

PROFESSIONAL STANDARDS UPDATE

10 QUESTIONS WITH THE APESB
CHANNA WIJESINGHE & JOSEPHINE HASTE

PRESENTERS

CHANNA WIJESINGHE, FCA, FCPA CEO, APESB

Channa has been with the APESB for 12 years and manages the implementation of the Board's strategy, national and international stakeholder engagement, operations and technical work program. He functions as the Chair of the Board's taskforces and has overseen the issue of APESB's suite of 21 pronouncements for the Australian accounting profession. Channa also represents APESB at the IESBA National Standards Setters Group.

JOSEPHINE HASTE, CA, CPA, POLICY ADVISOR, ETHICS & PROFESSIONAL STANDARDS, CPA AUSTRALIA

Josephine has worked for CPA Australia for more than 15 years and is currently responsible for ethics and professional standards policy, advocacy, representation and reform. Josephine is technical adviser to Australia's representative on the International Ethics Standards Board for Accountants (IESBA). Previously, Josephine worked in public practice as an auditor for Big 4 and second tier firms with listed companies, large & small corporates and not for profits among her client base.

Question 1 – The Restructured Code

The Restructured Code delivers the most extensive changes to the Code in approximately 20 years. Tell us what is the global context for these changes?

- The need to address the ethical failures that occurred during the Global Financial Crisis (GFC).
- After the GFC there was a global push for the Code's requirements to be direct and more enforceable from a regulatory perspective and in particular with respect to auditor independence requirements.
- GFC related ethical failures and more recent audit failures in the UK, demonstrate how vital it is for the accounting profession to follow the Code and to behave ethically.

Question 1 – The Restructured Code

UK Enquiries

- Parliamentary enquiries into the roles of directors, regulators and the audit profession
- **Kingman Review** of FRC UK and creation of new regulator – **ARGA**
- **CMA Review** calls for accountability of audit committees, joint audits and operational separation
- **BEIS Review** calls for audit remit to be forward looking, enhanced shareholder engagement and reporting of audit fees
- Calls for ban on all but **essential audit-related services** for audit clients
 - **March 2019**, FRC UK commences consultation on this matter

Potential implications

- Call for more regulation – removal of self-regulation by profession
- Call for Big 4 firms to be broken up between audit and consulting (non-assurance)

Question 1 – The Restructured Code

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Reported many instances of misconduct:

- Fees for no service – approx. **\$3 billion**
- Inappropriate advice provided to customers
- Financial services entities **broke the law** and not held to account
- **Primary responsibility** for Misconduct with Boards and Senior Management

Final report contained **76** recommendations.

Question 1 – The Restructured Code

Impacts:

- Large remediation costs forecasted in excess of **\$8 billion**:
 - AMP – \$1.2 billion
 - CBA – \$2,1 billion
 - NAB - \$2 billion
 - ANZ – \$1.5 billion
 - Westpac - \$1.8 billion
- Grandfathered commissions to be banned

Potential implications

- Possible criminal breaches for entities and stricter enforcement from ASIC

Role of the auditor?

Question 2 – Harmonisation with International Pronouncements

Is the Australian Code (APES 110) harmonised with the International Code as issued by the International Ethics Standards Board for Accountants (IESBA)?

- The Australian Code (APES 110) is harmonised with the IESBA Code and if complied with will also ensure compliance the IESBA Code.
- The IESBA Code has been adopted in over 120 countries and it is important for Australian standards to be consistent with global standards to facilitate global commerce and flows of capital.
- The APESB has also included additional Australian-specific requirements and guidance which are prefixed with AUST.
- Definition of a Public Interest Entity (PIE). This additional guidance facilitates the identification of entities that are considered to be PIEs in Australia and subject to the stricter auditor independence requirements.

Global adoption of extant IESBA Code – G20 Countries

Adopted / Based on (12)	
 Australia	 South Africa
 Brazil	 Saudi Arabia
 China	 South Korea
 Italy	 Mexico
 Japan	 Turkey
 Russia	 United Kingdom

Converged/Convergence path (4)	
 Canada	
 Indonesia	
 Germany	
 USA (Unlisted entities)	
Committed to adopt (1)	
 India	

Global adoption of extant IESBA Code

- Adopted, used as basis for national ethical standards or codes in **120+** jurisdictions
- Adopted by the largest **27** international networks of firms (the [Forum of Firms](#)) for transnational audits
- Translated in about **40** languages, including all major UN languages



Question 3 – Structural changes to The Code

What are the key structural changes to the restructured Code and why were they considered necessary?

- While there were several structural and substantive changes to the Code, there has been no change to the five fundamental principles and five threats to those fundamental principles.
- The structure of the Code has now been changed to separate the mandatory requirements from the related guidance which is what the global regulators wanted from an enforcement perspective.
- There is a new guide on how to use the restructured Code and now it is in four main parts.

Question 3 – Structural changes to The Code

- The relocation of the Members in Business from the previous Part C to Part 2 means that the sections relevant to Members in Business are now more easily accessible at the beginning of the Code.
- This restructure recognises that globally about 70% of accountants belong are members in business compared to members in public practice.

Highlights of the restructured Australian Code

- New **user guide** and updated glossary
- Requirements now **separate** to guidance material
- Increased **focus** on compliance with the **fundamental principles** and **independence**
- **Enhanced** conceptual framework
- Auditor independence sections are now **Independence Standards**
- Audit Partner Rotation (Long Association): effective **1 Jan 2019**
- Non-compliance with Laws and Regulations (NOCLAR): effective **1 Jan 2018**

Highlights of the restructured Australian Code

- Strengthened provisions on **Non-assurance Services**
- New **Inducements** provisions
- Enhanced **PDF features** in APES 110:
 - Bookmarks and **pop-ups** of definitions
 - **Dynamic links** to sections and sub-sections
 - Increased **navigation** within the document and externally
- **Mapping table** of the new Code vs Extant Code on the APESB Website

New Structure of the Code – APES 110

SCOPE AND APPLICATION

(All Members)

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

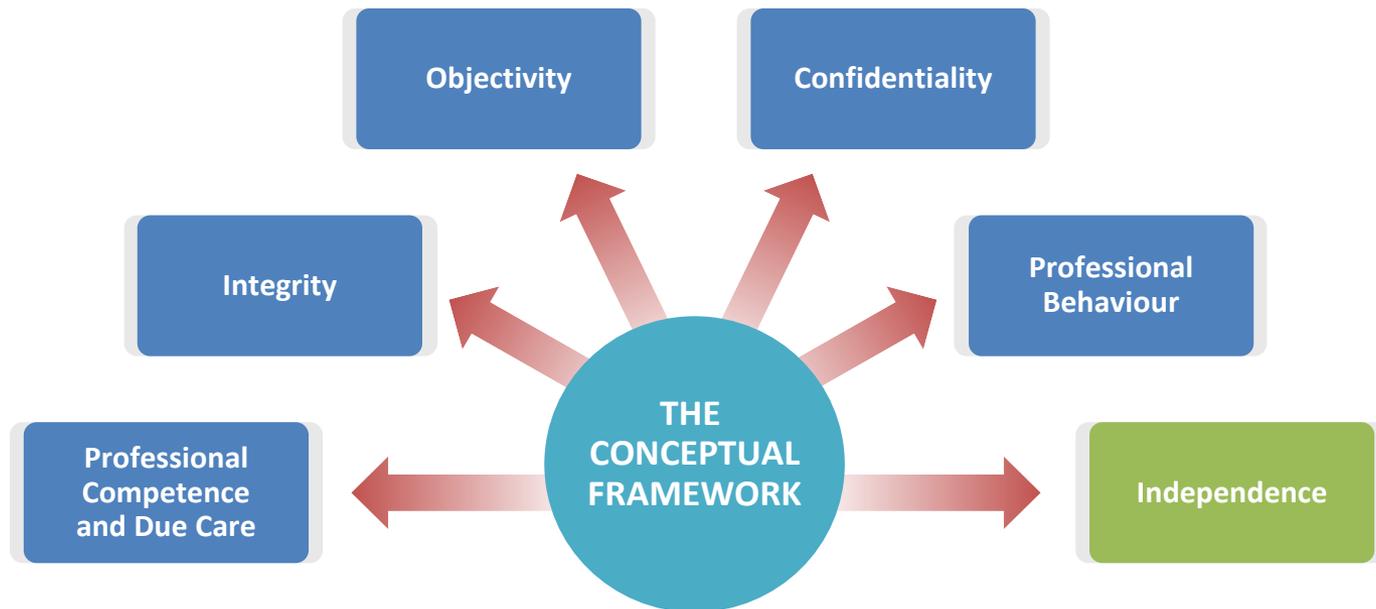
Part 4A—Independence for Audits & Reviews

(Sections
400 to 899)

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

(Sections
900 to 999)

Overarching requirements



Categories of threats

Self-interest

Self-review

Advocacy

Familiarity

Intimidation

Question 4 – The Conceptual Framework

Could you explain how the Conceptual Framework has changed and why the Conceptual Framework is important to understand when digesting the content of the Code?

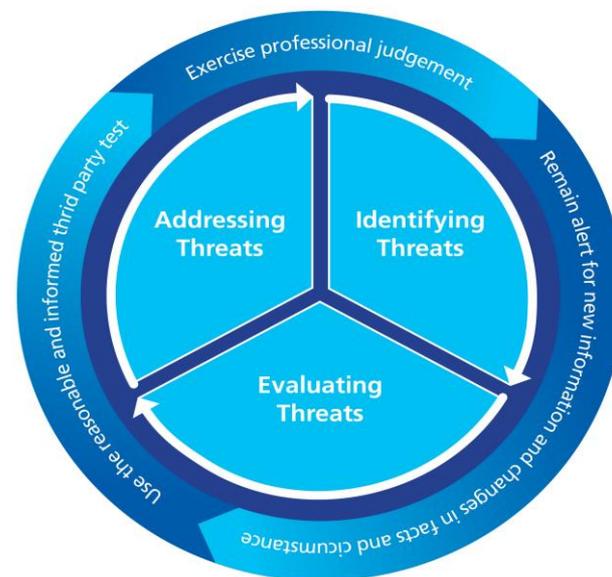
- The conceptual framework provides members with a systematic approach to identify, evaluate and address threats to the five fundamental principles of the Code.
- It allows members to assess ethical challenges created by threats and whether there are relevant safeguards that you can apply to deal with these threats.
- The aim is for accountants to ask the question, ‘how would my actions stand up against my obligation to comply with the fundamental principles?’

Question 4 – The Conceptual Framework

- The enhanced framework requires Members to remain alert for new information and changes in facts and circumstances, including the use of the reasonable and informed third-party test and the need to exercise professional judgement.
- The changes require a change in mindset as the new Code recognises that not all threats can be addressed by applying safeguards.
- There are three ways in which a member can deal with threats that are not at ‘an acceptable-level’ by
 - (i) eliminating the circumstances that are creating the threats
 - (ii) applying safeguards; or
 - (iii) by declining or ending the activity or service.

Enhanced conceptual framework

- No longer threats & safeguards approach - **not all** threats addressed by safeguards
- Identified threats that are **not** at Acceptable Level must be addressed in one of three ways:
 - **Eliminate** circumstances creating the threats;
 - **Apply** safeguards; or
 - **Decline** or **end** the specific professional activity/service
- **New requirements** –form an overall conclusion on effectiveness of actions, and remain alert to new information or changes in circumstances



Conceptual framework and independence

Conceptual framework now **explicitly** addresses **Independence**.

New application material:

- Independence **required** for audits and other assurance engagements
- Independence **linked** to fundamental principles (e.g. objectivity and integrity)
- Conceptual framework **applies** to compliance with independence requirements
- Independence standards explain application of conceptual framework
- Categories of threats are **the same** for fundamental principles and independence

Question 5 – Members in Business

Have there been any changes to the Code for Members in Business?

- There have been a number of changes for Members in Business. These include:
 - ✓ dealing with circumstances associated with Non-Compliance with Laws and Regulations (NOCLAR)
 - ✓ member's obligations when preparing and reporting information
 - ✓ how to deal with pressure to breach the fundamental principles and
 - ✓ enhanced inducements provisions dealing with gifts, hospitality, entertainment or related incentives which may improperly influence behaviour.

Question 6 – Changes to other APESB Standards

How will the Restructured Code affect other APESB standards and pronouncements?

- In November 2018 APESB issued a restructured Australian Code with interactive PDF features.
- The interactive PDF features include dynamic links and pop up definitions facilitating users navigating the 200+ pages of the Code.
- As the Code underpins all APESB's pronouncements, the APESB has embarked on a major project to revise all other twenty pronouncements to align them with the restructured Code.

Question 6 – Changes to other APESB Standards

- APESB Technical Staff will also be incorporating these PDF features into all the revised pronouncements.
- 19 of the 20 pronouncements have been issued as Exposure Drafts and to date 8 Standards have been issued in the new format.
- APESB expects to issue 3 more standards this month and is on track to complete the project by the end of the year.
- During the revision process, the APESB is addressing questions and concerns raised by members which are on the Issues Register.
- Recent submissions made with respect to this project are available to CPA Australia members via the website.

Question 7 – Changes to APES 330 *Insolvency Services*

APES 330 has recently had a significant update. Why was the update necessary and what are the key changes?

- A number of issues have been raised regarding the conduct of insolvency practitioners. These include:
 - Illegal phoenix activity;
 - The conduct of liquidators in respect of independence;
 - Business relationships of insolvency practitioners;
 - Referral sources;
 - Processes utilised for investigations and identification of directors by insolvency practitioners.

Question 7 – Changes to APES 330 *Insolvency Services*

- The new appendices in the standard provide additional guidance to members of CPA Australia who are liquidators on how to apply the requirements of the standard when providing insolvency services.
- The Independence requirements of the Code and Australian legal precedents is a focus, with the new guidance material dealing with matters that may impact on the actual and/or perceived independence of the liquidator.
- The provisions in respect of the Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) have been enhanced, with the DIRRI needing to include a statement about its purpose and also the relevant details of referring entities, where applicable.

Question 7 – Changes to APES 330 *Insolvency Services*

- To assist Members of CPA Australia put these changes into practice, the revised APES 330 now includes a template for a DIRRI incorporating the requirements of the standard.
- APES 330 also includes new guidance material for Members in public practice on matters to consider when determining necessary and proper professional fees (remuneration) and expenses. Members will need to consider this guidance when determining Professional Fees and Expenses for Insolvency Services.
- A new requirement has been included requiring liquidators to make reasonable inquiries with respect to the engagement and responsible parties prior to appointment in accordance with APES 320 *Quality Control for Firms*

Question 8 - Update on APES 230 *Financial Planning Services*

- APES 230 is the final pronouncement that will be issued shortly as an Exposure Draft.
- Due to impending legislation in respect of recommendations arising from the Royal Commission and the issue of the FASEA Code, APESB will be taking a staged approach to the revision of this pronouncement.
- APES 230 (issued in 2013) has held up remarkably well against the recommendations of the Royal Commission and the new FASEA Code.
- For members of CPA Australia who adopted the Fee for Service approach in accordance with the Tier 1 remuneration provisions of APES 230, the impact of the recent and proposed changes is expected to be minimal.

Question 9 – Update on the APESB response to the PJC inquiry into Audit Quality

The Australian Government have announced a Parliamentary Joint Committee Inquiry in to Audit Quality in Australia. How will may this inquiry impact professional standards?

February 2019

- PJC on corporations and financial services issued a report on the inquiry relating to the statutory oversight of ASIC, the Takeovers Panel and the Corporations Legislation.
- The report noted concerns on audit quality and raised the need for a serious review of the audit market.

August 2019

- Senate established an inquiry into the regulation of auditing, conflicts of interest and the performance of regulators.
- Inquiry to be led by PJC on corporations and financial services.

Question 9 – Update on the APESB response to the PJC inquiry into Audit Quality

APESB submission likely to focus on the following terms:

- the relationship between auditing and consulting services and potential conflicts of interest;
- other potential conflicts of interests;
- matters arising from Australian and international reviews of auditing;
- the adequacy and performance of regulatory, standards, disciplinary and other bodies;
- any related matter.

Question 10 - Further Information

Where can members find more information on the Restructured Code?

Information on the restructured Code is available for CPA Australia members from our website (www.apesb.org.au). Members can also access recent presentations on the restructured Code on the website, keep up to date on professional standards by downloading the APESB App, subscribing to our eNewsletter, or by following us on LinkedIn.

Purpose and 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 new Code and other APESB pronouncements. They do not purport to present all the detailed changes and should be read in conjunction with the pronouncements, the text of which alone is authoritative. The slides do not form part of the pronouncements.

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