

28 October 2019

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
CANBERRA ACT 2600
By email: corporations.joint@aph.gov.au

Dear Committee Secretary,

RE: Inquiry into the Regulation of Auditing in Australia

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission to the inquiry in respect of the regulation of auditing in Australia.

The role and structure of the APESB

APESB is a not-for-profit public company limited by guarantee that is registered with the Australian Charities and Not-for-profits Commission (ACNC). APESB was created as an independent body in 2006 by the Australian professional accounting bodies with a primary purpose to develop, issue and maintain, high-quality professional and ethical pronouncements for the Australian accounting profession (including auditors) with a public interest focus.

APESB's pronouncements apply to the members of the three major Australian professional accounting bodies (CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CA ANZ) and the Institute of Public Accountants (IPA)). Globally this is a unique structure, where a single National Standard Setter (NSS) issues professional and ethical standards for three professional accounting bodies.

APESB's independence is embedded in its constitution with three important measures. Firstly, the Chairman of APESB must have a public interest focus and cannot be an accountant or a member of any of the professional accounting bodies. The Chairman is appointed by the other APESB directors.

Secondly, while each of the professional accounting bodies can nominate two Non-Executive Directors to the Board, they are not representatives of the professional accounting bodies and must act independently of their own accord in their contributions to the Board's deliberations.

The third measure relates to the funding arrangements. The funding agreements in place with the shareholders (i.e., professional accounting bodies) effectively guarantee APESB's funding on a three-year rolling cycle, subject to annual reviews with respect to the amounts. These measures collectively provide APESB with the scope and authority to undertake its standard-setting activities in an independent manner.

The importance of professional and ethical standards

Professional and ethical standards are a critical aspect of the accounting profession. We believe that a strong framework of professional and ethical standards assists accountants (including auditors) in addressing ethical issues when they arise and when adhered to establishes robust professional conduct and contributes to confidence in capital markets.

The professional and ethical standards that apply in Australia represent global best practice. The Australian accounting profession, through its membership of the International Federation of Accountants (IFAC) and participation in the standard-setting activities of the International Ethics Standards Board for Accountants (IESBA), is a driving force in the continual enhancement of professional and ethical standards globally.

APESB also plays an important role in enhancing the International Code of Ethics through involvement with the IESBA National Standard Setters (IESBA NSS) group. Since the group was formed in 2009, APESB has been actively involved in providing jurisdictional input to the global standard development process.

In addition, APESB has developed in Australia a suite of professional & ethical standards applicable to accounting firms and on various professional services that are replicated in very few jurisdictions in the world. As far as we are aware, only the United States has a comparable suite of professional standards that address quality control requirements at the firm level as well as address a range of professional services.

APESB Pronouncements

To date, APESB has issued 21 pronouncements, including APES 110 *Code of Ethics for Professional Accountants* (APES 110), which includes the Australian auditor independence requirements. APES 110 is based on the *International Code of Ethics for Professional Accountants* (the International Code of Ethics) issued by the IESBA and has the force of law for audits and reviews performed of entities subject to the *Corporations Act 2001*.¹

APES 110 has a broad scope to address the diverse range of professional activities provided by professional accountants, including auditors. It is a principles-based standard that sets out a conceptual framework to identify, assess, and address threats to the fundamental principles

1 The Auditing and Assurance Standards Board (AUASB) has issued auditing standards as legislative instruments, effective for financial reporting periods commencing on or after 1 July 2006. These auditing standards have the force of law under s307A and s336 of the *Corporations Act 2001*.

To the extent that the force of law auditing standards make reference to ethical requirements, for example in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Review and Other Assurance Engagements*, the relevant APESB standards have the same legal enforceability.

(discussed further in Appendix B). However, APES 110 also includes rules and prohibitions, particularly in respect of auditor independence requirements.

APESB recently issued a restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, which becomes effective from 1 January 2020 with early adoption permitted. The revisions ensure APES 110 meets global best practice.

A key change is the clear distinction between requirements and guidance material. This distinction, which is already in place in APESB's other pronouncements, will assist the professional accounting bodies and regulatory authorities with monitoring and enforcement of APES 110.

As the changes to the restructured APES 110 will shortly be in force and the key requirements of the restructured APES 110 are comparable to the extant APES 110, this submission will refer to the restructured APES 110.

APESB's other 20 pronouncements include standards at firm-level as well as pronouncements on a range of professional services, including non-assurance services such as taxation, valuation, forensic accounting, insolvency, financial planning, due diligence committees and outsourced services.

The continuous enhancement of APESB pronouncements, especially APES 110, has led to strict rules around the services that an auditor can provide audit clients, particularly concerning non-assurance services. It is evident by recent comments made in the media that some stakeholders may not be aware of these restrictions on providing non-assurance services to audit clients nor the distinction between providing services to an audit client versus a non-audit client.

APESB's standards development process

In developing, reviewing and issuing our pronouncements, APESB follows a transparent and rigorous due process that focuses on engagement with a range of stakeholders, including other standard-setters, professional accountants, firms and regulators. APESB's process represents global best practice and explained in detail in its [Due Process and Working Procedures document](#). These processes are similar to the processes undertaken by the Auditing and Assurance Standards Board (AUASB) and the Australian Accounting Standards Board (AASB).

Organisations and businesses increasingly operate globally with complex requirements and across multiple regulatory environments, thus creating the market need for multidisciplinary professional services firms² to service these complex global businesses. This environment also requires a consistent global approach to professional ethics. Generally, APESB will use a relevant international standard as the base for an APESB pronouncement. This approach reduces the regulatory burden for organisations, professional accountants and firms that operate globally.

2 ACCA, CA ANZ and IFAC , [Audit quality in a multidisciplinary firm](#);, September 2019

The international standards issued by the standard-setting boards of IFAC are highly regarded and have close to 130 jurisdictions using them. The standards are developed through a rigorous due process utilising the knowledge and experience of a wide range of global stakeholders and within a global framework with oversight from the Monitoring Group (refer to page 11 and Appendix D). The standards respond to global developments to remain at the forefront of best practice and to enhance the auditing and ethical practices of all professional accountants.

As noted above, to bring an Australian perspective to the international standards, APESB is an active participant in the IESBA NSS Group. APESB provides feedback to relevant projects of the International Standards-Setting Boards via public submissions, attending IESBA NSS meetings, and conducting Australian roundtables on key international projects.

APESB has, at times, implemented reforms that may not have suited the commercial interests of accounting firms. For example, in 2010, APESB prohibited the provision of bookkeeping services and some tax services to audit clients that are Public Interest Entities (PIEs)³. Australia led the way with this prohibition, which has now been recognised as global best practice and included in the International Code of Ethics. Even when facing strong resistance from respondents to proposed standards, APESB has continued to set a higher bar for the accounting profession, such as with the issue of APES 230 *Financial Planning Services* in 2013, which strongly advocated for a Fee for Service approach for financial planning.

Application and scope of APESB pronouncements

The suite of APESB pronouncements establishes layers of requirements for professional accountants and accounting firms, as described below.

Firm-wide requirements

All accounting firms in Australia are required to comply with the following:

- APES 110, in particular, compliance with the fundamental principles, the conceptual framework, and provisions relating to conflicts of interest, professional appointments, and auditor independence requirements;
- APES 305 *Terms of Engagement*;
- APES 310 *Client Monies* (if applicable);
- APES 320 *Quality Control for Firms*; and
- APES 325 *Risk Management for Firms*.

Australia has led the way in requiring firms to have a firm-wide quality control framework (including client acceptance and continuance requirements) which applies to all service offerings of the firm (for example, assurance, tax, consulting and transaction advisory services). This requirement has been in place in Australia for over three decades.⁴ In most other jurisdictions, the quality control framework is only required for assurance services.

3 Refer to Section 2 of Appendix B for information on what is a Public Interest Entity (PIE).

4 The quality control requirements were initially issued in Australia in 1982 by the professional accounting bodies in APS 5 *Statement of Quality Control for firms*. When APESB was established in 2006, APS 5 was used as the basis for APES 320 *Quality Control for Firms*.

Requirements relating to the provision of assurance services

In addition to the firm-wide requirements, APESB has published requirements that are specific to the types of services provided, in particular, assurance services.

When firms provide assurance services, including audits, reviews, and other assurance engagements, the firm and its auditors are required to be independent in mind and appearance. This is the key premise of the independence requirements in Part 4A *Independence for Audit and Review Engagements* and Part 4B *Independence for Assurance Engagements Other than Audit and Review Engagements* of APES 110.⁵

The independence provisions cover situations where a firm may provide non-assurance services to an audit client. There are strict prohibitions on the auditor assuming any management responsibilities or providing a service that has a material impact on the financial statements being audited.

The following services cannot be provided to PIEs (as defined in Appendix B) to which a firm is providing an audit service:

- Performing accounting and bookkeeping services.
- Serving as general counsel.
- Promoting, dealing in, or underwriting client's shares.
- Negotiating for the client.
- Recruiting directors/officers or senior management who would have significant influence over the financial statements.

Auditors must also comply with APES 210 *Conformity with Auditing and Assurance Standards*, requirements imposed by law and regulations, such as the *Corporations Act 2001*, and auditing and assurance standards issued by the AUASB.

Requirements relating to non-assurance services

In addition to the relevant requirements of APES 110 and standards relating to firms, when providing non-assurance services to non-audit clients or in conjunction with an audit service (if the service is allowable), firms must comply with the following standards, as applicable;

- APES 205 *Conformity with Accounting Standards*;
- APES 215 *Forensic Accounting Services*;
- APES 220 *Taxation Services*;
- APES 225 *Valuation Services*;
- APES 230 *Financial Planning Services*;
- APES 315 *Compilation of Financial Information*;
- APES 330 *Insolvency Services*;
- APES 345 *Reporting on Prospective Financial Information Prepared in Connection with a Public Document*; and

5 The independence requirements in the extant APES 110 (effective up to 31 December 2019) are in Section 290 *Independence – Audit and Review Engagements* and Section 291 *Independence – Other Assurance Engagements*.

- APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*.

There are specific requirements relating to conflicts of interest (for example, in APES 215) and professional independence (in both APES 230 and APES 330) that are in addition to the requirements in APES 110.

APESB's standards on specific professional services are comprehensive compared to the UK, where the professional and ethical standards focus on audit services with a limited range of standards for firms or non-assurance services such as trust accounts and compilation of financial statements.

Refer to Appendix B for an overview of APES 110 and other APESB pronouncements relating to firms, auditors, and other professional accountants.

Refer to Appendix E for a glossary of terms and acronyms used in this submission.

APESB and the co-regulatory environment for the Australian accounting profession

The Australian accounting profession exists in a co-regulatory environment, which involves APESB, other standard setters comprising the AUASB and the AASB, the three Australian professional accounting bodies and applicable regulatory authorities (for example, the Australian Securities and Investments Commission (ASIC)).

As an independent standards setter, APESB's role is to set the professional and ethical standards for all professional accountants, including auditors.

Monitoring, enforcement, and collaboration with regulators

APESB's mandate does not include monitoring and enforcement. The three professional accounting bodies and regulatory authorities (i.e., ASIC, ATO) are responsible for monitoring and enforcing compliance of professional accountants, including conducting disciplinary actions for breaches of APESB standards.

APESB engages with the quality review departments of the professional accounting bodies and regulators to determine whether the requirements of APESB standards are being complied with in practice and if further enhancements are required to address specific issues.

APESB collaborates with regulators, including ASIC, APRA and the ATO, to develop solutions to regulatory concerns in respect of professional and ethical behavior of professional accountants. This collaborative effort has resulted in the development of the definition of PIEs in respect of auditor independence requirements, prohibitions implemented on the use of internal audit work by the external auditors, clarifying the approach for firms when dealing with breaches of APES 110 that need to be reported to ASIC, clarifying the independence issues in relation to taxation services and addressing SMSF auditor independence issues in APES 110. These collaborative efforts assist in the monitoring and enforcement activities of the regulators and monitoring bodies.

The role of different stakeholders in driving audit quality

Boards and management are responsible for the financial statements of an entity, with well-prepared financial statements and underlying supporting records and documentation being a crucial driver of audit quality. Another driver of audit quality is that APESB pronouncements on professional and ethical behaviors also apply to professional accountants who serve on boards or who are in management roles. The success or failure of a business will primarily be determined by the skills, expertise, competence, and commercial acumen of the board and management of the relevant entity or organisation.

The role of an auditor is primarily to provide an independent opinion on an entity's financial statements. The existence of robust auditor independence standards that govern the professional conduct of the auditor is also important to the delivery of high-quality audits.

A recent survey undertaken by CA ANZ⁶ reported that 87% of Australian retail investors are confident in the quality of audited financial information, mainly due to the involvement of an independent auditor. Based on this finding, it is evident that the market perceives that most audits are performed well and in accordance with relevant standards.

Active and future projects of the APESB

APESB undertakes regular revisions of its pronouncements and projects relating to emerging issues to enhance the pronouncements and to address global and domestic developments.

Refer to Appendix C for details of relevant recent and active projects of the APESB and likely future projects given the current work program of the IESBA.

Overall comments

APESB is supportive of this inquiry and is of the view that it is a welcome step towards determining the effectiveness and appropriateness of the existing legislative, regulatory, and professional standards frameworks relating to auditing and providing due consideration of where improvements can be made. APESB is pleased to have the opportunity to comment on the terms of reference for this inquiry.

APESB believes that the Parliamentary Joint Committee should take into account the following matters as part of their inquiry:

- the Australian Code (APES 110), including the auditor independence requirements, aligns with the International Code of Ethics issued by the IESBA which facilitates global commerce;
- APES 110 and the International Code of Ethics are global best practice;
- the Australian professional standards framework that applies at the firm level and in respect of various professional services is a global leader and is only replicated in a handful of jurisdictions which does not include the UK;

6 CA ANZ, [2019 Australian Investor Confidence Survey](#), September 2019.

- there are existing professional and ethical requirements for professional accountants on conflicts of interest and the provision of non-assurance services that should be well-understood by Australian corporates. APESB is not aware of empirical evidence to suggest that there are significant weaknesses with our pronouncements;
- proposed global developments by the IESBA relating to the provision of non-assurance services and fees will drive change and enhancements to the way professional accountants address conflicts of interest and ensure that standards continue to meet changing global regulatory and community expectations;
- implementing more prescriptive disclosures for the different types of fees received by auditors (for example, audit, audit-related services and non-assurance services) and fees paid to consultants/firms other than the entity's auditor may inform the public and enhance the transparency of an entity's use of the services provided by accounting firms;
- any amendments to strengthen the current regulatory arrangements should carefully consider the existing professional standards framework in place and the uniqueness of the Australian regulatory and professional standards environment in comparison to other jurisdictions such as the UK; and
- we acknowledge that non-compliance with existing legislative, regulatory and professional standards obligations does occur. In these instances, we strongly support the regulators and monitoring bodies taking appropriate enforcement and disciplinary action.

APESB's specific responses to the terms of reference of the inquiry into the regulation of auditing in Australia are included in Appendix A for your consideration.

Concluding comments

We welcome the opportunity to discuss with the Parliamentary Joint Committee the existing accounting professional and ethical standards issued by APESB and how these standards can continue to meet global best practice, community expectations and serve the public interest. If during the inquiry, a gap is identified in the professional standards framework that falls within APESB's mandate, then we look forward to working with you to develop an appropriate solution.

Please note that APESB's submissions are public documents and we request that this submission be shared publicly on your website. APESB will be publishing a copy of this submission on our website in due course.

If you wish to discuss further or should you require any additional information, please contact APESB's Chief Executive Officer, Channa Wijesinghe, at channa.wijesinghe@apesb.org.au.

Yours sincerely



Nancy Milne OAM

Chairman

Appendix A

Specific comments on Terms of Reference

APESB has only considered the terms of reference that relate specifically to its role and mandate as the setter of accounting professional and ethical standards in Australia. APESB's response to the specific terms of reference of the inquiry are as follows:

Terms of Reference 1:

The relationship between auditing and consulting services and potential conflicts of interest

Conflicts of interest can arise when an auditor provides both auditing and consulting services to a client at the same time. That is why there are specific provisions in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) to address situations where an auditor wants to or is requested to, provide other services to an audit client, be it consulting⁷ or other non-assurance services.

APES 110 is principles-based with an underlying conceptual framework that is used to apply professional judgement when addressing professional or ethical issues. APES 110 builds up from the fundamental principles and conceptual framework to impose additional safeguards or prohibitions depending on the combination of services being offered or the circumstances the professional accountant is facing. As the likelihood of conflicts of interest increase, or threats to the fundamental principles are created, APES 110 becomes more prescriptive.

When an auditor is determining the services, which can be provided to an audit client, and whether it will create conflicts of interest, the auditor needs to consider the different layers of professional and ethical requirements that apply including:

- requirements on the firm or accountants in public practice (for example, APES 320 *Quality Control for Firms*);
- requirements relevant to professional accountants in public practice (including the conceptual framework, professional appointments, conflicts of interest, fees and other types of remuneration and non-compliance with laws and regulations which are set out in APES 110);
- requirements relating to the nature of the service being provided based on whether it is an audit, assurance or non-assurance service (for example auditor independence requirements in APES 110 or provisions of service-specific standards such as APES 215 *Forensic Accounting Services* or APES 220 *Taxation Services*); and
- requirements relating to the circumstances when another professional service is allowed to be provided in conjunction with an audit service (for example, provisions on non-assurance services in APES 110).

These requirements are in addition to the relevant requirements under laws and regulations and other standards, such as the standards issued by the AUASB.

⁷ Neither APES 110 nor individual professional standards specifically refer to consulting due to the breadth of that term. However, the provisions in APES 110 and the quality control requirements for firms will assist auditors to determine if they can undertake a consulting engagement for an audit client.

The strict requirements in APESB pronouncements on the provision of non-assurance services to audit clients have limited the conflicts of interests that could have arisen. A recent report, *Audit quality in a multidisciplinary firm*⁸, notes that the level of non-assurance services provided to audit clients is not a major component of a firm's total revenue due to the restrictions set out in laws and regulations and professional and ethical standards.

Appendix B provides an overview of the accounting professional and ethical requirements that need to be adhered to by a professional accountant depending on the services they are providing to a client.

Terms of Reference 2: Other potential conflicts of interest

The consideration of conflicts of interest is a key requirement for all professional accountants when providing any professional service or activity to a client or employer.

Conflicts of interest may arise for many different reasons. It may be due to the personal interest or relationships of the professional accountant, due to the provision of additional services to a client when independence is required, due to changes in client circumstances or due to conflicting interests of two or more clients or parties.

APES 110 states that conflicts of interest must not compromise the professional or business judgement of the professional accountant.⁹ Specifically, the professional accountant in public practice is required to:

- identify circumstances that may create conflicts before accepting new client relationships, engagements or business relationships;
- remain alert to changes that create conflicts while performing an engagement;
- address any threats that create conflicts which may mean specific disclosure and obtaining explicit consent from the client to perform the service; and
- end or decline the engagement if the client does not provide consent to provide the service.

It is also important to consider what a reasonable and informed third party would perceive of the conflict and how it has been addressed.

These requirements are also included in APESB standards relating to non-assurance services, such as forensic accounting services, taxation services, valuation services, and transaction advisory services.

APESB sought feedback from stakeholders at a roundtable held on 30 September 2019 (refer to the comments in Terms of Reference 10 below), about the effectiveness and appropriateness of the current provisions on conflicts of interests. Stakeholders were of the view that the current provisions were sufficient and did not provide any suggestions for amendments or revisions to these provisions.

8 ACCA, CA ANZ and IFAC, [Audit quality in a multidisciplinary firm](#); September 2019

9 Refer to Sections 210 and 310 of APES 110.

Terms of reference 5:

Matters arising from Australian and international reviews of auditing

APESB has been monitoring Australian and international reviews on auditing to determine if there are overseas developments relating to professional and ethical standards that need to be considered or reflected in APES 110 or other pronouncements.

UK Reviews

APESB is aware of the multiple reviews occurring in the UK in relation to audit, including the current Independent review by Sir Donald Brydon into the quality and effectiveness of the annual audit. While many recommendations have been announced from the inquiries to date, it is not clear which recommendations will be implemented in the UK, especially as they are in the process of implementing a new regulatory authority.

Further, APESB is of the view that the existing standards framework in Australia on specific professional services is more comprehensive than the UK, where the professional and ethical standards focus mainly on the provision of audit services. Therefore, some of the proposals may not be relevant or cannot be directly implemented without due consideration of the existing co-regulatory framework in Australia.

Monitoring Group review of International Standard-Setting Boards related to auditing

The Monitoring Group is responsible for the overall governance of the international standard-setting process (implemented by IFAC and its standard-setting boards) and the review of its implementation, effectiveness and responsiveness to the public interest. The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank. The Monitoring Group's oversight and governance of the International Standard-Setting Boards is depicted in Appendix D.

In 2015, the Monitoring Group commenced a review into strengthening the governance and oversight of the International Audit-Related Standard-Setting Boards in the Public Interest. This review was considering whether reforms were required to the audit standard-setting process to drive improvements in audit quality. The review is still ongoing.

In its [submission](#) to the Monitoring Group, APESB highlighted the importance of maintaining a single International Ethical Standards Board to ensure consistent ethical standards apply to all professional accountants and address all participants in the financial reporting supply chain.

APESB was concerned that the initial proposals put forward by the Monitoring Group would split the existing International Code of Ethics into separate codes based on the employment segment of the professional accountant and would unnecessarily focus on auditors, which represent less than 10% of the accounting profession.

APESB has continued to engage with the Monitoring Group on this matter by hosting a roundtable in Sydney in May 2019 to discuss the status of the proposals with representatives

of the Monitoring Group and to provide feedback on the impact of any amendments to the Australian environment.

The Monitoring Group is expected to undertake a further consultation process in 2020.

Dutch State Committee review on the Future of Audit Sector

In 2018, the Netherlands government established an independent committee to review the audit sector and make recommendations for improvements, including alternative structural models. The Committee has published its interim report, with final recommendations to be issued at the end of 2019.

The interim report makes the following key points:

- Focus on improving audit quality needs to be on structural failings and not on incidents.
- The audit expectation gap could be addressed by making business continuity and fraud a bigger and more recognisable component of audits.
- All stakeholders in the financial reporting supply chain (i.e., preparers, management and Boards) are responsible for audit quality, not just auditors.
- Greater transparency is needed to get a more detailed insight into the quality offered by the accountancy sector.
- The absence of information on the actual quality of audits means that the Committee only has an impression of audit quality. Firms should publish annual indicators about the quality of legal audits performed.
- Culture should be a focus of firms.
- There is sufficient competition in the audit sector, but the trend of accountants steering away from audit could lead to resource availability issues in the future.
- Mandatory firm rotation reduces competition and does not improve audit quality.
- The supervision system in the Netherlands is not functioning properly.

APESB will continue to monitor these reviews and consider whether any of the recommendations would be appropriate and effective for implementation within the Australian accounting professional and ethical standards.

Terms of Reference 10:

The adequacy and performance of regulatory, standards, disciplinary and other bodies

In considering the adequacy and performance of the accounting professional and ethical standards, APESB has focused on our due process, upcoming projects that will revise the existing standards, and has undertaken a stakeholder consultation.

Due process

To maintain the effectiveness and appropriateness of our pronouncements, APESB undertakes a rigorous and transparent due process, which includes consultations with a range of stakeholders. The full due process is set out in APESB's [Due Process and Working Procedures document](#).

Key aspects of the process include:

- APESB meetings to discuss and deliberate on its pronouncements are open to the public;
- APESB meeting agenda papers and the meeting highlights are published on our website;
- A public exposure draft process is required for proposed pronouncements or for revisions to existing pronouncements; and
- All stakeholder feedback from the public exposure draft process is considered by the Board before a pronouncement is issued or revised.

As APES 110 has the force of law for audits and reviews of entities via the *Corporations Act 2001*, APESB works with regulators, including ASIC, APRA, and the ATO to ensure our pronouncements reflect best practice and meet regulatory expectations.

In 2018, APESB worked with the ATO to ensure auditor independence requirements were clear in circumstances when an audit firm was providing both audit and taxation services to a client. Based on this collaboration, APESB amended APES 220 *Taxation Services* to reinforce the existing auditor independence provisions in the Code.

APESB is also active in advocating for, and influencing, amendments to the International Code of Ethics, upon which the Australian Code (APES 110) is based, to address issues/concerns observed in practice. During 2018, we encouraged the IESBA to hold a roundtable in Australia for stakeholders to be able to discuss project proposals on Professional Scepticism and Non-Assurance Services.

APESB represents Australia at the IESBA's National Standard Setters group and makes submissions concerning the IESBA's strategy and work plan and standard development projects.

Proposed revisions to existing standards

There are currently two international projects being conducted by the IESBA that APESB is likely to adopt into APES 110. The projects are about non-assurance services and fees. Both projects are proposing to impose additional restrictions or safeguards for auditors of Public Interest Entities (PIEs).

Non-assurance services

The proposals in this project will apply stricter prohibitions as to the types of non-assurance services that can be provided to a PIE audit client. The proposed amendments include:

- A new prohibition on firms to disallow the provision of non-assurance services to PIE audit clients if it creates a self-review threat (meaning there is a risk that the firms will review the results of previous judgements they made as part of the non-assurance service and on which they will rely when forming their audit opinions);
- an explicit requirement for the auditor to communicate with those charged with governance at the client about the provision of non-assurance services;
- the removal of a materiality qualifier/threshold for some types of non-assurance services (meaning that more types of non-assurance services will not be able to be performed by the auditor of a PIE); and

- a new prohibition on the marketing, planning, or opining on a tax treatment initially recommended by the firm, and a significant purpose of which is tax avoidance, unless that treatment is most likely to prevail in tax law and regulation.

Fees

The proposals in this project will consider how fee-related provisions impact perceived auditor independence. The proposals would require the auditor to put additional processes in place to review the appropriateness of the level of audit fees before signing the audit report and to ensure the level of fees is not impacted by the provision of non-assurance services. The proposals are also considering the need for the auditor to publicly disclose fees for audit and non-assurance services provided to a client and any fee dependency issues.

Stakeholder feedback on the effectiveness of APESB pronouncements

APESB held a roundtable on Monday, 30 September 2019, to provide stakeholders with the opportunity to provide feedback on the effectiveness of our pronouncements and international developments. Stakeholders who attended represented accounting firms of varying sizes, academics, investors, directors on boards, and standard setters.

The feedback from the roundtable indicated that the provisions of APES 110 are generally well known and understood by accountants, auditors and the corporate sector. Stakeholders acknowledged that APES 110 has a good balance between principles and prescription, and the threats to independence are well understood.

Attendees were supportive of the proposed revisions to the International Code of Ethics by the IESBA concerning non-assurance services and fees, as outlined above.

Key opportunities for improvements related to transparency and its importance in demonstrating the independence of auditors. Stakeholders noted that the public needs to have visibility and understanding of the independence requirements imposed on auditors and the role of the regulators. This objective could be partly achieved by APESB and the professional accounting bodies educating the public on APES 110 and the auditor independence requirements.

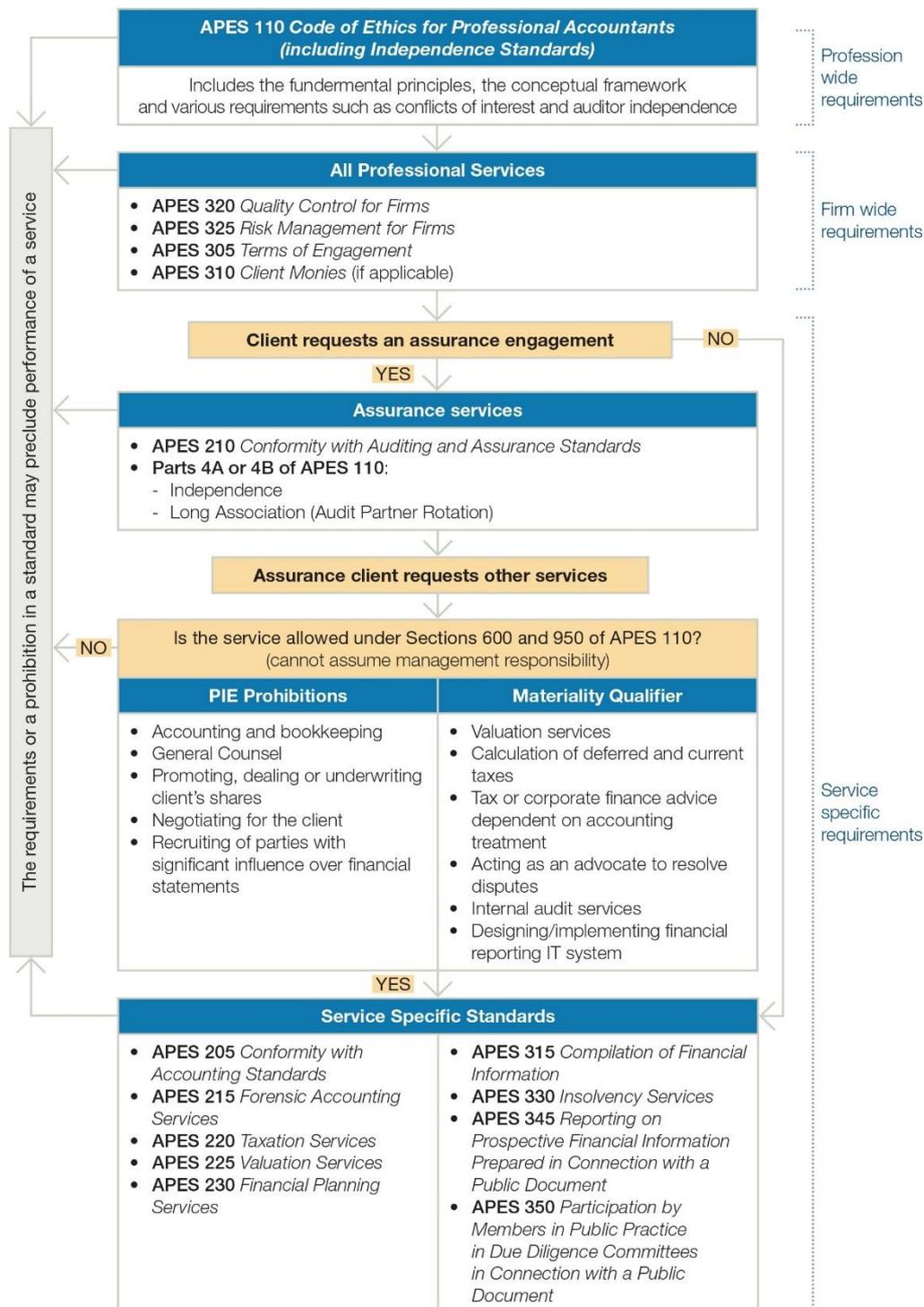
Another way in which transparency could be enhanced is more prescriptive disclosures required on the different types of fees received by auditors (for example, audit, audit-related services and non-assurance services). Stakeholders also expressed a view that the fee disclosures should include information on fees paid to consultants/firms other than the entity's auditor. However, it should be noted that changes to financial statements disclosures are not within APESB's mandate.

Appendix B

APESB Requirements for Australian Accounting Firms

The applicability of APESB pronouncements depends on the professional services being undertaken by the professional accountant and the firm. Refer to **Diagram 1** below for an illustrated overview of the APESB requirements that apply to firms, including auditors.

Diagram 1: Overview of APESB requirements for firms including auditors



Section 1: APESB Pronouncements Relevant to all Professional Accounting Firms

APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (APES 110)

APES 110 is the foundation professional and ethical standard. It applies to all professional accountants (and firms). APES 110 is based on the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)*. Some of the key provisions of APES 110 relating to professional accounting firms are summarised below.

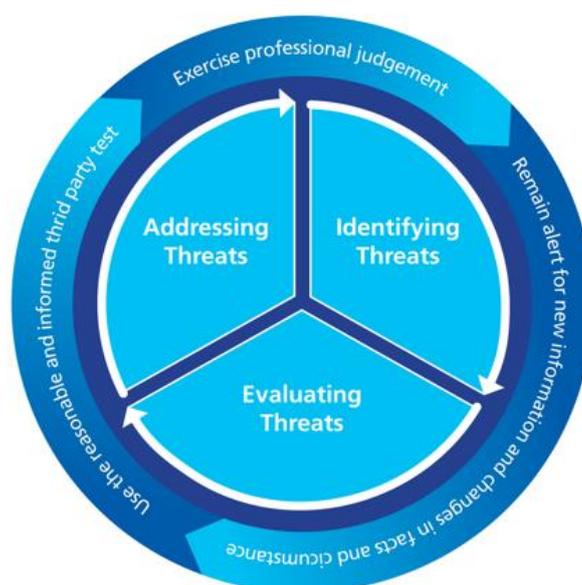
Fundamental Principles and Conceptual Framework

APES 110 contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.¹⁰ The obligations and requirements of professional accountants are based on five fundamental principles: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.¹¹

The conceptual framework provides a systematic approach for professional accountants on how to identify, evaluate and address threats to the fundamental principles.

When professional accountants assess threats as **not** being at an acceptable level, they must address or eliminate the threats by:¹²

- **Eliminating** the circumstances, including interests or relationships, that are creating the threats;
- **Applying safeguards**, where available and capable of being applied, to reduce the threats to an acceptable level; or
- **Declining or ending** the specific professional activity.



Threats to compliance with the fundamental principles are categorised as self-interest, self-review, advocacy, familiarity and intimidation.

APES 110 applies the conceptual framework to various situations and circumstances to assist professional accountants in ensuring they comply with the fundamental principles. APES 110 also includes rules to ensure that specific behaviour, interests or relationships are prohibited.

¹⁰ Paragraph 100.1 A1 of APES 110.

¹¹ Paragraphs 110.1 A1 to 115.2 A1 of APES 110.

¹² Paragraph R120.10 of APES 110.

Conflicts of Interest

Section 310¹³ of APES 110 includes requirements and application material to assist professional accountants in identifying circumstances, interests or relationships that might create **conflicts of interest**, threats created by such interests, and possible safeguards.

Specifically, the professional accountant in public practice or firm is required to:

- Identify circumstances that may create conflicts before accepting new client relationships, engagements or business relationships;
- Remain alert to changes that create conflicts while performing an engagement;
- Address any threats that create conflicts which may mean specific disclosure and obtaining explicit consent from the client to perform the service; and
- End or decline the engagement, end relevant relationships, or dispose of relevant interests if the client does not provide consent for the accountant to provide the service.

Ultimately, firms and accountants must not allow a conflict of interest to compromise their professional or business judgement.¹⁴

Fees-related provisions

Section 330 *Fees and Other Types of Remuneration* of APES 110 highlights that the level and nature of fees might create a self-interest threat to compliance with one or more of the fundamental principles. This section assists professional accountants in public practice to determine whether the level or types of fees received create any such threats and possible safeguards. Note there are other provisions in APES 110 on fees that are specific to the provision of assurance services (outlined in Section 2).

Responding to Non-Compliance with Laws and Regulations

Section 360¹⁵ *Responding to Non-Compliance with Laws and Regulations* (NOCLAR) of APES 110 provides requirement and application material for professional accountants in public practice that might encounter or be made aware of actual or suspected NOCLAR. This section provides a thought process and framework for professional accountants to respond to NOCLAR, including when providing audit services.

13 Section 210 of APES 110 deals with conflicts of interests for professional accountants in business and to the employment relationships of professional accountants who work for accounting firms. The provisions are not significantly different to the requirements in Section 310.

14 Paragraph R310.4 of APES 110.

15 Section 260 of APES 110 deals with NOCLAR for professional accountants in business and for the employment relationships of professional accountants who work for accounting firms.

Other APESB Standards Applicable to All Firms

APESB Pronouncement	Scope and key requirements
APES 305 <i>Terms of Engagement</i>	<ul style="list-style-type: none"> • Requires terms of engagement to be documented and communicated to clients. • Includes guidance on the content of an engagement letter and dealing with recurring engagements.
APES 310 <i>Client Monies</i>	<ul style="list-style-type: none"> • Covers professional accountants dealing with client monies, or who act as an auditor of client monies.
APES 320 <i>Quality Control for Firms</i>	<ul style="list-style-type: none"> • Based on the <i>International Standard on Quality Control 1</i> (ISQC 1). • Firms required to establish policies and procedures in respect of the firm's quality control processes. • Specifies that the elements of quality control are leadership responsibilities for quality within the firm, relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.
APES 325 <i>Risk Management for Firms</i>	<ul style="list-style-type: none"> • It requires firms to establish, maintain, monitor, and document a risk management framework. • The standard addresses the objectives of a risk management framework, the process for establishing and maintaining a risk management framework for a firm, monitoring a firm's risk management policies and procedures and documentation requirements.

Section 2: Audits, Reviews and Other Assurance Engagements

Firms that perform audits, reviews and other assurance engagements, in addition to the requirements in Section 1, must also comply with the independence standards in **Part 4A Independence for Audit and Review Engagements** or **Part 4B Independence for Assurance Engagements Other than Audit and Review Engagements** of APES 110. These standards cover a range of matters, including fees and long association (i.e., audit partner rotation). The requirements that relate to the provision of non-assurance services to the same audit or assurance client are covered in more detail in Section 4 of this appendix.

Public Interest Entities

APES 110¹⁶ applies more stringent requirements when an audit client is a Public Interest Entity (PIE), especially in respect of the independence requirements.

A PIE is either a listed entity or an entity:

- defined by regulation or legislation as a PIE; or
- required by laws and regulation to have an audit performed with the same independence requirements that apply to the audit of a listed entity.

Entities may also be PIEs if they have a large number and a wide range of stakeholders and taking into consideration the nature of the business. Factors to consider include the holding of assets in a fiduciary capacity for a large number of stakeholders (for example, banks, insurance companies and pension funds), the size of the entity and the number of employees.

APES 110 includes the following additional guidance on entities that are generally PIEs in Australia:

- 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*;
- Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*;
- 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.

¹⁶ Refer to the Glossary and paragraphs 400.8 to AUST 400.8.1 A1 of APES 110.

Independence - Part 4A and 4B of APES 110

It is in the public interest and required by APES 110 that professional accountants in public practice are independent when performing audit and review engagements¹⁷ and other assurance services.¹⁸ The key sections which include requirements, application material and prohibitions are listed in the following table:

Table 1: List of Independence Requirements in Parts 4A and 4B of APES 110

Description	Part 4A Audit and Reviews Section	Part 4B Other Assurance Services Section
Applying the Conceptual Framework to Independence	400	900
Fees	410	905
Compensation and Evaluation Policies	411	N/A
Gifts and Hospitality	420	906
Actual or Threatened Litigation	430	907
Financial Interests	510	910
Loans and Guarantees	511	911
Business Relationships	520	920
Family and Personal Relationships	521	921
Recent Service with an Audit/Assurance Client	522	922
Serving as a Director or Officer of an Audit/Assurance Client	523	923
Employment with an Audit/Assurance Client	524	924
Temporary Personnel Assignments	525	N/A
Long Association of Personnel (Including Partner Rotation) with an Audit/Assurance Client	540	940
Provision of Non-Assurance Services to an Audit/Assurance Client	600	950
Reports That Include a Restriction of Use and Distribution	800	990

Fees – Sections 410 and 905 of APES 110

APES 110 recognises that the nature and level of fees might create a self-interest or intimidation threat¹⁹ and provides requirements and guidance material to apply the conceptual framework to circumstances where the fees from an audit or assurance client represent a large proportion of fees for the firm or the revenue of one partner of the firm.²⁰

17 Paragraph 400.1 of APES 110.

18 Section 900 of APES 110.

19 Paragraphs 410.2 and 905.2 of APES 110.

20 Paragraphs 410.3 A1 to R410.6 and paragraphs 905.3 A1 to 905.3 A5 of APES 110.

Firms must evaluate the significance of the threat created by a large proportion of fees from multiple audit clients coming from referrals from a single source and apply safeguards where necessary to eliminate or reduce the threat to an acceptable level.²¹

If the audit fees for a PIE audit client represent more than 15% of the firm's fees for two or more years, the firm is required to make disclosures to those charged with governance of the audit client and take other actions, including assessing whether an engagement quality control review is required as a safeguard.²²

If significant fees from an audit or assurance client remain unpaid for a long time, the firm must determine whether the overdue fees represent a loan and whether it is appropriate to continue the engagement.²³ Further, firms must not charge contingent fees for audit or assurance services²⁴ or non-assurance services based on materiality.²⁵

Long Association (including Audit Partner Rotation) – Sections 540 and 940 of APES 110

Audits and Assurance Engagements for Clients that are not PIEs

APES 110 sets out a principle-based approach for professional accountants to deal with threats created by long association with audit or assurance clients that are not PIEs. If the firm determines that the level of threats created by long association can only be addressed by rotating the individual off the engagement, the firm must determine an appropriate period for this rotation to allow the familiarity and self-interest threats to be addressed.²⁶

Audits of PIEs

APES 110 sets out specific rules about when an engagement partner, engagement quality control reviewer or key audit partner must rotate or 'cool-off' from the audit of a PIE. The 'cooling-off' period depends on whether the PIE is a listed or APRA regulated entity and whether it occurs during the transitional period between 1 January 2019 and 31 December 2023. APESB has issued [Audit Partner rotation requirements in Australia Technical Staff Questions & Answers](#)²⁷ which provides professional accountants with guidance and examples of how the long association rules apply in practice. Tables 2 and 3 summarise these requirements.

21 Paragraph R410.3.1 of APES 110.

22 Paragraphs R410.4 to R410.6 of APES 110.

23 Paragraphs R410.8 and R905.5 of APES 110.

24 Paragraphs R410.10 and R905.7 of APES 110.

25 Paragraphs R410.11 and R905.8 of APES 110.

26 Paragraphs R540.4 and R940.4 of APES 110.

27 APESB is currently in the process of updating this guide to align with the restructured APES 110 and to include additional examples.

Table 2: Rotation requirements for Listed Entities and 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 years²⁸, but may be extended by the Audit Client or a regulator in accordance with applicable laws and regulations.²⁹

Pursuant to paragraph R540.9 of APES 110, Firms may have the opportunity for relief from the partner rotation requirements in APES 110 based on an exemption provided by a relevant regulator, subject to conditions being imposed.³⁰ Where such relief is available, the individual could remain as a Key Audit Partner (for example, as the Engagement Partner) on the Audit Engagement in accordance with any conditions specified under such relief.

Table 3: Rotation requirements for all PIEs other than Listed Entities and APRA regulated 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

28 Refer to s324DA of the *Corporations Act 2001* for Audit Partner rotation requirements for Listed Entities. APRA Prudential Standards CPS 510 *Governance* (July 2019) and SPS 510 *Governance* (July 2017) provides partner rotation requirements for APRA regulated entities.

29 Refer also to s324DAA of the *Corporations Act 2001* in respect of extension of Audit Partner time-on periods for Audit Engagements of Listed Entities.

30 Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investment Commission (ASIC) may grant extensions. APRA has the authority to grant extensions for Audit Partners of APRA regulated entities.

APES 210 Conformity with Auditing and Assurance Standards

APES 210 establishes the responsibilities of all professional accountants in relation to compliance with the auditing and assurance standards and independence requirements in the conduct of all assurance engagements, assurance assignments, and related services (whether in relation to financial or non-financial information).

Section 3: Non-Assurance Services

In addition to the requirements applicable to all Australian professional accounting firms in Section 1 above, firms that provide services other than, or in addition to, audits, reviews, and other assurance engagements must also comply with relevant APESB standards.

The professional standards in the APES 200 series apply to all professional accountants whether they are working in a firm or employed by a commercial, not for profit or public sector entity.

APESB Pronouncement	Scope and key requirements
APES 205 <i>Conformity with Accounting Standards</i>	<ul style="list-style-type: none">• Comply with accounting standards in preparing, presenting, auditing/reviewing or compiling general purpose or special purpose financial statements.• Take reasonable steps to ensure reporting entities prepare general purpose financial reports.
APES 215 <i>Forensic Accounting Services</i>	<ul style="list-style-type: none">• Covers expert witness services, lay witness services, consulting expert services, and investigation services.• Requirements on independence, relationships, and other professional activities that create threats to compliance with the fundamental principles, false or misleading information and changes in opinion, quality control, and professional fees.• Sets out disclosures required in an expert witness report to a court.
APES 220 <i>Taxation Services</i>	<ul style="list-style-type: none">• Covers preparation of tax returns or similar documents, preparation of tax calculations, provision of tax planning and advisory services, and assistance with resolution of taxation disputes.• Requirements on tax schemes and arrangements, use of estimates, false or misleading information, client monies, professional fees, and documentation.
APES 225 <i>Valuation Services</i>	<ul style="list-style-type: none">• Covers valuation services that provide an estimate of value for a business, business ownership interest, security, intangible asset or other asset or liability to either a client or an employer.• Valuation services include valuation engagements, limited scope valuation engagements and calculation engagements.• Requirements on the public interest, independence, professional competence and due care, confidentiality, valuation reporting and documentation.• Includes guidance to assist in determining whether the professional accountant is providing a valuation service under APES 225.

APESB Pronouncement	Scope and key requirements
APES 230 <i>Financial Planning Services</i>	<ul style="list-style-type: none"> Covers financial planning advice in respect of clients' personal financial affairs relating to wealth management, retirement planning, estate planning, risk management and related advice. Requirements on setting the terms of financial planning services, establishing the basis for preparing and reporting financial planning advice, professional independence, client information, client monies and other property, professional fees, third party payments, soft dollar benefits, documentation and quality control requirements. APES 230 is currently under review to align with the restructured APES 110. APESB plans to conduct an additional substantive consultation in 2020.
APES 315 <i>Compilation of Financial Information</i>	<ul style="list-style-type: none"> Covers the compilation of historical or prospective financial information. Requirements on professional independence, planning, terms of engagement, procedures to follow, dealing with misstatements, documentation, reporting, communication of significant matters to those charged with governance, and subsequent discovery of facts. Includes guidance to determine if a compilation report should be issued with examples of different reports.
APES 330 <i>Insolvency Services</i>	<ul style="list-style-type: none"> Covers appointments to perform insolvency services such as acting as a liquidator, receiver, administrator or bankruptcy trustee. Requirements on independence, the <i>Declaration of Independence, Relevant Relationships and Indemnities</i> (DIRRI), professional fees and expenses, dealing with property, and acting as an expert witness in the insolvency context.
APES 345 <i>Reporting on Prospective Financial Information Prepared in Connection with a Public Document</i>	<ul style="list-style-type: none"> Covers engagements to prepare a report on or in connection with the prospective financial information included in a public document. Requirements on the public interest, independence, documentation, reporting, communication with those charged with governance and professional fees.
APES 350 <i>Participation by Members in Public Practice in Due Diligence Committees in Connection with a Public Document</i>	<ul style="list-style-type: none"> Covers the provision of professional services to a client by participating in and/or reporting to a Due Diligence Committee (DDC) as a DDC member, DDC observer or reporting person. Requirements in relation to the public interest, professional independence, the different roles and obligations of a professional accountant in public practice who is on a DDC, as well as the accountant's reporting obligations to a DDC. Guidance in the form of a Pro-forma DDC sign-off and a materiality letter.

Section 4: Providing Non-assurance Services to Audit or Assurance Clients

There are strict requirements in APES 110 in relation to the provision of non-assurance services to an audit or assurance client. This is in addition to the requirements detailed in Sections 1 to 3.

APES 110 recognises that providing non-assurance services to audit or assurance clients might create threats to compliance with the fundamental principles and independence³¹ and provides requirements to enable professional accountants to apply the conceptual framework in these circumstances.³²

The following table provides a high-level summary of the prohibitions on the provision of non-assurance services to audit clients included in Section 600 of APES 110. To obtain a full understanding of these requirements, please refer to the relevant sections in APES 110.

Service	Reference	Key requirements/prohibitions
Management Responsibilities	Paragraphs R600.7 to R600.8	<ul style="list-style-type: none"> The firm shall not assume management responsibility.
Accounting and Bookkeeping Services	Subsection 601	<ul style="list-style-type: none"> For PIE audit clients – prohibited from providing bookkeeping services, payroll services, or preparing financial statements. For non-PIE audit clients – can provide these services if they are routine or mechanical in nature and if threats are at an acceptable level.
Administrative Services	Subsection 602	<ul style="list-style-type: none"> Generally, it does not create threats to independence but assess and only perform if threats are at an acceptable level.
Valuation Services	Subsection 603	<ul style="list-style-type: none"> For PIE audit clients - not allowed to provide a valuation service if it has a material effect on the financial statements. For non-PIE audit clients - not allowed to provide a valuation service if it involves a significant degree of subjectivity and has a material effect on the financial statements.
Tax Services	Subsection 604	<ul style="list-style-type: none"> Preparing tax return permitted if management takes responsibility for the returns, including any significant judgements made. For PIE audit clients – not able to calculate current and deferred tax liabilities (or assets) for material accounting entries in the financial accounts. For non-PIE audit clients – can calculate current and deferred tax liabilities (or assets) if threats are at an acceptable level. Tax advice should not be provided if the effectiveness depends on a specific accounting treatment or presentation in the financial statements. Other tax advice may be provided if threats are at an acceptable level. Assistance in the resolution of tax disputes can be provided if threats are at an acceptable level.

31 Paragraphs 600.2 and 950.2 of APES 110.

32 Sections 600 and 950 of APES 110.

Service	Reference	Key requirements/prohibitions
		<ul style="list-style-type: none"> • Cannot act as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter and if the amounts involved are material to the financial statements.
Internal Audit Services	Subsection 605	<ul style="list-style-type: none"> • For PIE audit clients – cannot provide these services if it relates to internal controls over financial reporting, financial accounting systems or amounts or disclosures that are material to the financial statements. • For non-PIE audit clients – An auditor can provide these services as long as the firm’s personnel do not assume a management responsibility and the client’s management put in place specific measures as listed in APES 110.
Information Technology Systems Services	Subsection 606	<ul style="list-style-type: none"> • For PIE audit clients – cannot provide IT System services if it relates to internal controls over financial reporting, financial accounting systems or amounts or disclosures that are material to the financial statements. • For non-PIE audit clients – can provide IT System services as long as the firm’s personnel do not assume a management responsibility and the client’s management put in place specific measures as listed in APES 110.
Litigation Support Services	Subsection 607	<ul style="list-style-type: none"> • Litigation support services can only be performed if threats are at an acceptable level.
Legal Services	Subsection 608	<ul style="list-style-type: none"> • An auditor cannot act in an advocacy role in resolving a dispute or litigation when the amounts involved are material to the financial statements. • An auditor cannot be appointed as General Counsel for the client. • For all other legal services, only perform if threats are at an acceptable level.
Recruiting Services	Subsection 609	<ul style="list-style-type: none"> • An auditor cannot provide recruiting services for a position at the client that can exert significant influence over the financial statements. • For other roles that do not have significant influence over the financial statements – can assist as long as the firm’s personnel do not assume management responsibilities.
Corporate Finance Services	Subsection 610	<ul style="list-style-type: none"> • An auditor should not provide corporate finance services if the effectiveness depends on a specific accounting treatment or presentation in the financial statements, there is reasonable doubt about the appropriateness of the treatment or presentation, and it is material. • An auditor cannot provide corporate finance services that promote, deal in or underwrite an audit client’s shares. • Other corporate finance services can only be performed if threats are at an acceptable level.

Section 950 of APES 110 sets out a principle-based approach for professional accountants in public practice who provide non-assurance services to assurance clients (for engagements other than audits or reviews) to identify, evaluate and address threats to independence and includes prohibitions in respect of assuming management responsibilities.

Appendix C

APESB Active and Future Project

This Appendix summarises relevant recent or active projects of the APESB and likely future projects based on the work program of the IESBA.

The Restructured APES 110 Issued November 2018 – effective 1 January 2020

In mid-2018, the IESBA released an updated International Code of Ethics, which brought together ethics improvements such as NOCLAR, Long Association and the enhanced conceptual framework. While the underlying fundamental principles and threats remained the same, the structure of the International Code of Ethics was significantly improved.

APESB issued APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* in November 2018 with an effective date of 1 January 2020 (the restructured APES 110). The restructured APES 110 is based on the IESBA's International Code of Ethics adapted for Australia and includes Australian specific paragraphs.

Revision to all APESB Pronouncements

APESB has been undertaking a project to restructure all of its APESB pronouncements to align with the restructured APES 110 issued in November 2018. Due to the interconnectedness of APES 110 and the pronouncements, all APESB pronouncements will be revised and issued before 1 January 2020 to align with the effective date of the restructured APES 110.

APESB Code related Projects

Independence Guide

The Independence Guide was originally published in October 2005 as an initiative of CPA Australia and the Institute of Chartered Accountants in Australia (now Chartered Accountants Australia and New Zealand (CA ANZ)). The most recent edition of the Independence Guide was published in February 2013 (Fourth Edition) by the Joint Accounting Bodies, comprising CA ANZ, CPA Australia and the Institute of Public Accountants (IPA). The professional bodies approached the APESB in May 2019 to manage a revision of the Independence Guide. This will be a joint project between the APESB and the three professional bodies.

The revised Independence Guide will clarify how the restructured APES 110 applies in respect of independence, focusing primarily on auditor independence and will be a very useful tool for practitioners.

Work to revise and update the Independence Guide has commenced, and it is anticipated the final guide will be published in March 2020.

Long Association

The restructured APES 110 included amendments to the Long Association provisions, which were mainly editorial in nature (revised numbering) rather than substantive revisions to the requirements. In May 2019, the IESBA released a revised Long Association Q&A publication to update references to the restructured IESBA Code of Ethics and to include additional examples to address matters raised by global stakeholders.

APESB expects to release an updated Audit Partner Rotation Technical Staff Q&A publication by the end of 2019.

Outsourcing

APESB has been conducting a project on APES GN 30 *Outsourced Services* (GN 30) since November 2017, with a major focus on whether the guidance note should be elevated to a standard.

Based on consultation with stakeholders and the review of the outsourcing industry, no clear arguments or reasons were presented that indicate there is a compelling reason to convert GN 30 into a standard or that there are significant gaps in the existing GN 30 or the practices implemented by professional accountants.

APESB has sought feedback on whether there should be a mandatory requirement for professional accountants to disclose the use of Outsourced Services and the geographical location of the Outsourced Service Provider. This feedback is under consideration by the Board. An updated GN 30 is likely to be released in early 2020.

The IESBA's current projects and its impact on APESB

Role & Mindset

The IESBA issued an Exposure Draft on [*Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*](#) in July 2019. The proposals aim to emphasise the importance of the role and mindset expected of professional accountants and link this to the fundamental principles and the conceptual framework in the International Code of Ethics. APESB is in the process of preparing a submission to the IESBA on these proposals.

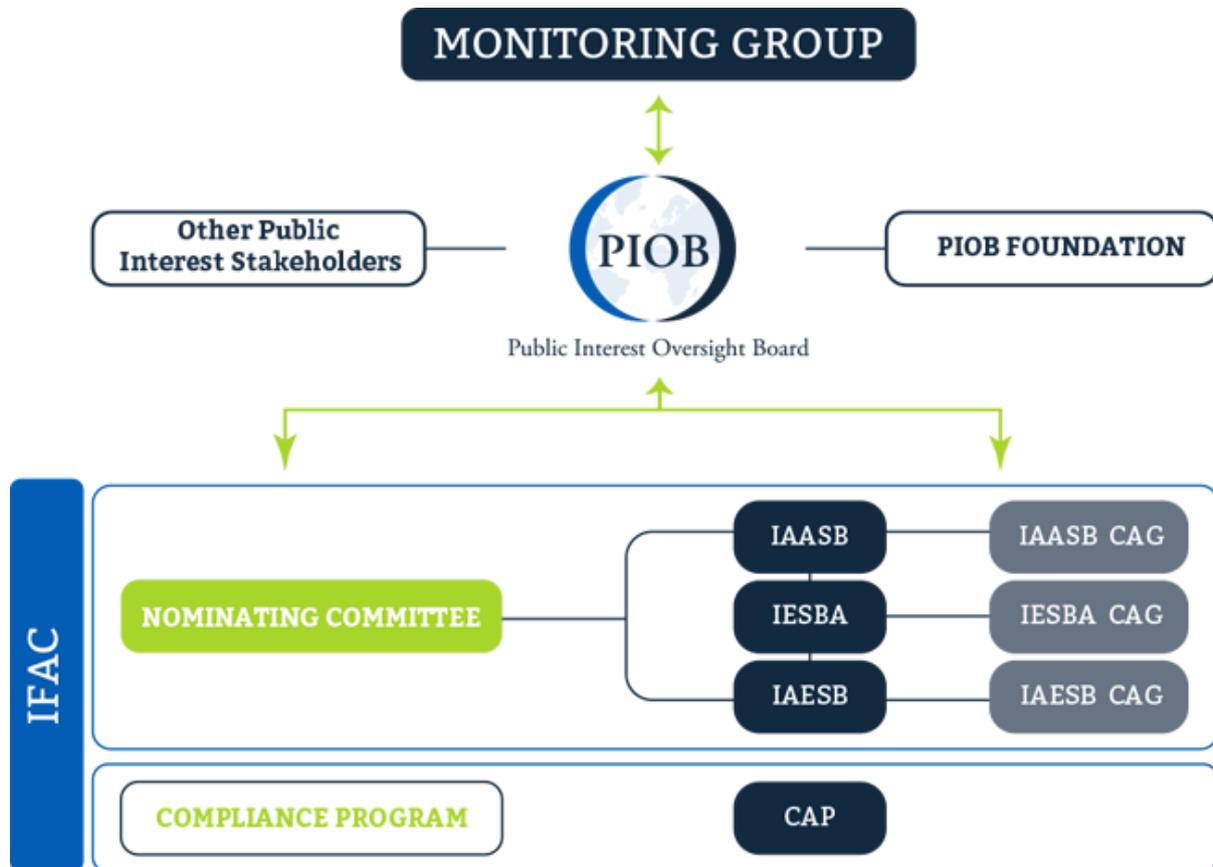
Non-Assurance Services and Fees

There are currently two projects being conducted by IESBA that APESB is likely to adopt into the Australian Code (APES 110) in due course on non-assurance services and fees (refer to pages 13-14), which both propose additional restrictions or safeguards for auditors of Public Interest Entities (PIEs).

Appendix D

Monitoring Group and governance of International Standard-Setting Boards

Source: <https://ipiob.org/index.php/what-is-the-piob>



Appendix E

Glossary

This glossary contains specific terms and acronyms used in this submission.

Terminology	Definition
AASB	Australian Accounting Standards Board
ACCA	Association of Chartered Certified Accountants
ACNC	Australian Charities and Not-for-profits Commission
Acceptable level	A level at which an accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.
APES 110	<i>Code of Ethics for Professional Accountants (including Independence Standards)</i>
APESB	Accounting Professional & Ethical Standards Board Limited
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
Assurance engagement	<p>An engagement in which a professional accountant aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).</p> <p>This includes an engagement in accordance with the <i>Framework for assurance Engagements</i> issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements.</p> <p>(For guidance on assurance engagements, see the <i>Framework for Assurance Engagements</i> issued by the AUASB. The <i>Framework for Assurance Engagements</i> describes the elements and objectives of an assurance engagement and identifies engagements to which <i>Australian Auditing Standards</i> (ASAs), <i>Standards on Review Engagements</i> (ASREs) and <i>Standards on Assurance Engagements</i> (ASAEs) apply.)</p>
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
Audit Engagement	A reasonable assurance engagement in which a professional accountant expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with auditing and assurance standards. This includes a statutory audit, which is an audit required by legislation or other regulation.
Conceptual Framework	The conceptual framework provides a systematic approach for professional accountants on how to identify, evaluate, and address threats to the fundamental principles.
Fundamental Principles	The five fundamental principles are Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour.
IESBA	The International Ethics Standards Board for Accountants
IFAC	The International Federation of Accountants

Terminology	Definition
Independence	APES 110 defines independence as comprising: <ul style="list-style-type: none"> (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s, or an audit or assurance team member’s integrity, objectivity or professional scepticism has been compromised.
International Code of Ethics	<i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> issued by IESBA
ISQC 1	<i>International Standard on Quality Control 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”</i>
Monitoring Group	The Monitoring Group is responsible for the overall governance of the international standard-setting process and the review of its implementation, effectiveness and responsiveness to the public interest.
NOCLAR	Non-Compliance with Laws and Regulations
Non-assurance services	A service other than an assurance engagement. These services include, forensic accounting, taxation, valuation, financial planning, business services, insolvency and transaction advisory services.
NSS	National Standard Setter
Other assurance services	Assurance services other than an audit or a review of historical financial statements.
PIE	Public Interest Entity as defined in Appendix B (refer page 19).
Professional Accounting Bodies	Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA).
Reasonable and informed third party	The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a professional accountant but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the professional accountant’s conclusions in an impartial manner.
Review engagement	An assurance engagement, conducted in accordance with auditing and assurance standards on review engagements or equivalent, in which a professional accountant expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the professional accountant’s attention that causes the professional accountant to believe that the historical financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Safeguards	Actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.
Threats	Threats to the fundamental principles falling into categories of self-interest, self-review, advocacy, familiarity or intimidation.