

Revised & Restructured IESBA Code of Ethics and APESB Code of Ethics

Joint APESB-IESBA Seminar
Sydney

9 November 2018



Accounting Professional & Ethical Standards Board

Welcome and introductory comments

The Hon. Nicola Roxon
APESB Chairman



Revised & Restructured IESBA Code of Ethics

Dr. Stavros Thomadakis, IESBA Chairman
Sylvie Soulier, IESBA Member
Ken Siong, Senior Technical Director

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Agenda

- Global Adoption of Extant IESBA Code
- About the New IESBA Code
- Key Enhancements in New Code
 - Part 1: The Conceptual Framework
 - Part 2: PAIBs | Part 3: PAPPs
 - Parts 4A & 4B: International Independence Standards
- APESB's Adoption of IESBA Code
- Future IESBA Strategy and Work Plan

Global Adoption of Extant IESBA Code

- Adopted, used as basis for national ethical standards or ethical codes of professional accountancy bodies 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



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

About the New IESBA Code

- New design – easier to navigate, use and enforce
 - Completely rewritten
 - Requirements clearly distinguished from application material
 - New user guide
 - Effective June 15, 2019
- Renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*
- Development of an e-Code in progress



What is Included

- Packages all substantive advances in ethics and independence over last four years
 - Significant enhancements to conceptual framework
 - Enhanced safeguards provisions better aligned to threats
 - NOCLAR
 - Strengthened Long Association provisions
 - Strengthened provisions regarding inducements
 - Strengthened provisions re preparing or presenting information
 - New provisions addressing pressure to breach FPs
 - Applicability of relevant PAIB provisions to PAPPs clarified
 - New guidance re professional judgment and professional skepticism

**COMPREHENSIVE,
INTEGRATED
SUITE** 

**SIGNIFICANT
UP-
GRADES** 

Revised Architecture

PART 1

**Complying with the Code, Fundamental Principles
and Conceptual Framework**

(Sections 100 to 199)

(All Professional Accountants)

PART 2

**Professional Accountants
in Business (PAIBs)**

(Sections 200 to 299)

*(Part 2 is also applicable to
individuals PAPPs when
performing professional
activities pursuant to their
relationship with the firm)*

PART 3

**Professional Accountants
in Public Practice (PAPPs)**

(Sections 300 to 399)

PARTS 4A & 4B

**International Independence
Standards**

Part 4A—Independence for Audits & Reviews

(Sections
400 to 899)

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

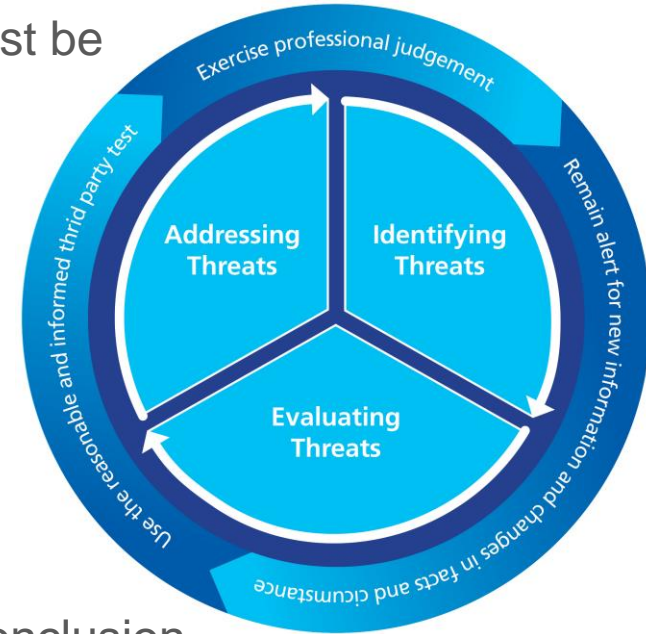
(Sections
900 to 999)

GLOSSARY

(All Professional Accountants)

Key Enhancements to Conceptual Framework

- 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
- Safeguards and other key concepts clarified
 - Safeguards now more aligned to identified threats
- Emphasis that if threats cannot be addressed, must decline or end specific professional activity
- New requirement to “step back” in forming overall conclusion





Part 2 – PAIBs (Sections 200 – 270)

Section 200, *Applying the Conceptual Framework – PAIBs*

- Section 210, *Conflicts of Interest*
- Section 220, *Prep and Pres of Information*
- Section 230, *Acting with Sufficient Expertise*
- Section 240, *Fin. Ints, Comp... Linked to F/R*
- Section 250, *Inducements, incl. Gifts*
- Section 260, *Responding to NOCLAR*
- Section 270, *Pressure to Breach the FPs*

Preparation and Presentation of Information

- Revised Section 220
 - More comprehensive provisions addressing PAIBs' responsibilities re preparing or presenting information
 - Prohibition on exercising discretion when preparing or presenting information with *intent* to mislead or inappropriately influence contractual or regulatory outcomes, e.g:
 - Judgements and estimates (e.g. valuation impacting P/L)
 - Selecting accounting policies (e.g. benefiting bonus)
 - Structuring (e.g. revenue timing, off-balance sheet)



Pressure to Breach Fundamental Principles

- New Section 270
 - Prohibition on allowing pressure from others to result in a breach of fundamental principles
 - Prohibition on placing pressure on others that would lead them to breach fundamental principles
 - Guidance to assist in navigating situations involving pressure, including practical examples



A photograph of a piece of white lined paper with the word "Questions?" written in black cursive. A black marker is positioned at the bottom right, having just finished drawing a long, curved underline under the word. The paper is set against a white background.

Part 3 – PAPPs (Sections 300 – 360)

Section 300, *Applying the Conceptual Framework – PAPPs*

- Section 310, *Conflicts of Interest*
- Section 320, *Professional Appointments*
- Section 321, *Second Opinions*
- Section 330, *Fees and Other Types of Rem.*
- Section 340, *Inducements, incl. Gifts ...*
- Section 360, *Responding to NOCLAR*

Applicability of PAIB Provisions to PAPPs

- New requirement and clearer guidance for *individual* PAPPs that relevant PAIB provisions in Part 2 are applicable to them when they perform professional activities pursuant to their relationship with the firm as:
 - Contractors;
 - Employees; or
 - Owners of the firm





New/Revised Provisions Common to Parts 2 & 3

Section 200

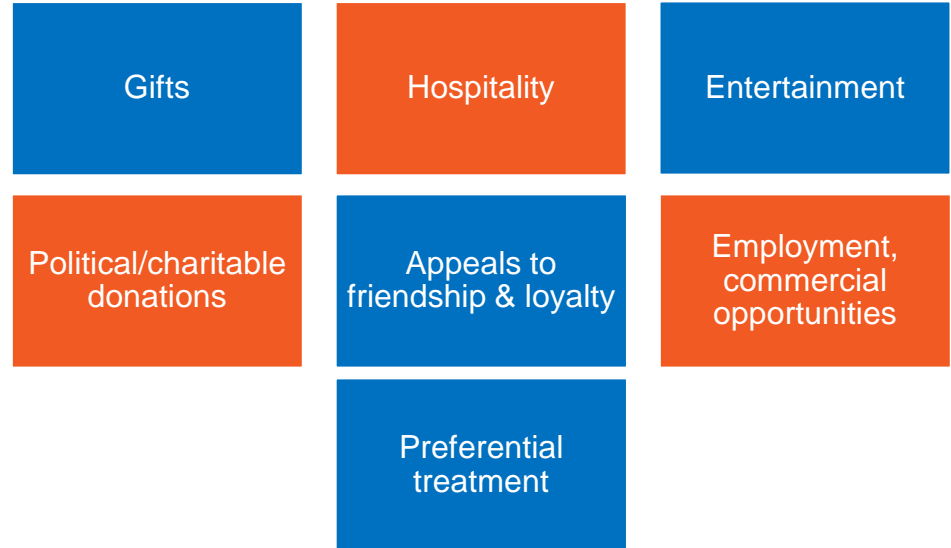
- Section 250, *Inducements, incl. Gifts ...*
- Section 260, *Responding to NOCLAR*

Section 300

- Section 340, *Inducements, incl. Gifts ...*
- Section 360, *Responding to NOCLAR*

Inducements, Including Gifts and Hospitality

- Clarifies appropriate boundaries for offering and accepting of inducements
- Inducement can be illegal (e.g. bribery/corruption)
- Even if not illegal, prohibition on offering or accepting inducements with *intent* to improperly influence behavior (even if trivial & inconsequential)
- If no improper intent, apply conceptual framework



Assessing Intent – Relevant Considerations

- Nature, frequency, value, cumulative effect? (e.g. frequent expensive meals, lavish birthday gifts)
- Timing? (e.g. contract soon to be awarded)
- Made for right reason? (e.g. wedding)
- Ancillary to main business? (e.g. accepting lunch)
- No preferential treatment?
- Roles and positions of offeror/offeree?
- Made openly?
- Given freely?



NOCLAR Standard: Effective 15 July 2017

- Major focus on public interest action by PAPPs or PAIBs. *Do not turn blind eye.*
- Scope of laws and regulations covered
 - L&R with direct effect on material amounts/disclosures in the financial statements
 - Other L&R that may be fundamental to entity's business
- E.g. L&R dealing with:
 - Fraud, Bribery and Corruption | Money Laundering | Terrorist Financing | Financial Products and Services | Taxation | Data Protection | Environmental Protection | Public Health and Safety



Auditors – Taking Action Using Professional Judgment

- Establish legal or regulatory obligations in PA's jurisdiction and comply with them
- Raise the matter with management/TCWG and assess appropriateness of response
- Determine whether to take further action
 - E.g. disclose to appropriate authority | withdrawal
- Framework guidance for exercising right to disclose
 - Depends on nature & extent of actual/potential harm to stakeholders; existence of appropriate authority; availability of legal protection; threats to physical safety of PA or others. **Use professional judgment.**






Part 4A – IISs for Audit and Review Engagements


Section 400, *Applying the Conceptual Framework to Independence for Audits and Reviews*

- Section 410, *Fees*
- Section 411, *Compensation and Evaluation Policies*
- Section 420, *Gifts and Hospitality*
- Section 430, *Actual or Threatened Litigation*
- Section 510, *Financial Interests*
- Section 511, *Loans and Guarantees*
- Section 520, *Business Relationships*
- Section 521, *Family and Personal Relationships*
- Section 522, *Recent Service with an Audit Client*
- Section 523, *Serving as a Director or Officer of an Audit Client*
- Section 524, *Employment with an Audit Client*
- Section 525, *Temporary Personnel Assignment*
- Section 540, *LA of Personnel with an Audit Client*
- Section 600 *Provision of Non-Assurance Services to an Audit Client*
- Section 800, *Reports on Special Purpose F/S (Restriction on Use...)*


Long Association – Strengthened Requirements




5-year cooling-off for engagement partner



Prohibition on acting as client relationship partner during cooling off




3-year cooling-off for EQC reviewer



Additional restrictions on permissible activities during cooling-off



Technical consultations during cooling off prohibited



Strengthened general provisions

Long Association – Other Matters

- “Jurisdictional provision” for engagement partner cooling-off
 - Shorter cooling-off period specified in local jurisdiction may be applied
 - Subject to floor of 3 years
 - Jurisdictional provision available for max of 5 years from effective date
- Effective from calendar 2019 audits
- IESBA Staff Q&As available
- Commitment to review provisions early 2021



Non-assurance Services

- New and improved guidance to assist in proper application of CF for all types of NAS
 - New factors for evaluating threats
 - Enhanced guidance on addressing threats, including revised safeguards provisions
- Prohibition on assuming management responsibilities now more prominent
- Clarity about when threats created by NAS cannot be addressed



Revised Structure of NAS Subsections

Introduction

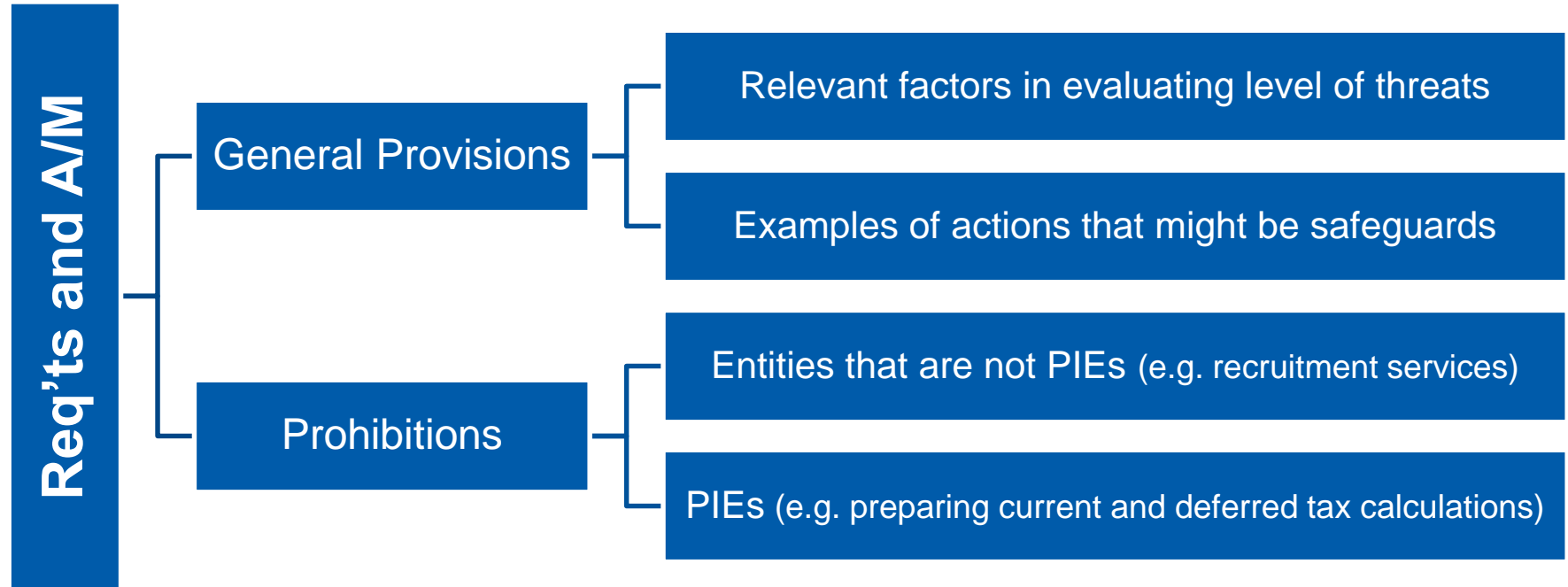
Describes the type of NAS (if applicable)

Indicates the type of threat created

Refers to general provisions and emphasizes need to comply with FPs and be independent when providing the specific NAS

Signals when the subsection includes prohibitions (e.g., accounting & bookkeeping services; certain valuation, taxation and IT services)

Revised Structure of NAS Subsections



Part 4B – IISs for Other Assurance Engagements

Section 900, Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements

- *Section 905, Fees*
- *Section 906, Gifts and Hospitality*
- *Section 907, Actual or Threatened Litigation*
- *Section 910, Financial Interests*
- *Section 911, Loans and Guarantees*
- *Section 920, Business Relationships*
- *Section 921, Family and Personal Relationships*
- *Section 922, Recent Service with an Assurance Client*
- *Section 923, Serving as a Director or Officer of an Assurance Client*
- *Section 924, Employment with an Assurance Client*
- *Section 940, LA of Personnel with an Assurance Client*
- *Section 950, Provision of NAS to an Assurance Clients ...*
- *Section 990, Reports that Include a Restriction on ...*

Resources and Tools

THE NEW INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

MORE USER-FRIENDLY

- New design
- Completely re-written
- More accessible and digestible
- Easily understandable
- New user guide and glossary

Increased focus on compliance with fundamental principles
Includes NOCLAR and Long Association
Tied more tightly to conceptual framework
More prominent PAIB and independence provisions

COMPREHENSIVE, INTEGRATED SUITE

- Enhanced conceptual framework
- Clearer and more robust safeguards
- New section about "pressure"
- Strengthened requirements when preparing or presenting information
- Inducements (coming soon)

SIGNIFICANT UP-GRADES

EFFECTIVE DATE
June 2019

ADDITIONAL RESOURCES
www.ethicsboard.org/restructured-code
@Ethics_Board

PRINTED HANDBOOK AVAILABLE SEPT. 2018

FOR ACCOUNTANTS ACROSS THE PROFESSIONAL SPECTRUM—
IN BUSINESS, GOVERNMENT, FIRMS OF ALL SIZES

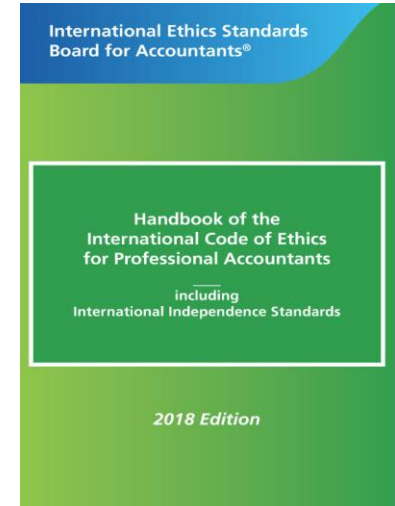
IESBA International Ethics Standards Board for Accountants

- Available now

- Handbook of new Code
- One-page flyer
- PowerPoint Slides
- Basis for Conclusions
- Webinars

- More to Come

- Videos | Fact Sheet | At-a-Glance | Articles
- Visit www.ethicsboard.org/restructured-code





APESB's adoption of the IESBA Code

Channa Wijesinghe

CEO



Accounting Professional & Ethical Standards Board

Structural changes

- Inclusion of Scope and Application section
- Glossary relocated to the front of the Code
- APESB Framework and Standards added to the Guide
- Extant Australian Independence preface retained
- Enhanced PDF
 - Bookmarks and pop-ups of definitions
 - Dynamic links to sections and sub-sections
 - Increased navigation within the document and externally

Australian drafting conventions

- International not included in name of APES 110
- Member instead of Professional Accountant
- NOCLAR instead of non-compliance
- Defined terms in title case
- Requirement paragraphs in bold
- Additional definitions relevant to Australian content/environment

Scope and application

- Consistent with extant APES 110 with one key change
- **New requirement (para R1.4)**

Members' obligation to comply with the Code, as well as other applicable Professional Standards.

- Inclusion of the definition of Professional Standard

Part 1 - Complying with the Code, Fundamental Principles & Conceptual Framework

- Fundamental principles and conceptual framework consistent with the IESBA Code
- Additional Australian specific guidance on confidentiality (AUST 114.1 A1.1):
 - consider Australian legal & regulatory requirements
 - advised to obtain legal advice if disclosing without consent



Part 2 – Members in Business (including employment relationships of Members in Public Practice)

- Includes explicit reference to Members in Public Practice
- Australian requirement retained in Section 220 *Preparation & presentation of information* (para AUST R220.8.1) where employing organisation is not complying with Australian Accounting Standards
 - Notify TCWG
 - Document the communication with TCWG
 - Qualify declarations required by law

Part 3 – Members in Public Practice

- Contingent Fees prohibited for Engagements that require Independence (para AUST R330.4.1)
- Referral fees or commissions on other engagements must be communicated to the Client in writing including:
 - existence of arrangement
 - identity of other party
 - method of calculation (para AUST R330.5.1)

Part 4A – Independence for Audit & Review Engagements

- Prohibition on being Director/Officer (including management of Administration) for Audit Clients (para AUST R523.3.1)
- Prohibition on being Company Secretary for Audit Clients (para AUST R523.5)
- Required to consider multiple threats in aggregate (para AUST R400.12.1)
- Requirement to evaluate threats for multiple client referrals for Audit Engagement from one source (para AUST R410.3.1)

Public Interest Entities (PIEs)

- Determination of PIEs by Members is required (para AUST R400.8.1)
- Guidance on entities who will generally be considered PIEs in Australia (para AUST R400.8.1 A1)
- Private Health Insurers regulated by APRA now included as example of PIEs



Restructured Long Association Provisions

- Consistent with the Amending Standard to extant Code (Issued April 2018)
- Sunset clause limits shorter cooling-off period to 5 years
- Impact for Listed/APRA entities post 2023:
 - 5 years time-on period/5 year cooling-off period
- Australian focused Technical Staff Q&As (includes flowcharts)



Partner Rotation – Listed & APRA-Regulated Entities

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

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

Partner Rotation – Other Public Interest Entities

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

Part 4B – Independence for Assurance Engagements other than Audit & Review Engagements

- Requirement to consider multiple threats in aggregate (para AUST R900.15.1)
- Guidance material refers to the Framework for Assurance Engagements issued by the AUASB (para AUST 900.11.1)



Effective Date

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



Impact on other APESB Pronouncements

All APESB pronouncements require revision:

- cross references to the Code
- review of existing standard, consideration of disruptive technology and its impact

Due Process

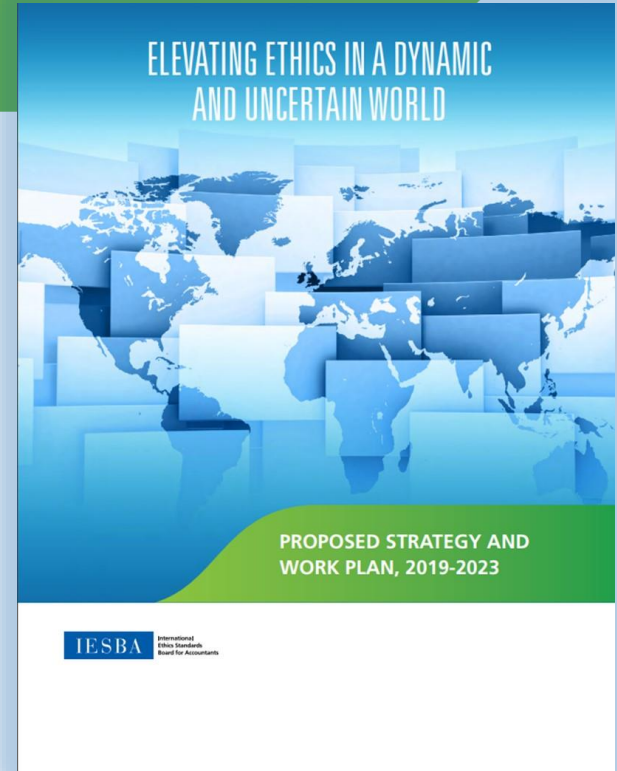
- Pronouncements batched into groups
- EDs released progressively from December 2018 to August 2019
- Effective dates of 1 January 2020

Q & A



Future IESBA Strategy and Work Plan

- [Consultation paper](#) released April 2018
- Aimed at fulfilling distinct but broad goals
 - Relevance and applicability in a world of changing technologies, business methods and public expectations
 - Strengthening both public interest objectives and trust in the profession as an integral whole
- Broadly supported by wide range of stakeholders



Strategic Priorities

- Pre-commitments
 - Role & Mindset | NAS | Fees | E-Code
- Pervasive strategic subject
 - Technology (and service delivery models)
- Additional top priorities
 - Tax planning and related services | Definition of PIE and listed entity | Materiality
 - Post-implementation reviews: NOCLAR | Long Association | Revised and Restructured Code
- Finalize SWP Dec 2018



Technology & Service Delivery Models



Exponential, disruptive technology (e.g. Emergent AI, big data, cloud computing, mobile, social networks, blockchain)



Emerging or newer models of work and service delivery (e.g. contingent workforce; managed and outsourced services)

- Profession and others recognizing pressing need to understand and address transformative effects
 - Strategic imperatives?
 - Impact on business models?
 - Threats and opportunities?
- Ethical implications for the Code?
- Technology WG formed Q1 2018

Role & Mindset Project (formerly Professional Skepticism)

- How best to meet public expectations re exercise of “professional skepticism” by all PAs?
- [Consultation paper](#) issued May 2018
- Global roundtables held in Jun-Jul 2018
 - Washington DC, Paris, Tokyo, Melbourne
- Project approved Sept 2018 with new title
 - *Promoting the Role and Mindset Expected of Professional Accountants*
- ED anticipated Q4 2019



Non-assurance Services Project

- How best to delineate boundaries of NAS that firms may provide to audit clients?
- Global roundtables held in Jun-Jul 2018
- Project approved Sept 2018
- Addressing a number of issues
 - Self-review threat | Materiality | PIE vs. non-PIE |
New and emerging services | Communication with
TCWG | NAS disclosure requirements
- ED anticipated Q4 2019



Fees Project

- Project approved Sept 2018
 - Based on June 2018 final Working Group [report](#)
- Scope – provisions addressing:
 - Level of fees for individual audit engagements
 - Fee dependency at the firm, office and partner level
 - Fee-related safeguards
- Outside scope:
 - Ratio of NAS to audit fees, and audit firm business model
- ED anticipated Q4 2019







The Ethics Board

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