APESB and Auditor Independence

Financial Reporting Council

Audit Quality Committee

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Channa Wijesinghe
MBA, FCPA, FCA
Technical Director

APESB
Accounting Professional & Ethical Standards Board

Overview

APESB
Accounting Professional & Ethical Standards Board

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  - Definition of Public Interest Entity (PIE)
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  - Prohibition of accounting, bookkeeping, taxation services to PIEs and direct assistance by internal auditors

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Overview (cont.)

- Recent IESBA amendments incorporated in the Code
  - Breaches of the Code
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- More information

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Role of the Accounting Professional & Ethical Standards Board (APESB)

- Established in February 2006 by CPA Australia and ICAA. The IPA joined later that year.
- APESB is an independent, national body that sets the code of ethics and professional standards by which Members of Australia's three major professional accounting bodies must abide.
- To date APESB has released 15 Standards and 3 Guidance Notes.

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APESB Pronouncements to date

All Members

- APES 110 Code of Ethics for Professional Accountants
- APES 205 Conformity with Accounting Standards
- APES 210 Conformity with Auditing and Assurance Standards
- APES 215 Forensic Accounting Services
- APES 220 Taxation Services
- APES 225 Valuation Services
- APES 230 Financial Planning Services
- APES GN 20 Scope and Extent of Work for Valuation Services

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APESB Pronouncements to date

Members in Public Practice

- APES 305 Terms of Engagement
- APES 310 Dealing with Client Monies
- APES 315 Compilation of Financial Information
- APES 320 Quality Control for Firms
- APES 325 Risk Management for Firms
- APES 330 Insolvency Services
- APES 345 Reporting on Prospective Financial Information
- APES 350 Due Diligence Committees
- APES GN 30 Outsourced Services

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APESB Pronouncements to date

Members in Business

- APES GN 40 Ethical Conflicts in the Workplace

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Auditor Independence requirements

- Independence requires Auditors to act with **integrity** and to exercise **objectivity** and **professional scepticism**.
- Independence comprises both:
  - o Independence of mind; and
  - o Independence in appearance.
- Auditors must not only act in an independent manner but they must also be perceived, by an informed third party, to be independent.

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Auditor Independence requirements

- The Code has two sections dealing with Auditor Independence:
  - **Section 290:** Independence requirements for *Audit and Review Engagements*; and
  - **Section 291:** Independence requirements for all *Other Assurance Engagements*.
- APES 110 revised in December 2010 to align with the IESBA's Code
- Key changes to APES 110 in respect of auditor Independence requirements were:
  - Auditor independence requirements extended from Listed Entities to audits of all Public Interest Entities (PIEs)

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Auditor Independence requirements

- Mandatory Partner rotation requirements for audits of PIEs
  - Extended from Engagement Partner and Engagement Quality Control Review Partner to all Key Audit Partners i.e.
    - » Engagement Partner
    - » Quality Control Review Partner
    - » Other Partners responsible for key decisions or judgments on the Audit Engagement
  - Key Audit Partner rotation required after 7 years and time-out of 2 years
    - » An exemption available where there are only a few people with knowledge & skill to serve as a Key Audit Partner;
    - » Independent regulator has provided an exemption; and
    - » Independent regulator has provided safeguards.

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Auditor Independence requirements

- Refer to Chapter 8 of **JAB Independence Guide** for more information on Auditor Rotation Requirements

The Act* 5-year rotation rules (Listed Entities)	**The Code 7-year rotation rule (Public Interest Entities)**
For listed entities, the *Corporations Act* continues to apply the more restrictive 5-year rotation rules to individuals who 'play a significant role' (i.e. Lead Auditor and Review Auditor as defined in Section 324 AF) in the audit. Recent amendments to the *Corporations Act* has resulted in a 2-year extension to the general 5-year period with the specific approval of the Audit Committee.	The Code has established a 7-year rotation rule that applies to all Key Audit Partners of audits and reviews of Public Interest Entities. The new definitions of Public Interest Entity and Key Audit Partner will have the effect of expanding the rotation requirements to include additional partners who make significant judgements on an Audit Engagement of a Listed entity and also apply to unlisted entities which are now classified as PIEs.

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Auditor Independence requirements

- Mandatory cooling off period for a Key Audit Partner before joining former Audit Client that is a PIE as a:
  - Director;
  - Officer; or
  - Employee with significant influence over accounting records or Financial Statements

- Cooling off period:
  - Senior or managing Partner = 1 year
  - Key Audit Partner = 1 audit opinion covering 12 months

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Auditor Independence requirements

- o Additional requirements and guidance on provision on internal audit services to Audit Clients
- o Additional requirements and guidance on providing other services to Assurance Clients on a Contingent Fee basis
- o Relative size of fees
  - where total fees from a PIE Audit Client and its related entities exceed 15% of total fees of the Firm for two consecutive years:
    - ➢ Pre-issuance review required; or
    - ➢ Post-issuance review required; and
    - ➢ Must be performed by a professional accountant who is not a member of the Firm

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Auditor Independence requirements

- o Partner compensation and evaluation
  - Evaluation or compensation based on Key Audit Partner's success in selling non-assurance services to Audit Clients is prohibited
  - Compensating or evaluating other members of the audit team for selling non-assurance services may also create a threat

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Auditor Independence requirements

- Management responsibilities
  - A Firm shall not perform management functions for an Audit Client
  - Management functions:
    - Leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources
  - When providing non-assurance services management is responsible for:
    - Making the significant decisions and judgements; and
    - Accepting responsibility for the actions to be taken as the result of the service.

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Auditor Independence requirements

- Valuation Services
  - Non-public interest entities
    - Cannot provide valuations services that are material and involve significant subjectivity
  - Public Interest Entities
    - Cannot provide valuation services if it would have a material effect, separately or in the aggregate, on the financial statements

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Auditor Independence requirements

- Corporate Finance Services
  - Auditor Shall not provide services when
    - Effectiveness of advice depends on a particular accounting treatment
    - Advice is material
    - Reasonable doubt as to appropriateness of accounting treatment

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Auditor Independence requirements

- Tax Planning and Other Advisory Services
  - Self-review threat may be created when advice affects matters reflected in the financial statements.
- Assistance in Resolution of Tax Disputes
  - Advocacy threat may be created when a Firm represents an Audit Client in resolution of a tax dispute
  - If services involve acting as an advocate for an Audit Client before a public tribunal or court in the resolution of a tax matter and the amounts are material to the financial statements the threat created would be too significant

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APESB's amendments to the IESBA Code
- Public Interest Entities (PIEs)

- APESB issued an amending standard in 2011 to incorporate what constitutes a Public Interest Entity (PIE) in the Australian context.
- Stricter Independence requirements of the Code apply to PIEs
- Public Interest Entity is defined as:
  - A Listed Entity; or
  - An entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

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APESB's amendments to the IESBA Code
- Public Interest Entities (PIEs)

- Additional AUST paragraph added to the Code to specify the type of entities that are likely to be classified as PIEs:
  - Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*;
  - Authorised insurers and authorised NOHCs regulated by APRA under Section 122 of the *Insurance Act 1973*;
  - Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
  - Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;
  - Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and
  - Other issuers of debt and equity instruments to the public.

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APESB's amendments to the IESBA Code
- SMSF and multiple referrals

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- APES 110 revised in May 2013 to address fee dependence risk identified in the Self Managed Superannuation Fund (SMSF) sector
- Key change to APES 110 in respect of auditor Independence requirements is a new AUST paragraph (AUST 290.217) to address circumstances where auditors may be receiving multiple referrals from a single source.
  - Where total fees in respect of multiple Audit Clients represent a large proportion of total fees of the Firm this introduces a self-interest and intimidation threat
  - The significance of threat is to be evaluated and safeguards applied

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Prohibition of accounting, bookkeeping, taxation services to PIEs and direct assistance by internal auditors

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- Provision of accounting and bookkeeping services and preparation of tax calculations for Audit Clients which are Public Interest Entities are prohibited even in emergency situations
- APESB worked with AUASB to prohibit internal auditors providing direct assistance to external auditors in Australia by amending the definition of Engagement Team in the Code

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Applicable independence standards

Classification of Entity	Type of Engagement	Outcome	Applicable section of the Code	Applicable Corporate Legislation
Public Interest Entity	Audit and Review Engagements for Historical Financial Statements	Assurance Engagements where a Member expresses a conclusion on Financial Statements	Section 290	Corporations Act 2001 Divisions 3,4 and 5 of Part 2M.4 and s307C
	Other Assurance Engagements	Assurance Engagements that are not Audit or Review Engagements	Section 291	Corporations Act 2001 – via ASAEs
Not a Public Interest Entity	Audit and Review Engagements for Historical Financial Statements	Assurance Engagements where a Member expresses a conclusion on Financial Statements	Section 290	Corporations Act 2001 Divisions 3 and 4 of Part 2M.4 and s307C
				Corporations Act 2001 – via ASAs and ASREs
	Other Assurance Engagements	Assurance Engagements that are not Audit or Review Engagements	Section 291	Corporations Act 2001 – via ASAEs

Recent IESBA amendments incorporated in the Code

Breaches of the Code

- APES 110 revised in November 2013 in accordance with the IESBA's revision of their Code to address breaches of the Code
- Key changes to APES 110 in respect of auditor Independence requirements:
  - Terminate, suspend, or eliminate the interest or relationship that caused the breach of the Code;
  - Evaluate the significance of the breach and determine whether action can be taken and is appropriate in the circumstances to satisfactorily address the breach of the Code;

Recent IESBA amendments incorporated in the Code

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- Communicate all breaches with Those Charged with Governance;
- Document, among other matters, the action taken, and all the matters discussed with Those Charged with Governance.
- Amendments to the definition of 'Those Charged with Governance'.

Recent IESBA amendments incorporated in the Code

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Conflicts of interest

- APES 110 revised in November 2013 in accordance with the IESBA's revision of their Code to provide more comprehensive guidance in identifying, evaluating and managing conflicts of interest:
  - Section 220 for Members in Public Practice; and
  - Section 310 for Members in Business.

Current IESBA projects in respect of auditor Independence requirements

- IESBA is undertaking a number of projects that are likely to impact auditor Independence requirements:
  - Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client
    - project is focussed on reconsidering and enhancing the provisions on long association of senior personnel
    - IESBA is currently debating the mandatory partner rotation provisions for Public Interest Entities (PIEs) and the appropriate cooling off period

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Current IESBA projects in respect of auditor Independence requirements (cont.)

- Non-Assurance Services
  - proposed changes to clarify the non-assurance service provisions concerning management responsibilities
  - clarification of the phrase ‘routine or mechanical’ as it pertains to the provision of accounting and bookkeeping services
  - deletion of emergency exception provisions related to bookkeeping and taxation services
  - Exposure Draft to be issued in the near future

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More information

- For more information,

  Visit: www.apesb.org.au

- For timely updates, follow the APESB page on

  LinkedIn

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Q & A session…

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