

# APESB Update

AASB Board Meeting - 11 November 2021

**Nancy Milne** OAM, FAICD  
Chairman

**Channa Wijesinghe** FCPA, FCA  
Chief Executive Officer



# Agenda

- APESB's role and mandate
- Global Audit Regulation & Ethics
- APESB's Strategic Plans
- IESBA Engagement
- APESB & AASB Engagement
- Background to NAS & Fees Projects
- PJC Inquiry and impact on NAS and Fees projects
- Overview of NAS project
- Overview of Fees project

# APESB's role and mandate

- Established in 2006 as an independent standard setter to develop professional & ethical pronouncements for the three professional accounting bodies
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members' compliance and discipline
- APESB's structure is globally unique
- A comprehensive suite of accounting professional pronouncements developed during the first decade of operations

# APESB's role and mandate

- Influence international standards setting process:
  - IESBA's National Standards Setters group
  - Representation on the IESBA and IFAC Committees
- To date APESB has released 21 pronouncements consisting of 15 Standards and 6 Guidance Notes
- The critical role ethics plays in maintaining the public trust, reputation and good standing of the profession

# Global Audit Regulation & Ethics

UK – Kingman and CMA Reviews, Brydon Report, FRC overhaul and Big 4 operational separation as a result:

- Carillion – KPMG faces £250m Official Receiver’s claim and FRC investigations ongoing
- BHS – PWC fined £6.5m. Auditor fined £325k and banned for 15 years

EU - Wirecard collapse in Germany 2020 – €1.9b fictitious assets, unqualified audit reports and alleged audit failures

USA – US SEC & PCAOB Independence and ethics breaches

- US\$ 10 million fine for EY
- US\$ 450K fine for KPMG



# Achievements from Strategic Plan 2016 -2020

- Restructured Code of Ethics issued in 2018
  - Reissued full suite with PDF enhanced features
- Revised Constitution 2018
- Issued authoritative guidance materials
- New website and mobile apps released 2020
- Member engagement – 66 events
- Influencing the PJC Inquiry (2019 onwards)
- Influencing Monitoring Group reforms (2017-19)

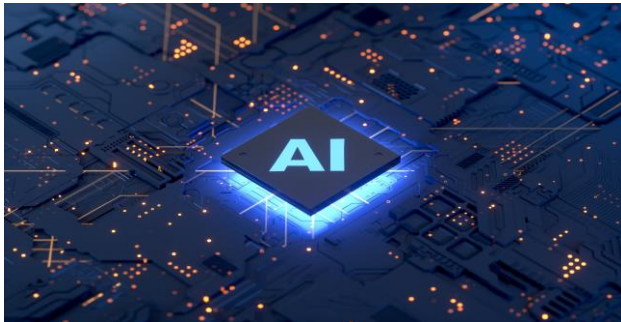


# Strategy 2021-25

## APESB Strategic Plan 2021-2025

We will promote professionalism and ethical behaviour and maximise the integrity of the accounting profession by

Standards	Engagement	Influence	Ethics Outreach
Issuing professional and ethical standards that are relevant to members of the Professional Accounting Bodies while serving the public interest	Effectively engaging our key stakeholders, including professional accountants, the public, government bodies, regulators and the Professional Accounting Bodies	Influencing and responding to the national and international agenda in relation to professional and ethical standards	Promoting that professionalism and ethical conduct drive the behaviour of accountants and conducting outreach activities in collaboration with key stakeholders



***APESB Pronouncements being***

***readily known,***

***easily understood***

***and***

***quickly bought into practice with a focus  
on the SMP sector***

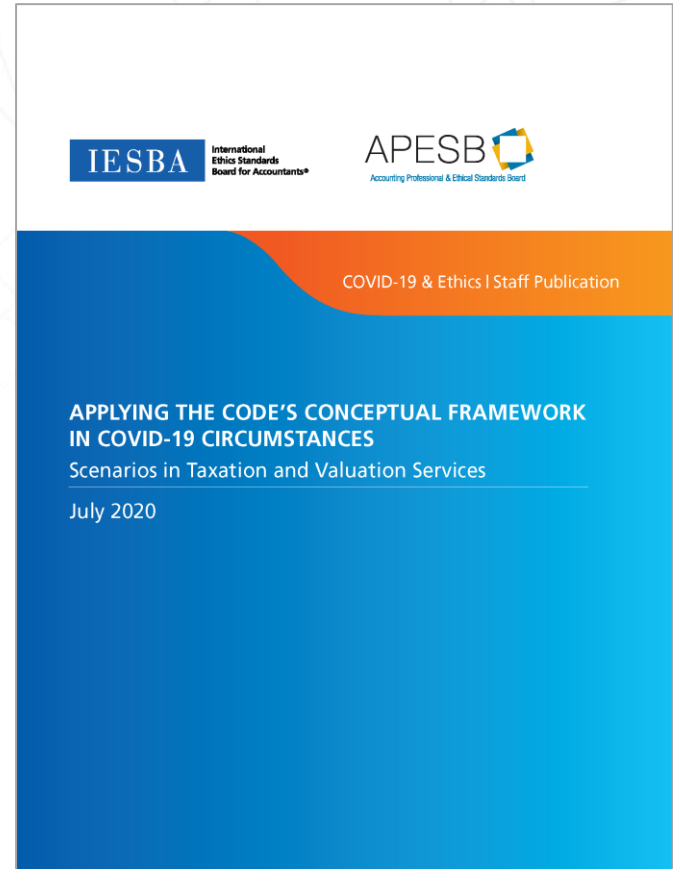
Applying APESB pronouncements in COVID-19  
circumstances (October 2020)



# IESBA Engagement

APESB has strong engagement with the IESBA in the following ways:

- Develop submissions to the IESBA on its EDs
- A member of the IESBA's National Standards Setters (NSS) group since 2009
- A member of the IESBA's NSS COVID-19 Taskforce, with other Standard Setters from Canada, China, South Africa, the UK & the US
- Guidance material on Fraud, COVID related government grants, Valuation & Taxation Services, Cyber risks etc.
- Currently working with the IESBA Technology Working Group on guidance on Auditor Independence and Technology



# APESB & AASB engagement

- Well established working relationship.
- Recent collaboration/consultation on:
  - Fee disclosure categories including AASB Research Report 15
  - Special purpose financial report disclosures
- Both boards involved with the FRC PJC Working Group

# Background to NAS and Fees Projects

- Code provides a strong foundation, but more work was needed to strengthen the Independence Standards for audits of public interest entities (PIEs):
  - Changing public expectations about auditor independence
  - Changes in laws, regulations and firm policies
  - Projects informed by research, public consultation & global outreach
- NAS and Fees projects were a key strategic priority of the IESBA
- NAS and Fees Projects were closely coordinated due to interrelated material/concepts

# Key stages of IESBA NAS and Fees Projects

## **Information Gathering (2015-2018)**

- NAS - Global roundtables in 2018 (Washington DC | Paris | Tokyo | Melbourne) [Melbourne event co-hosted by APESB & NZ XRB]
- Fees – Fact finding report issued 2018

## **Project Development (2018-2020)**

- Project proposals approved - September 2018
- Exposure Drafts issued in January 2020
- APESB conducted NAS & Fees roundtable - April 2020

## **Project Completion (2021)**

- Final standards issued - April 2021

# PJC Inquiry into the Regulation of Auditing in Australia

Led by Parliamentary Joint Committee on corporations and financial services.

 **2019**  
August

## **Inquiry established**

Focus on the regulation of auditing, conflicts of interest and performance of regulators


 **2020**  
November

## **Final report issued**

No changes to interim recommendations

## **Interim report released**

- 10 recommendations
- no major structural changes to legislative & regulatory frameworks

 **2020**  
February

Government yet to respond

*To date*



# PJC Inquiry recommendations relating to NAS & Fees

- **Recommendation 3**

- Establish defined categories and associated fee disclosure requirements in relation to audit and non-audit services
- Establish a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity

## **Recommendation 4**

- The auditor's independence declaration must specifically confirm that no prohibited non-audit services have been provided

## **Recommendation 5**

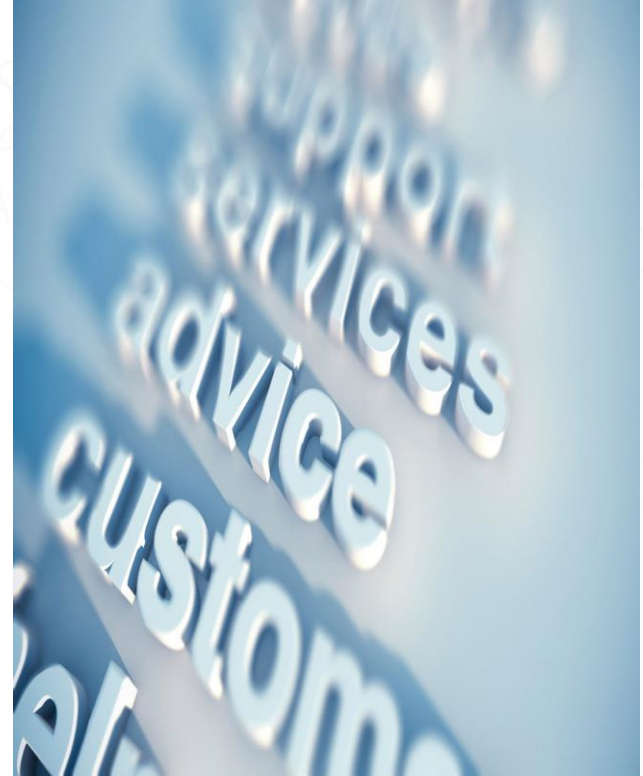
- Consider revising APESB 110 to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity

# High-level overview of IESBA NAS Standard

IESBA issued the final NAS pronouncement in April 2021

## Key Revisions

- New prohibition on providing services that create a self-review threat for PIE audit clients
- Materiality qualifier for NAS withdrawn
- Prohibition on assuming management responsibilities made more prominent
- New requirements for firms to communicate with TCWG



# Overview of APESB project on NAS

- Australian revisions to address PJC recommendations, in particular setting out the list of prohibited non-audit services (2<sup>nd</sup> part of recommendation 3).
- Revisions being considered include:
  - Prohibition on advocacy threats for tax planning and advisory services for PIE audit clients
  - Prohibition on providing advice and recommendations on financial products to audit clients
  - Additional guidance paragraph to clarify the instances when NAS is almost certain to create a self-review threat
  - Amendments to clarify what could be classified as an internal audit service
- Further stakeholder engagement currently being undertaken on Australian specific changes. [APESB NAS survey](#) open for comments until 22 November 2021.
- Exposure Draft to be presented to the Board in early 2022.
- Pronouncement expected to be effective from 1 January 2023.



# High-level overview of IESBA Fees Standard

IESBA issued the final Fees pronouncement in April 2021.

## Key Revisions

- Fee dependency threshold for an Auditor of a PIE audit client set at 15% and 30% for Non-PIE audit client
- New requirements to assist TCWG and the public understand Firm's independence
- New guidance on threats caused when a large proportion of fees for an audit client is for other services



# Overview of APESB project on Fees

- Australian revisions to address PJC recommendations and regulator request
- Revisions being considered include:
  - New guidance on categories of services for auditors based on UK FRC's ethical standard (2019)
  - Strengthening prohibitions on compensation of audit partners
  - Requirement to review independence if audit referral source > 20% based on a request from regulators

# APESB Project timeline for Fees

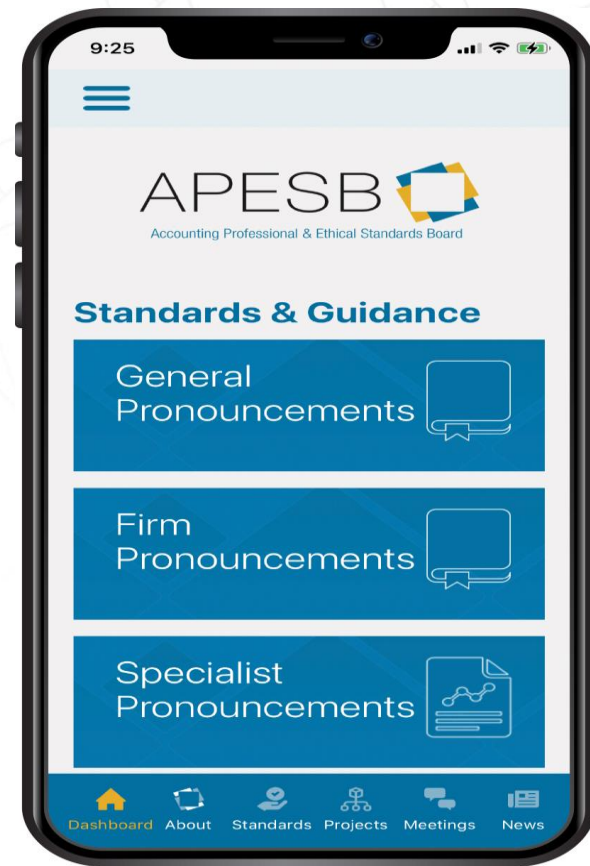
- Exposure Draft issued May 2021; comment period closed 31 August 2021.
- Further stakeholder engagement currently being undertaken on:
  - Impact of referral source threshold on SMSF Auditors
  - Audit fee categories (with AASB Technical Staff)
- Board to consider outcomes of ED - November 2021 & March 2022 Board meetings
- Pronouncement expected to be effective from 1 January 2023.

# Further Information

For more information visit [www.apesb.org.au](http://www.apesb.org.au)

Follow the APESB [LinkedIn page](#) for timely updates,

To download APESB's mobile app:



Questions ?