

Project Proposal – Revision of APES 110 Code of Ethics for Professional Accountants to incorporate IESBA’s amendments to its Code

Introduction

The International Ethics Standards Board for Accountants (IESBA) approved changes to the IESBA *Code of Ethics for Professional Accountants* in respect of the following areas in March 2013:

- Breach of a requirement of the Code;
- Conflicts of interests; and
- Definition of *Engagement Team*.

IESBA is also currently in the process of reviewing the definition of *Those Charged with Governance* with the final amendments expected to be finalised in the near future.

In accordance with APESB’s due process, the revisions to the IESBA Code now need to be considered in the Australian context.

Background

Breach of a requirement of the Code (refer Attachment 11(b))

In 2008, stakeholders were of the view that the IESBA Code contained several paragraphs that address an inadvertent violation of a provision of the Code and that such a violation will be deemed not to compromise compliance with the fundamental principles, or independence, provided certain conditions and safeguards are met. In 2010, the IESBA determined to commence a project to re-consider these paragraphs.

Accordingly, in October 2011 the IESBA released an Exposure Draft proposing provisions to the Code that addressed a breach of independence requirements as well as a general provision to promote ethical behaviour by Members should other requirements of the Code be breached. The IESBA approved final changes to the Code in March 2013 which establish a robust framework for addressing a breach of an independence requirement in the Code, including requiring a Firm to:

- evaluate the significance of the breach and determine whether action can be taken and is appropriate in the circumstances to satisfactorily address the consequences of the breach;
- terminate, suspend, or eliminate the interest or relationship that caused the breach;
- communicate all breaches with Those Charged with Governance and obtain their concurrence that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- document, among other matters, the action taken and all the matters discussed with Those Charged with Governance.

Conflicts of interest (refer Attachment 11(c))

The International Code contains two sections that address conflicts of interest, Section 220 for Professional Accountants in Public Practice and Section 310 for Professional Accountants in Business. Failure to identify and address conflicts of interest on a timely basis may result, for example, in an accountant having to withdraw from an arrangement at a point in time where the affected parties have insufficient time to effect an orderly transition to an alternative service provider.

In October 2009, the IESBA approved a project proposal to provide additional guidance for all professional accountants in identifying and addressing conflicts of interest. The purpose of the project was to examine Sections 220 and 310 and revise them to provide more comprehensive guidance in identifying, evaluating and managing conflicts of interest.

In December 2011, the IESBA released an Exposure Draft to revise Section 220 *Conflicts of Interest* and Section 310 *Potential Conflicts* of the Code. The IESBA issued the final changes to the Code addressing conflicts of interest in March 2013. The final pronouncement establishes more specific requirements and provides more comprehensive guidance to support professional accountants. The revisions affect professional accountants both in public practice and in business, taking into account the different circumstances in which they work.

Change to the definition of 'Engagement Team' (refer Attachment 11(d))

The International Auditing and Assurance Standards Board (IAASB) initiated a project to revise ISA 610 *Using the Work of Internal Auditors* in March 2009 to reflect developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors. At the same time, IAASB considered that there was a strong need to address the ambiguity in the scope of the extant ISA 610 regarding whether or not external auditors are permitted to use internal auditors to provide direct assistance on the external audit.

A number of respondents to the IAASB exposure draft raised concern with the fact that direct assistance appeared to be in direct conflict with the Code. Internal auditors performing external audit procedures at the direction of the external auditor would, in effect, be part of the Engagement Team and the Code requires that the Engagement Team be independent of the audit Client.

Following consideration of these comments, the IESBA established a Task Force to consider the relationship between direct assistance and the definition of Engagement Team in the Code. After considerable work and consultation, the revised definition of Engagement Team was issued in March 2013. The revised definition of Engagement Team now excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610.

Note that AUASB has commenced a project to update ASA 610 *Using the Work of Internal Auditors* to incorporate international amendments from ISA 610. An update on the status of this project to incorporate provisions dealing with direct assistance and international views on Internal Auditors providing direct assistance is provided at Agenda Item 13 of the 8th-9th May 2013 Board meeting papers.

Proposed change to the definition of "Those Charged with Governance"(refer Attachment 11(e))

When considering responses to IESBA Exposure Draft "Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code" the IESBA noted that the Code's definition of "Those Charged with Governance" is not consistent with the definition in International Standard on Auditing 260 (ISA 260), *Communication with Those Charged with Governance*. The IESBA considered the definition in ISA 260 and

concluded that the communications required under the Code should be to the same group of people as the communications under ISA 260. It was therefore agreed that a project would be undertaken to more closely align the Code's definition of "Those Charged with Governance" with the definition contained in the ISAs.

In July 2012 the IESBA released the Exposure Draft, *Proposed Change to the Definition of "Those Charged with Governance"* and requested comments be received by 31 October 2012. The change specifically aims to clarify that a subgroup, such as an audit committee, may assist the governing body in meeting its responsibilities. In those cases, the auditor shall determine with whom within the entity's governance structure to communicate.

The project was further considered by the IESBA at the meeting held in New York from the 11th – 13th March 2013 with final amendments expected later in the 2013 calendar year.

Issues to Consider

Following the introduction of the new provisions to the IESBA Code addressing breaches, the Board may also need to consider the appropriateness of related AUST paragraphs in APES 110 previously developed by APESB to address inadvertent violations of the requirements of the Code as part of the Code revision.

Project Objective:	To update APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) consistent with the revised international Code issued by the IESBA.
Project Steps:	<ul style="list-style-type: none"> • APESB Technical Staff to review new provisions of the International Code issued by the IESBA; • APESB Technical Staff to develop an Exposure Draft of the proposed new Code incorporating IESBA's amendments for the Board to review; • Present the draft of the Exposure Draft to the Board for consideration at the August 2013 meeting; • Release the Exposure Draft for public comment; • Consider respondents' comments and their impact on the Exposure Draft and amend as required; • Present the final Standard and the Basis for Conclusions document for the Board's approval; and • Release the revised standard publicly and upload the revised standard and Basis of Conclusions document onto the APESB website.
Project Structure:	<ul style="list-style-type: none"> • APES Board – provide feedback and oversee the revision of the Code • APESB Technical Director – principal drafting editor • APESB Secretariat – provide administrative support
Resource Requirements:	<ul style="list-style-type: none"> • It is estimated that staff time on this project will be approximately 2 to 3 weeks.

Timeline:	May 2013	Approve project proposal
	May – August 2013	Develop revised APES 110 ED to incorporate IESBA's amendments to its Code
	August 2013	Present Exposure Draft for Board approval
	August 2013	Release Exposure Draft for public comment
	Thereafter based on the date the Exposure Draft is issued the following process will be completed:	
	<ul style="list-style-type: none"> • Collation of respondents comments; • Present results of the consultation process to the Board; • Present final standard to the Board; • Issue standard; and • Prepare a compiled version of APES 110. 	

Impact on other APESB pronouncements

The proposed revised sections of the Code are going to impact on other APESB pronouncements as the Code is one of the fundamental standards in the APESB framework of professional standards.

Impact on accounting, auditing, or other relevant standards

Improved clarity of the Code will enhance consistency with international Code.

Related legislative developments

None noted.

Related international developments

The IESBA approved the changes to the International *Code of Ethics for Professional Accountants* relating to a breach of a requirement of the Code, conflicts of interests and Engagement Team in March 2013.

Benefits of developing the pronouncement

Revision of APES 110 will ensure that it continues to be aligned (subject to the additional AUST paragraphs) with the IESBA Code.