

AGENDA PAPER

Item Number: 16
Date of Meeting: 14 October 2014
Subject: Definition of *Professional Activity* in APES 110 *Code of Ethics for Professional Accountants*

Action Required **For Discussion** **For Information Only**

Purpose

To present the Board with an analysis of the current definition of *Professional Activity* and to seek the Board's views on the proposed options to enhance the definition in the Australian context.

Background

At the January 2014 Board meeting, the Board discussed the definition of *Professional Activity* and its insufficient coverage of the range of activities performed by a professional accountant in the Australian context. Such services include Valuation Services, Forensic Accounting Services and Insolvency Services. A number of concerns in respect of the current definition were noted by the Board and the Board considered the importance of enhancing the definition. Accordingly, the Board requested that the Technical Staff prepare an options paper to investigate potential approaches to address the issue.

Technical Staff presented an options paper at the August 2014 Board meeting incorporating the practices of several major jurisdictions. The Board considered these options and was of the view that the best approach is to develop a "principles" based definition rather than attempting to include all the different services performed by a professional accountant.

Consideration of Issues

Existing definition of Professional Activity in APES 110

The term *Professional Activity* is currently defined in APES 110 *Code of Ethics for Professional Accountants* (the Code) as follows:

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting and financial management.

Professional Activity then forms the basis of the defined term *Professional Services* as follows:

Professional Services means Professional Activities performed for clients.

It should be noted that the definitions above are consistent with the approach taken by the IESBA in its *Code of Ethics for Professional Accountants*.

At the August 2014 Board meeting, the Board considered some of the issues and limitations of the current approach.

Approaches taken by professional bodies or member bodies in other jurisdictions to define the term *Professional Activity*

Technical staff analysed the approach taken by professional bodies or member bodies in other jurisdictions to define the term *Professional Activity* and noted that in several jurisdictions, professional bodies continue to define the term *Professional Services* rather than *Professional Activities* as in the IESBA Code. The approaches taken by professional bodies or member bodies in other jurisdictions are summarised in the table below.

Summary of approaches taken by professional bodies or member bodies in other jurisdictions	AICPA	CGAC	CIMA	ACCA	ICAEW	CARB	NZICA
Same approach as the current IESBA Code?	-	-	-	Y	-	-	Y
Approach consistent with the superseded IESBA Code?	-	-	Y	-	Y	Y	-
Defines term <i>Professional Activity</i> ?	-	-	-	Y	-	-	Y
Defines term <i>Professional Service</i> ?	Y	Y	Y	Y	Y	Y	Y

The excerpts of definitions by professional bodies or member bodies in other jurisdictions for either *Professional Services* or *Professional Activity* are provided in Appendix 1.

Review of approaches taken by professional bodies or member bodies in other jurisdictions to define the term *Professional Activity*

Technical Staff are of the view that some of the elements of the approaches adopted by AICPA and CGA address the issues raised by the Board.

AICPA's definition of *Professional Services* states that the activities include all services requiring accounting or related skills performed by a Member in broader circumstances and incorporates all services addressed in the Standards issued by their professional body.

CGA's defines the term *Professional Services* with reference to activities that are undertaken by a Member where the public or the Member's associates are entitled to rely on the Member's membership in the Association as giving particular competence.

Potential options for the Board to consider in respect of the term '*Professional Activity*' are:

Option 1

Retain the definition of *Professional Activity* as per APES 110 which ensures the APESB Code's consistency with the IESBA Code.

Option 2

Retain the existing definition of *Professional Activity* in the Code and add an AUST paragraph in the following manner:

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting and financial management.

[AUST]

Professional Activities include:

- *activities for which professional pronouncements are promulgated by APESB;*
- *other activities performed by a Member where the Member asserts membership of a Professional Body as giving the Member the required competence and skills to perform the relevant activities; or*
- *performing any of the activities noted above on a volunteer basis.*

This approach alleviates a number of concerns previously considered by the Board. Advantages include:

- some consistency with the international approach by retaining the IESBA definition of Professional Activity and then adding on guidance to enhance it in the Australian context;
- definition of the term in the plural allowing for greater consistency with the definition of *Professional Services* in the Code;
- restrictions by reference to specific activities such as accounting, auditing and taxation and use of the international definition in isolation are overcome. The international definition does not directly address the wide variety of roles performed by Members and the part technology now plays in the activities of a modern professional accountant; activities that have evolved significantly over time to expand the role of the traditional professional accountant. The addition of the AUST paragraph incorporates and acknowledges both the traditional and modern responsibilities and functions of the Member;
- the services that a Member may perform referred to in the international definition is extended. The proposed AUST paragraph incorporates a range of services due to the incorporation of the reference to APESB standards and overcomes the ambiguity of the term “accountancy and related skills”;
- where recipients of professional activities are likely to rely on the competency of the Member arising from their professional affiliation, these activities are captured by the definition; and
- reference to the performance of activities on a voluntary basis ensures that remuneration is not the driver of whether an activity is considered a Professional Activity.

Option 3

Replace the existing definition with the following definition:

Professional Activities means all activities requiring accountancy or related skills that are performed by a Member for a Client, an employer, or on a volunteer basis.

These activities include;

- activities for which professional pronouncements are promulgated by APESB;
or
- other activities performed by a Member where the Member asserts membership of a Professional Body as giving the Member the required competence and skills to perform the activities.

Option 3 removes the international definition and only defines the term *Professional Activities* in the Australian context. This approach has all of the advantages listed above for Option 2 with the exception of consistency with the IESBA Code.

Staff Recommendations

Technical Staff recommend that the Board:

- consider the “principles” based definitions in options 2 and 3 and provide comments/views on the proposed approaches; and
- consider consulting with stakeholders if the Board determines that the matter should be explored further.

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Appendix 1: Definitions of Professional Services and Professional Activities used in other jurisdictions

USA: American Institute of Certified Public Accountants (AICPA)

AICPA defines the term *Professional Services* in the AICPA Code of Professional Conduct as follows:

Include all services requiring accountancy or related skills that are performed by a member for a client, an employer, or on a volunteer basis. These services include, but are not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by bodies designated by Council.

Canada: Certified General Accountants Canada (CGA)

CGA defines the term *Professional Services* in the Code of Ethical Principles and Rules of Conduct as follows:

Any services performed or offered to be performed by a member for a client or employer, in which the member asserts membership in the Association. In addition, 'professional services' refers to those activities, including the provision of goods, where the public or the member's associates are entitled to rely on the member's membership in the Association as giving particular competence.

Chartered Professional Accountants of Canada (CPA Canada) is the national organisation established to support the unification of the Canadian accounting profession. The CPA legislation to unify The Canadian Institute of Chartered Accountants (CA), Certified Management Accountants (CMA) and CGA was passed on 16 May 2012.

Chartered Institute of Management Accountants (CIMA)

CIMA defines the term *Professional Services* in their Code of Ethics for Professional Accountants as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

The Association of Chartered Certified Accountants (ACCA)

The ACCA rulebook takes a similar approach to the IESBA Code by defining *Professional Activity* as:

An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.

Professional Services are then defined as:

Professional activities performed for clients.

United Kingdom: Institute of Chartered Accountants in England and Wales (ICAEW)

ICAEW defines the term *Professional Services* in their Code of Ethics for Professional Accountants as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

Ireland: Chartered Accountants Regulatory Board (CARB)

The Chartered Accountants Regulatory Board in Ireland defines the term *Professional Service* as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

New Zealand: New Zealand Institute of Chartered Accountants (NZICA)

The NZICA *Code of Ethics* takes a similar approach to the IESBA Code by defining *Professional Activity* as:

An activity requiring accountancy or related skills undertaken by a member, including accounting, auditing, taxation, management consulting, and financial management.

Professional Services are then defined as:

Professional activities performed for clients.