

Proposed Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **0X/22**
ISSUED: June 2022

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Commenting on this Exposure Draft

This Exposure Draft, *Proposed Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*, was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by XX August 2022.**

Comments should be addressed to:

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99 William Street
Melbourne Victoria 3000
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E-mail: sub@apesb.org.au

APESB would prefer that respondents express a clear overall opinion on whether the proposed amendments, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed amendments.

APESB also invites comments regarding these proposed amendments from small and medium-sized firms.

Respondents are asked to submit their comments electronically through the APESB website, using the link <https://apesb.org.au/current-projects/>.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the APESB website, www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties, comments can also be sent to sub@apesb.org.au or mailed to the address noted above. While APESB prefers formal submissions we also encourage opinions and comments to be sent via email to sub@apesb.org.au.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au.

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Reasons for issuing Exposure Draft 0X/22

In April 2022, the International Ethics Standards Board for Accountants (IESBA) made quality management conforming amendments to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). These revisions result from the new quality management standards issued by the International Auditing and Assurance Standards Board (IAASB) in December 2020.

The Australian Auditing and Assurance Standards Board (AUASB) issued Australian equivalents of the IAASB's quality management standards in March 2021, which will apply to Australian assurance practices from 15 December 2022, and consist of (AUASB Quality Management Standards):

- ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*;
- ASQM 2 *Engagement Quality Reviews*; and
- ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Accounting Professional & Ethical Standards Board Limited (APESB) reissued APES 320 *Quality Control for Firms* as APES 320 *Quality Management for Firms that provide Non-Assurance Services* (reissued APES 320) in February 2022, effective from 1 January 2023.

As a result of the finalisation of the above standards, APESB proposes to amend APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) for quality management conforming amendments, to ensure it remains consistent with the IESBA Code, the reissued APES 320 and AUASB Quality Management Standards.

Key requirements and guidance in Exposure Draft 0X/22

This Exposure Draft sets out proposed amendments to the current version of the Code. The proposed key changes are summarised below:

- alignment with the changes made to the IESBA Code; and
- conforming and consequential amendments to the Code for terminology, concepts and principles used in the reissued APES 320 and the AUASB Quality Management Standards.

Proposed operative date

It is intended that the proposed amendments will be effective for engagements beginning on or after 1 January 2023.

Earlier adoption of these provisions will be permitted.

Proposed Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

XXX 2022

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CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INDEPENDENCE STANDARDS)

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GLOSSARY

ASQM 1 Auditing Standard ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements issued by the AUASB.

Engagement Quality Review An objective evaluation of the significant judgements made by the **Engagement Team** and the conclusions reached thereon, performed by the **Engagement Quality Reviewer** and completed on or before the date of the engagement report.

Engagement Quality Reviewer A partner, other individual in the **Firm**, or an external individual, appointed by the **Firm** to perform the **Engagement Quality Review**.

Network A larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality **management control** policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

[All other terms in the Glossary of the extant Code remain unchanged.]

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

[Paragraphs 120.1 to 120.2 of extant Section 120 remain unchanged.]

Requirements and Application Material

[Paragraphs R120.3 to 120.13 A3 of extant Section 120 remain unchanged.]

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 APES 320 *Quality ~~Management Control~~ for Firms that provide Non-Assurance Services and ASQM 1* sets out requirements and application material relating to Firm culture in the context of a Firm's responsibilities to design, implement and operate a system of quality ~~management control~~ for audits or reviews of Financial Statements, or other assurance or related services engagements.

[Paragraphs 120.15 A1 to 120.15 A2 of extant Section 120 remain unchanged.]

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to Independence. In the context of audits, reviews and other assurance engagements, ~~the existence of~~ a system of quality management ~~system~~ ~~designed, and~~ implemented and operated by a Firm in accordance with ~~APES 320 Quality Control for Firms and~~ the quality management standards issued by the AUASB is an example of such conditions, policies and procedures.

[Paragraphs 120.16 A1 to 120.16 A2 of extant Section 120 remain unchanged.]

PART 3 – MEMBERS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK - MEMBERS IN PUBLIC PRACTICE

Introduction

[Paragraphs 300.1 to 300.3 of extant Section 300 remain unchanged.]

Requirements and Application Material

[Paragraphs R300.4 to 300.7 A4 of extant Section 300 remain unchanged.]

The Firm and its Operating Environment

300.7 A5 A **Member in Public Practice's** evaluation of the level of a threat might be impacted by the work environment within the **Member's Firm** and its operating environment. For example:

- Leadership of the **Firm** that promotes compliance with the fundamental principles and establishes the expectation that **Assurance Team** members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The **Engagement Partner** having authority within the **Firm** for decisions concerning compliance with the fundamental principles, including **any** decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

[Paragraphs 300.7 A6 to 300.10 A1 of extant Section 300 remain unchanged.]

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

[Paragraphs 320.1 to AUST 320.2.1 of extant Section 320 remain unchanged.]

Requirements and Application Material

[Paragraphs 320.3 A1 to 320.3 A3 of extant Section 320 remain unchanged.]

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the fFirm has implemented, as part of a system of quality management in accordance with quality management standards such as APES 320 Quality Management for Firms that provide Non-Assurance Services or ASQM 1, that respond to quality risks relating to the fFirm's ability to perform the engagement in accordance with pProfessional sStandards and applicable legal and regulatory requirements.
- ~~The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~
- The level of fees and the extent to which they have regard to the resources required, taking into account the Member's commercial and market priorities.

[Paragraphs 320.3 A5 to 320.10 A1 of extant Section 320 remain unchanged.]

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

[Paragraphs 325.1 to 325.4 of extant Section 320 remain unchanged.]

Application Material

General

325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320) and ~~ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (ASQM 1)~~ establishes the Firm's responsibilities for its system of quality management and requires the Firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing [Engagement Quality Reviews](#) in accordance with ASQM 2 *Engagement Quality Reviews* (ASQM 2).

[Paragraphs 325.5 A2 to 325.8 A3 of extant Section 325 remain unchanged.]

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

[Paragraphs 330.1 to 330.2 of extant Section 330 remain unchanged.]

Application Material

[Paragraphs 330.3 A1 to 330.4 A1 of extant Section 330 remain unchanged.]

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the [Member in Public Practice](#) and the basis of remuneration.
- Quality [management](#)~~control~~ policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

[Paragraphs 330.4 A3 to 330.6 A1 of extant Section 330 remain unchanged.]

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

[Paragraphs 400.1 to 400.3 of extant Section 400 remain unchanged.]

400.4 ~~ASQM 1 APES 320 Quality Control for Firms (APES 320)~~ requires a Firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm establish policies and procedures designed to provide it with reasonable assurance that. As part of this system of quality management, ASQM 1 requires the Firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ASQM 1, relevant ethical requirements are those related to the firm, its personnel and, where applicable, others subject to the Independence requirements to which the firm and the firm's engagements are subject (including Network Firm personnel), maintain Independence where required by relevant ethics requirements. Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the Firm for actions related to Independence, instead referring to "Firm" for ease of reference. A Firm assigns operational responsibility for compliance with independence requirements a particular action to an individual(s) or a group of individuals (such as an Audit Team), in accordance with ASQM 1 APES 320. In addition, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

[Paragraphs 400.5 to 400.10 of extant Section 400 remain unchanged.]

Requirements and Application Material

[Paragraphs R400.11 to R400.52 of extant Section 400 remain unchanged.]

R400.53 When determining whether a Network is created by a larger structure of Firms and other entities, a Firm shall conclude that a Network exists when such a larger structure is aimed at cooperation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality management ~~control~~ policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);

- (e) The entities within the structure share the use of a common brand name. (Ref: Paras. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Paras. 400.53 A8, 400.53 A9).

[Paragraphs 400.53 A1 to 400.53 A3 of extant Section 400 remain unchanged.]

400.53 A4 Common quality ~~management~~ policies and procedures are those designed, implemented and ~~operated~~ across the larger structure. (Ref: Para. R400.53(c)).

[Paragraphs 400.53 A5 to R400.73 of extant Section 400 remain unchanged.]

400.73 A1 Examples of such transitional measures include:

- Having a **Member in Public Practice** review the audit or non-assurance work as appropriate.
- Having a **Member in Public Practice**, who is not a member of the **Firm** expressing the opinion on the **Financial Statements**, perform a review that is consistent with the objective of equivalent to an **Engagement Quality Review**.
- Engaging another **Firm** to evaluate the results of the non-assurance service or having another **Firm** re-perform the non-assurance service to the extent necessary to enable the other **Firm** to take responsibility for the service.

[Paragraphs R400.74 to 400.79 of extant Section 400 remain unchanged.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a **Firm** concludes that a breach of a requirement in this Part has occurred, the **Firm** shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;¹
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The **Engagement Partner**;
 - (ii) ~~These individual~~ with operational responsibility for ~~the policies and procedures relating to compliance with~~ Independence requirements;
 - (iii) Other relevant personnel in the **Firm** and, where appropriate, the **Network**; and

¹ For example, there are auditor reporting obligations in the *Corporations Act 2001* which a **Member in Public Practice** must comply with. Further information on these requirements is set out in ASIC Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC*.

- (iv) Those subject to the **Independence** requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the **Firm's** objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the **Audit Engagement**; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the **Firm** shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the **Firm's** objectivity would be compromised, and therefore, the **Firm** would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the **Firm** having a system of quality management policies and procedures designed to ~~address provide it with reasonable assurance that~~ Independence requirements is maintained. It might be necessary to end the **Audit Engagement** because of the breach.

[Paragraphs 400.80 A2 to R400.89 of extant Section 400 remain unchanged.]

SECTION 410

FEES

Introduction

[Paragraphs 410.1 to 410.2 of extant Section 410 remain unchanged.]

Requirements and Application Material

[Paragraphs 410.3 A1 to 410.4 A3 of extant Section 410 remain unchanged.]

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly ~~the existence of a~~ system of quality management ~~system~~ designed, ~~and~~ implemented ~~and operated~~ by the Firm in accordance with ~~APES 320 Quality Control for Firms~~ and the quality management standards issued by the AUASB) might also impact the evaluation of whether the threats to Independence are at an Acceptable Level.

[Paragraphs 410.4 A5 to R410.33 of extant Section 410 remain unchanged.]

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

[Paragraphs 900.1 to 900.2 of extant Section 900 remain unchanged.]

900.3 ASQM 1 APES 320 Quality Control for Firms (APES 320) requires a Firm to design, implement and operate a system of quality management for assurance engagements performed by the Firm~~establish policies and procedures designed to provide it with reasonable assurance that the Firm, its personnel and, where applicable, others subject to Independence requirements maintain Independence where required by relevant ethics standards. As part of this system of quality management, ASQM 1 requires the Firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to Independence. Under ASQM 1, relevant ethical requirements are those related to the Firm, its personnel and, when applicable, others subject to the Independence requirements to which the Firm and the Firm's engagements are subject.~~ In addition, Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the Firm for actions related to Independence, instead referring to "Firm" for ease of reference. A Firm~~s~~ assigns operational responsibility for compliance with Independence requirements~~a particular action~~ to an individual(s) ~~or a group of individuals (such as an Assurance Team)~~ in accordance with ASQM 1-APES 320. Additionally, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

[Paragraphs 900.4 to R900.55 of extant Section 900 remain unchanged.]

SECTION 905

FEES

Introduction

[Paragraphs 905.1 to 905.2 of extant Section 905 remain unchanged.]

Requirements and Application Material

[Paragraphs 905.3 A1 to 905.3 A3 of extant Section 905 remain unchanged.]

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly ~~the existence of a~~ system of quality management ~~system~~ designed, ~~and~~ implemented and operated by a Firm in accordance with ~~APES 320 Quality Control for Firms and~~ the quality management standards issued by the AUASB) might also impact the evaluation of whether the threats to Independence are at an Acceptable Level.

[Paragraphs 905.3 A5 to 905.10 A8 of extant Section 905 remain unchanged.]

TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

[Paragraphs 1 to 6 of the transitional provisions in the extant Code remain unchanged]

Quality Management-related Conforming Amendments to the Code

7. Quality Management-related Conforming Amendments to the Code will be effective for engagements beginning on or after 1 January 2023.

Early adoption will be permitted.

CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

APES 110 and the IESBA Code

APES 110 incorporates the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to April 2022.

[The list of Compliance with the IESBA Code in the extant Code remains unchanged.]