

Restructured APES 110

Code of Ethics for Professional Accountants (including Independence Standards)

21 August 2020



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Highlights of the Restructured Code

- New **user guide** and updated glossary
- Requirements now **separate** to guidance material and in bold text
- Increased focus on compliance with the **fundamental principles** and **independence**
- **Enhanced** conceptual framework
- Auditor independence sections are now **Independence Standards**
- Strengthened provisions on **Non-assurance Services**
- New **Inducements** provisions
- New **Pressure to Breach the Fundamental Principles** provisions

Highlights of the Restructured Code (continued)

- Restructured Code: effective 1 January 2020
- Audit Partner Rotation (Long Association): effective 1 January 2019
- Non-compliance with Laws and Regulations (NOCLAR): effective 1 January 2018
- Enhanced **PDF features** in APES 110:
 - Bookmarks and pop-ups of definitions
 - Dynamic links to sections and sub-sections
- **Mapping table** of the new Code vs Extant Code on the APESB Website

New Code Structure

GLOSSARY |

(All Members)

PART 1

Complying with the Code, Fundamental Principles and Conceptual Framework

(Sections 100 to 199)

(All Members)

PART 2

Members in Business
(including employment
relationships of
Members in Public Practice)

(Sections 200 to 299)

PART 3

Members in Public Practice

(Sections 300 to 399)

PARTS 4A & 4B

Independence Standards

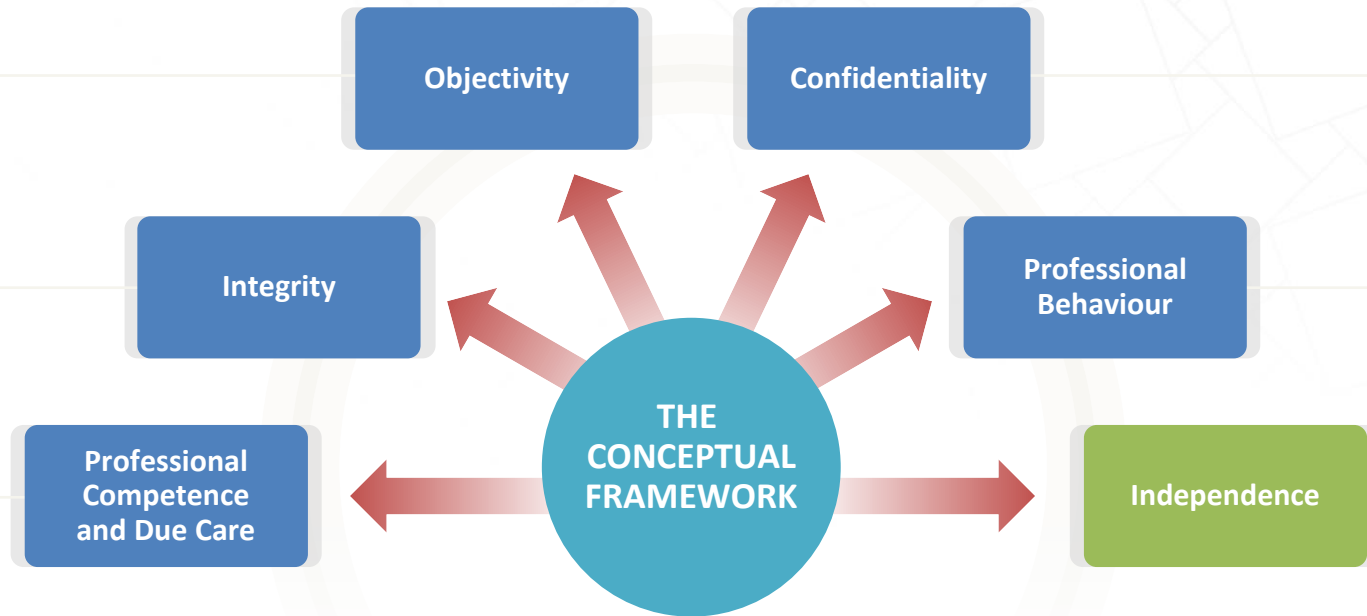
Part 4A—Independence for Audits & Reviews

(Sections
400 to 899)

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

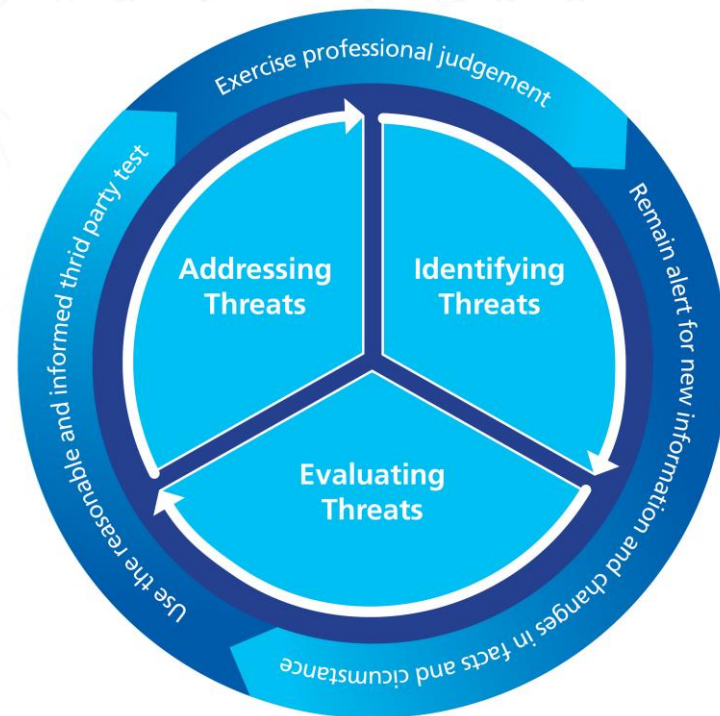
(Sections
900 to 999)

Overarching Requirements



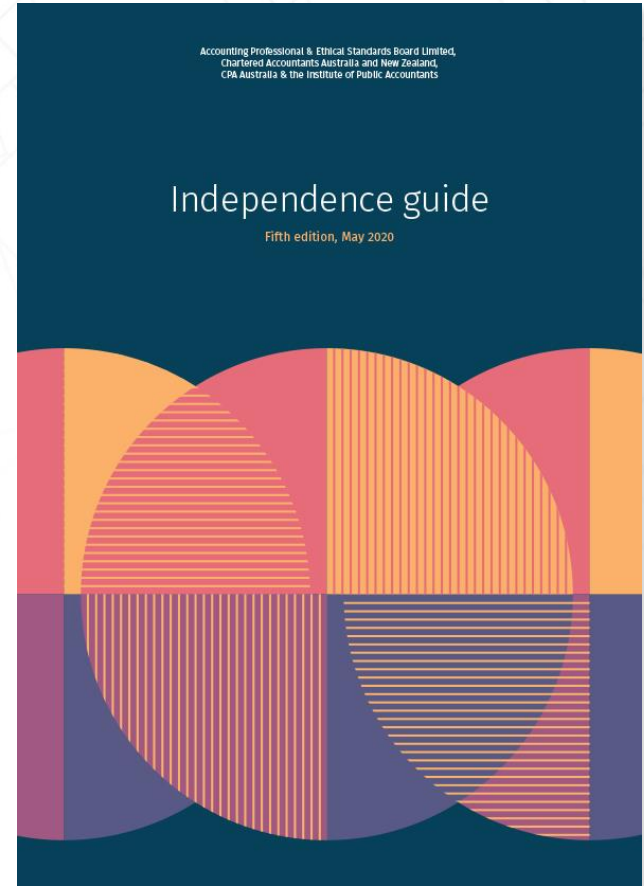
Enhanced Conceptual Framework

- No longer threats & safeguards approach – **not all** threats addressed by safeguards
- 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
- **New requirements** – form an overall conclusion on effectiveness of actions, and remain alert to new information or changes in circumstances



Related developments

- [Applying the Code's Conceptual Framework in COVID-19 circumstances](#)
 - Issued August 2020
- [APES 110 Prohibitions Summary](#)
 - Issued August 2020
- [Revised Auditors Independence Guide](#)
 - Issued May 2020
- [Revised Technical Staff Q & A on Audit Partner Rotation](#)
 - Issued November 2019



SCENARIO 3

Valuation Services — Professional Accountant in Public Practice

A partner at a professional accounting firm has been requested by a non-audit client which is selling one of its businesses to prepare an independent expert's report on the valuation of the business.

The business that is for sale has been financially impacted because of the COVID-19 pandemic, including reductions in revenue of approximately 25%. The partner is aware that the client's other financial endeavours have also been negatively affected by the pandemic and that the client is dependent on achieving as high a sale price as possible to alleviate financial pressures.

The partner is concerned that some of the underlying assumptions provided by the client for the valuation, especially in respect of revenue, may be overly optimistic in the current and post COVID-19 environment.



Identifying Threats

Advocacy

There is a threat that the partner will rely on optimistic assumptions to promote the client's business to the point that the partner's objectivity is compromised in a favourable valuation (para [120.6 A3\(c\)](#)).

Familiarity

There might be a threat that due to a long or close relationship with the client, the partner will be too sympathetic to the client's interests or too accepting of the client's assumptions. This could threaten the fundamental principles of integrity, objectivity, professional competence and due care, and professional behaviour (para [120.6 A3\(d\)](#)).

Intimidation

There is a threat that the partner will be deterred from acting objectively due to actual or perceived pressures from the client to ensure the valuation of the business is favourable to the client. There may also be internal pressures from other partners within the firm (para [120.6 A3\(e\)](#)).



Evaluating Threats

Are Identified Threats at an Acceptable Level?

The partner must exercise professional judgement and apply the reasonable and informed third party test to determine whether the threats are at an acceptable level. Consideration of qualitative and quantitative factors is relevant in the evaluation of threats, as is the combined effect of multiple threats, if applicable (para [120.8 A1](#)). Factors that may be relevant in evaluating the level of the threats include:

- Conditions, policies and procedures relating to the client and its operating environment and the firm and

- ▶ The extent to which the partner or firm is involved in promoting the business to potential buyers.
- ▶ How aggressive the client is in terms of the assumptions underlying the valuation.
- ▶ The degree of urgency to which the client requires the valuation report.

Based on an assessment of the factors identified from the above considerations, a reasonable and informed third party might conclude that the threats to the expert's independence^a and one or more of the fundamental principles are not at an acceptable level and the threats would need to be addressed.



Addressing Threats

Eliminate Circumstances

The partner may not be able to eliminate the circumstances, including interests or relationships, that are creating the threats (para [R120.10\(a\)](#)).

Apply Safeguards

The partner must not knowingly be associated with reports, returns, communications or other information where the partner believes that the information contains a materially false or misleading statement (para [R111.2](#)). Therefore, if the partner is aware that any of the underlying assumptions are false or misleading, they must not rely on them in the independent expert's report. There are no safeguards available or capable of being applied to reduce the threats to an acceptable level.

If the partner is concerned about the integrity of the assumptions and relies on those assumptions, they may not be maintaining professional competence and due care and potentially be in breach of the Code ([Subsection 113](#)).

Even if the partner subsequently assesses the assumptions to be robust and appropriate, the level of the threats in undertaking the valuation might not be at an acceptable level. In this situation, safeguards should be applied in relation to the independent expert's report. An example of a safeguard that might address the threats would be to have an appropriate reviewer who was not involved in providing the service review the service performed (para [300.8 A2](#)). This may include another appropriately qualified partner from the firm.

Decline or End Professional Activity

If the partner cannot eliminate the circumstances creating the threats and no safeguards are available or capable of being applied to reduce the threats to an acceptable level, the partner must decline to prepare the independent expert's report (para [R120.10\(c\)](#)).

Further Information

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