

# Proposed Restructured APES 110

## *Code of Ethics for Professional Accountants*

14 June 2018



# Agenda

- Welcome and Background
- Overview of the proposed Restructured Code
- Future Events
- Further information
- Q & A

# Welcome and Background

The Hon. Nicola Roxon  
Chairman



# Background



**SIGNIFICANT  
UP-  
GRADES** 

The text "SIGNIFICANT UP- GRADES" is written in a bold, orange, sans-serif font. To the right of the text is an orange icon consisting of two interlocking gears, with two white arrows pointing upwards and to the right, symbolizing progress and improvement.

**MORE  
USER-  
FRIENDLY** 

The text "MORE USER- FRIENDLY" is written in a bold, green, sans-serif font. To the right of the text is a green icon of a hand pointing towards a target symbol, representing user-friendliness and focus.

**COMPREHENSIVE,  
INTEGRATED  
SUITE** 

The text "COMPREHENSIVE, INTEGRATED SUITE" is written in a bold, blue, sans-serif font. To the right of the text is a blue icon of three interlocking puzzle pieces, symbolizing integration and a comprehensive suite of services.

# New Code Structure

## GLOSSARY |

*(All Members)*

### **PART 1**

Complying with the Code, Fundamental Principles and Conceptual Framework

(Sections 100 to 199)

*(All Members)*

### **PART 2**

Members in Business  
(including employment  
relationships of  
Members in Public Practice)

(Sections 200 to 299)

### **PART 3**

Members in Public Practice

(Sections 300 to 399)

### **PARTS 4A & 4B**

Independence Standards

Part 4A—Independence for Audits & Reviews

(Sections  
400 to 899)

Part 4B—Independence for Assurance Engagements Other  
than Audit & Review Engagements

(Sections  
900 to 999)

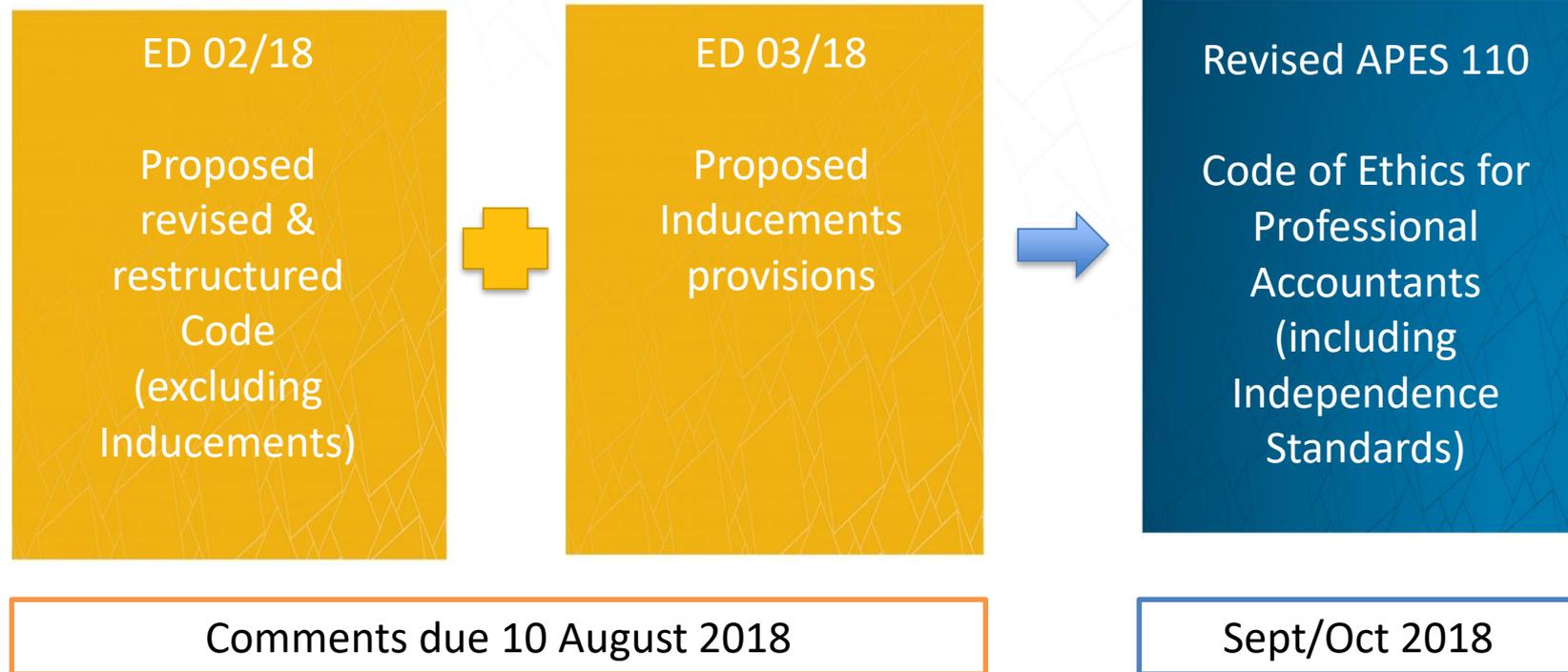
# Highlights of the proposed Restructured Code

- New user guide and updated glossary
- Requirements clearly distinguished from application material
- Auditor independence sections are now Independence Standards
- Increased focus on compliance with the fundamental principles and independence
- Enhanced conceptual framework
- Enhanced safeguards provisions better aligned to threats

## Highlights of the proposed Restructured Code (continued)

- New provisions on pressure to breach the fundamental principles
- New guidance on professional judgement and professional scepticism
- Strengthened provisions on non-assurance services
- Strengthened provisions on preparing or presenting information
- Strengthened Inducements provisions
- Clarity on the applicability of the new Part 2 to Members in Public Practice
- Restructured NOCLAR & Long Association provisions

# APESB's EDs to revise Code





### Statement of Purpose

To develop and issue, in the public interest, high quality professional and ethical standards.

The Accounting Professional & Ethical Standards Board (APESB) was established as an independent body in February 2006, as an initiative of CPA Australia and the Institute of Chartered Accountants Australia (Now Chartered Accountants Australia & New Zealand). CPA Australia, the Chartered Accountants Australia & New Zealand (CA ANZ) and the Institute of Public Accountants (IPA) are the three Members of the APESB.

Standards & Guidance

What's New

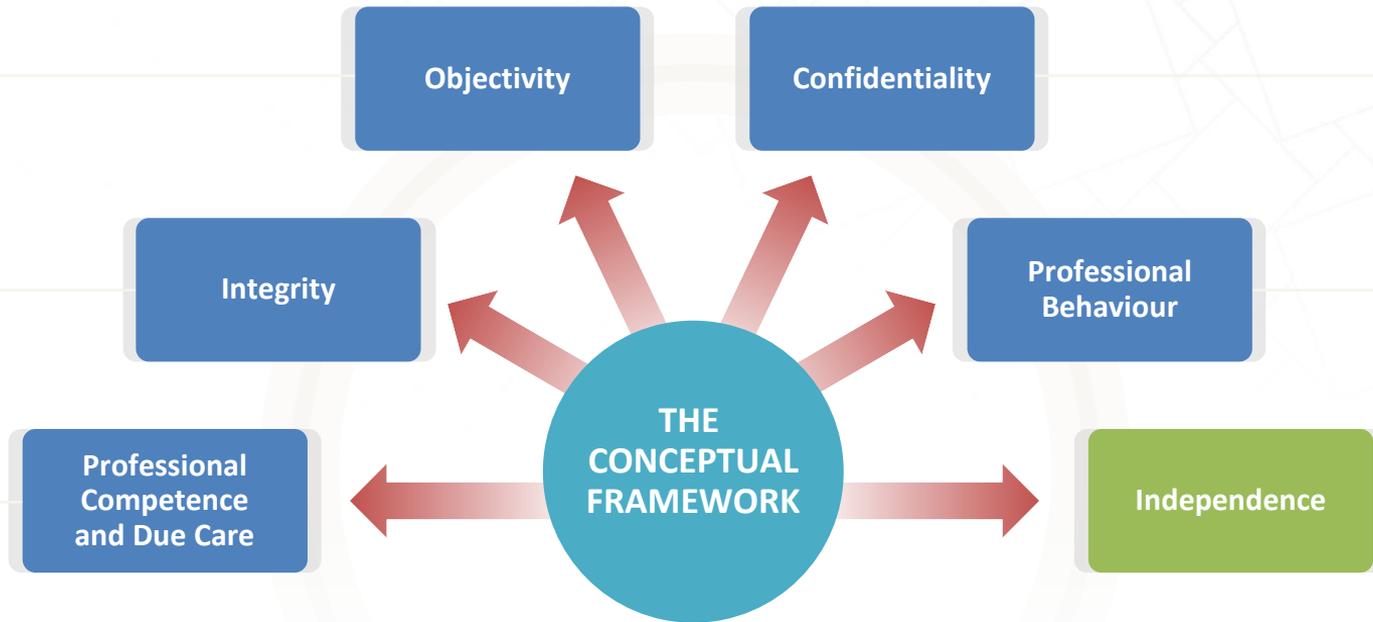
In The News

# Overview of the proposed Restructured Code

Channa Wijesinghe  
Chief Executive Officer



# Overarching Requirements



# Categories of Threats

**Self-interest**

**Self-review**

**Advocacy**

**Familiarity**

**Intimidation**

# Enhanced Conceptual Framework

- Not all threats addressed by safeguards
- **New requirement** - “step back” when forming overall conclusion
- Threats not at acceptable level to be addressed by:
  - Eliminating circumstances creating the threats;
  - Applying safeguards; or
  - Declining or ending the specific professional activity/service



# Enhanced safeguard provisions

- Revised description of Safeguards

*Actions, individually or in combination, that the Member takes that effectively reduce threats to compliance with fundamental principles to an acceptable level.*

- Addition of new safeguards, e.g. partial payment of material outstanding fees (paragraphs 410.7 A2 & 905.4 A2)
- Extant safeguards '*conditions, policies and procedures*' changed to factors that might help identify or evaluate the level of threats
- Some extant safeguards removed, e.g. consulting with third parties

# Enhanced safeguard provisions

- Revised definition of Acceptable Level

*Level at which a Member using the reasonable and informed third party test would likely conclude that the Member complies with fundamental principles.*

- **New Reasonable & Informed Third Party Test**

- Impartial evaluation of the appropriateness of the Member's conclusions
- Based on the facts and circumstances known, or expected to be known, at the time the conclusion is made
- Third party may not be an accountant

- **New concept of Appropriate Reviewer**

# Professional Judgement and Professional Scepticism

- New guidance for all Members
  - Important to obtain an understanding of facts and circumstances when exercising professional judgement
- New guidance for auditors and assurance practitioners
  - Clarifies that compliance with the fundamental principles supports the exercise of professional scepticism

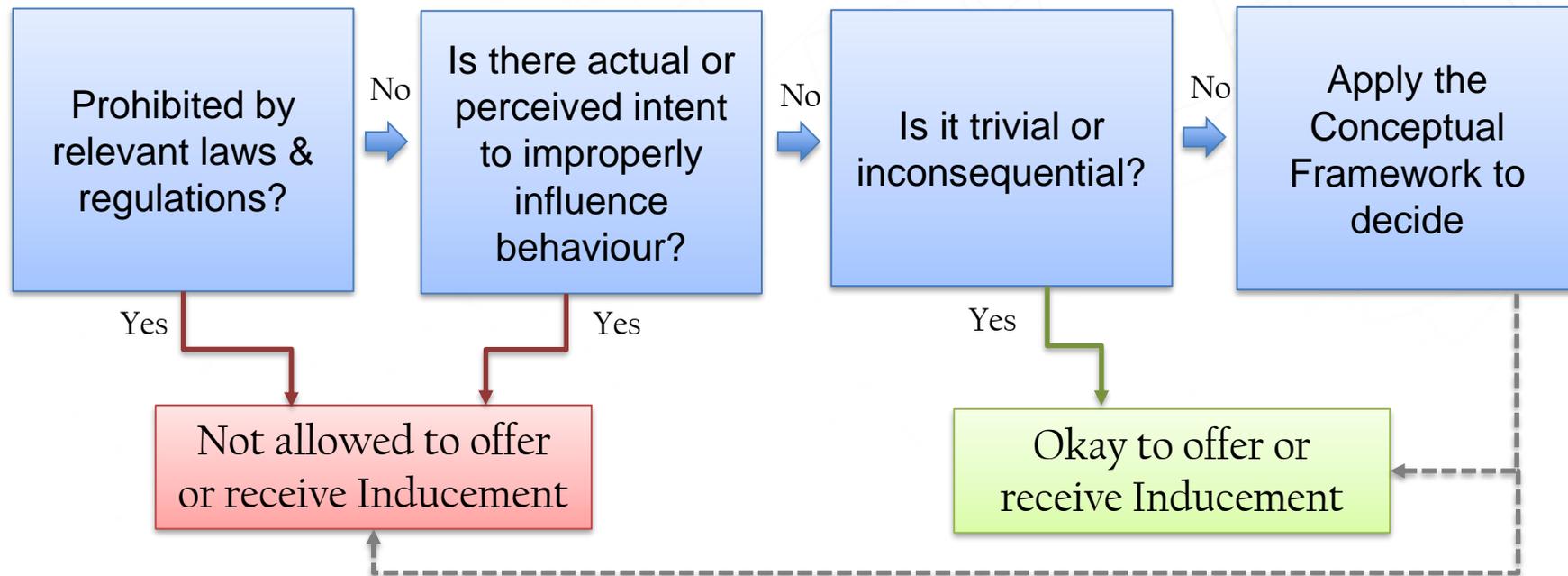
# Inducements, Including Gifts and Hospitality

- Revisions applicable to all Members
- New definition of Inducement
- Expanded examples of Inducements
- New requirements where intent to improperly influence behaviour with inducements
- New guidance when immediate or close family members involved
- Conforming changes to independence provisions re: gifts and hospitality



# Inducements, Including Gifts and Hospitality

## General approach to dealing with Inducements

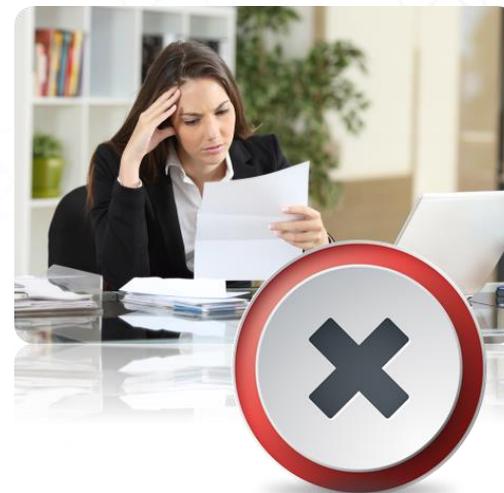


# Restructured NOCLAR Provisions

- Consistent with the provisions in the extant Code
- Redrafted in accordance with new drafting conventions and structure
- Use of NOCLAR instead of “non-compliance” [Australian Code]

# Pressure to Breach the Fundamental Principles

- **New Section** applicable to Members in Business.
- Requirements that prohibit:
  - Allowing pressure from others, or
  - Putting pressure on othersthat results in a breach of fundamental principles
- Practical examples that illustrate pressure
- Guidance to assist in dealing with pressure



# Preparation and Presentation of Information

- Applicable to Members in Business
- **New** prohibition on exercising discretion if intent to mislead or inappropriately influence outcomes
- **New** requirement when information not required to be in compliance with a reporting framework - exercise professional judgement & consider purpose, context and audience
- Enhanced guidance on disassociating from misleading information



# Applicability of Part 2 to Members in Public Practice

- New guidance on applicability of Part 2
- Part 2 relevant for employment relationship of Members in Public Practice with the Firm
- Clarifies employment relationship include:
  - Contractors
  - Employees or
  - Owners of the Firm
- Reflected in Part 2 title in Australian Code



# Non-Assurance Services (NAS)

- New and improved guidance on applying the conceptual framework
- More prominent prohibition on assuming management responsibilities
- Existing prohibitions on provision of certain types of NAS in certain circumstances retained
- New prohibition on recruiting services

# NAS - Recruitment Services

- Guidance on prohibited recruiting services
- New provisions to avoid assuming management responsibilities when providing recruiting services
- Prohibition on providing certain recruiting services now applies to **all** entities (not just PIEs)
  - Searching for or seeking out candidates
  - Undertaking reference checks of prospective candidates



# NAS – IT Services

Prohibition applicable to PIEs:

*Shall not provide to a PIE Audit Client IT systems services which involve designing or implementing IT systems that:*

- (a) Form a significant part of the internal control over financial reporting; or*
- (b) Generate information significant to the client's accounting records or Financial Statements on which the Firm will express an Opinion.*



# NAS – IT Services

Can be provided to other entities **if all** of the following are met by the Client:

- responsible for internal controls;
- responsible for management decisions on design and implementation of software & hardware
- makes decisions on design & implementation
- evaluates adequacy & results of system
- responsible for operating the system & data generated



# Restructured Long Association Provisions

- Consistent with the Amending Standard to extant Code (Issued April 2018)
- Sunset clause to limit shorter cooling-off period to 5 years
- IESBA planning a post-implementation review in 2022
- Potential impact for Listed/APRA entities post 2023:
  - 5 years time-on period/5 year cooling-off period

# Partner Rotation – Listed & APRA-Regulated Entities

Role	Current		Transition (1 Jan 2019 to pre 31 Dec 2023)		Full Provisions (from 31 Dec 2023)	
	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)
Engagement Partner	5/7**	2	5/7**	3	5/7**	5
EQCR Partner	5/7**	2	5/7**	3	5/7**	3
Other Key Audit Partners	7	2	7	2	7	2

*\*\* In accordance with applicable laws and regulations, Audit Engagement and EQCR Partners can serve in the same role for a maximum of five years, but may be extended by the Audit Client or a regulator in accordance with applicable laws and regulations.*

## Partner Rotation – Other Public Interest Entities

Role	Current		Full provisions (from 1 Jan 2019)	
	Time on (yrs)	Cooling off (yrs)	Time on (yrs)	Cooling off (yrs)
Engagement Partner	7	2	7	5
EQCR Partner	7	2	7	3
Other Key Audit Partners	7	2	7	2

# Key Australian amendments

- Australian specific content retained in new Code such as:
  - Scope & application
  - Prohibition on Contingent Fees
  - Determination of public interest entities (PIEs)
- Requirements in **bold** text
- Definition of Professional Standards added



# Public Interest Entities (PIEs)

- Specific Requirement for Members to comply with other Professional pronouncements added
- Firms are required to determine whether to treat entities as PIEs (AUST R400.8.14)
- Guidance now includes Private Health Insurers regulated by APRA



# Effective Date

- Proposed Effective date – 1 January 2020.
- New Code does not override effective dates of :
  - NOCLAR - 1 January 2018
  - Long Association - 1 January 2019



# Impact on other APESB Pronouncements

All APESB pronouncements require revision

- Cross references to the Code
- Consistent terminology and structure

## Due Process

- Pronouncements batched into groups
- EDs released progressively from Nov 2018 to June 2019
- Working towards effective date of 1 January 2020
  - same as new Code



# Future Events

# Opportunities for international engagement

- IESBA Roundtable on Professional Scepticism & Non-Assurance Services – 16 July 2018 (Melbourne)
  - Does professional scepticism apply to all?
  - What restrictions should apply to NAS?
- Joint IESBA & APESB session on New Code – 9 November 2018 (Sydney)?
  - Details yet to be confirmed



# Non-Assurance Services – Key areas of focus

- Materiality
- PIE and non-PIE provisions
- Unconditional NAS prohibitions (i.e., “black lists”)
- New and emerging services
- Auditor communication with TCWG
- Disclosure and other matters



## Disclosure and Other Matters

- What disclosure requirements about NAS, if any, should be included in the Code?
- Should the Code establish fee restrictions in relation to NAS (e.g., fee caps)?  
*What factors, if any, should be considered?*
- What actions, if any, should IESBA take in response to the broader issues relating to audit firms' business models?

# Professional Scepticism

- Consultation paper released in May 2018
- Seeking stakeholder views on:
  - Behavioral characteristics comprised in PS
  - Whether all PAs should exercise them
  - Whether the Code should be further developed as a result
- Ongoing close coordination with IAASB and IAESB



# What is the Behaviour Expected of All PAs?

Proposed articulation:

*PAs should:*

- (a) Approach professional activities with an impartial and diligent mindset; and*
- (b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated*



# Meeting Public Expectations

- Preliminary behavioural characteristics identified by WG
  - Obtaining and understanding information necessary for reliable judgements
  - Making informed challenges of views developed by others
  - Being sensitive to the integrity of information
  - Withholding judgement pending thoughtful consideration of all known and available information
  - Being alert to potential bias or other impediments to professional judgement
  - Ability and willingness to stand ground when facing pressure to do otherwise



# Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff using some of the resources developed by the IESBA Technical Staff for National Standards Setters on the revised and restructured [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#), which the IESBA issued in April 2018.

These slides provide only an *overview* of the proposed new Code and do not purport to present all the detailed changes. The slides should be read in conjunction with the proposed new Code, the text of which alone is authoritative. The slides do not form part of the Code.

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# Further Information

## Further Information

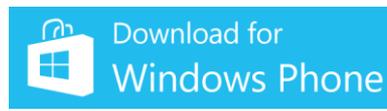
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# Q & A

