics project to update the Code.

2.7 Use of terminology “Financial Statement” rather than “Financial Report”

Issue

The Board had previously resolved to use the terminology “financial statement” because it was a term defined in the IESBA Code, rather than the term “financial report” used in the Australian auditing standards.

Analysis of the issue

The Code defines “Financial Statement” as follows:

“The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements”

The AUASB Glossary defines “Financial Report” as follows:

“ Means a structured representation of the financial information, which ordinarily includes accompanying notes, derived from accounting records and 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 framework. The term may refer to a complete financial report, but in some jurisdictions, it may 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 the content of the financial report and what constitutes a complete financial report. A financial report, as defined under sections 295 and 303 of the Corporations Act 2001 and Accounting Standard AASB 101 Presentation of Financial statements, consists of financial statements for the year and half year respectively, notes to the financial statements and the director’s declaration about the statements and the notes”.

The AUASB definition is broader and incorporates the requirements of the *Corporations Act* as well. However, on an overall basis the definitions are not inconsistent with each other. The IESBA revised Code also incorporates a definition of financial statements which is closer to the AUASB glossary excluding the reference to the *Corporations Act 2001*.

Stakeholders

Auditors, Professional Accountants

Recommendation/Status

The term “Financial Report” has been defined in the AUASB Glossary and the definition is generally consistent with the definition of “Financial Statement” in the new Code. APESB is currently considering this issue as part of the APES 110 Code of Ethics project to revise the Code.