

AGENDA PAPER

Item Number: 18
Date of Meeting: 23 September 2022
Subject: Proposed compilation of APES 110

Action required **For discussion** **For noting** **For information**

Purpose

To seek the Board's:

- (a) approval to include editorial amendments in the Amending Standard Quality Management-related conforming amendments to the Code; and
- (b) views on a draft Compiled APES 110 Code of Ethics for Professional *Accountants* (including *Independence Standards*) (Compiled Code).

Background

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) was released in November 2018. Subsequently, due to local and international developments, APESB has issued the following amending standards:

- Amendment to Part 4B of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (September 2020);
- Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* to Promote the Role and Mindset Expected of Professional Accountants (March 2021);
- Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers (February 2022);
- Amendments to the Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (July 2022)

In addition, by the end of 2022, the Board will also be considering the approval of two further Amending Standards:

- Quality Management-related Conforming Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (being considered at the September 2022 Board meeting); and
- Amendments to the Non-Assurance Services provisions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (being considered at the December 2022 board meeting).

To enhance the accessibility and usability of the Code, periodically APESB issues a Compiled Code which compiles all amending standards with the original Code.

Key Considerations

The four amending standards issued by APESB since the release of the restructure Code in 2018 include several substantial changes, which are noted below:

- Changes to definitions (refer to pages 23 – 33 of Agenda Item 18 (a)) including:
 - New definitions – ASQM 1, Attestation Engagement, Criteria, Direct Engagement, Engagement Quality reviewer, Responsible Party, Subject Matter Information and Underlying Subject Matter.
 - Amended definitions – Administration, Assurance Client, Assurance Engagement, Assurance Team, Engagement Quality Review, Financial Statements, Firm, Key Audit Partner, Network, Professional Standards, Review Team
 - New explanation of defined term – Professional judgement.
 - Amended explanation of defined term – reasonable and informed third party.
- New requirement for Members to have an inquiring mind when applying the conceptual framework of the Code (refer to pages 42 – 43 of Agenda Item 18 (a)).
- New application material on professional judgement, an inquiring mind and other matters to consider, such as bias, organisational culture and firm culture when applying the conceptual framework (refer to pages 43 – 44 of Agenda Item 18 (a)).
- Addition of Section 325 *Objectivity of an Engagement Quality Reviewer and other Appropriate Reviewers* (refer to pages 98 – 99 of Agenda Item 18 (a)).
- Significant changes to the fee-related provisions in Section 410 and 905, including new requirements on the level of fees, fee dependency and transparency of fee-related information (refer to pages 136 – 149 and 211 - 215 of Agenda Item 18 (a)).
- Broadened prohibition on audit partners being incentivised, either directly or indirectly, for selling non-assurance services to all audit clients of the Firm (page 150 of Agenda Item 18 (a)).
- New guidance on the interaction of the long association provisions with the requirements in ASQM 2 *Engagement Quality Reviews* (refer to page 174 of Agenda Item 18 (a)).
- Multiple amendments in Part 4B to align with AUASB standards, including a clear distinction between the types of Assurance Engagements covered in the Code, the parties to an Assurance Engagement and their roles and responsibilities, and the applicable Independence requirements that therefore apply (refer to pages 203 - 238 of Agenda Item 18 (a)).

The Quality Management Amending Standard updates provisions across the Code to amend references to the reissued APES 320 Quality Control for Firms that provide Non-Assurance Services and the AUASB standards relating to Quality Management.

Due to these substantive changes, which include new sections and requirements, as well as changes to several existing provisions, Technical Staff believe that a new version of the Compiled Code should be issued in due course for the benefit of stakeholders.

Technical Staff have drafted a revised compiled code (refer to Agenda item 18(a)) that incorporates the four approved Amending Standards, plus the amending standard for quality management-related conforming amendments into the extant version of the Code issued in November 2018. This draft version of the Compiled Code includes all amending standards that will be in effect from 1 January 2023.

The details of the compilation and the complete list of all paragraphs affected by the amending standards are set out on pages 3 – 12 of Agenda Item 18(a) Draft Compiled Code 2022.

Comparison to the 2022 IESBA Handbook

The International Ethics Standards Board for Accountants (IESBA) issued the 2022 version of the [IESBA Handbook](#) on 9 September 2022. The new handbook includes all IESBA revisions that become effective in December 2022, including:

- The revisions to the non-assurance services (NAS) and fee-related provisions of the IESBA Code.
- The revisions address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers.
- The quality management-related conforming amendments to the IESBA Code were issued due to the finalization of the International Auditing and Assurance Standards Board's (IAASB) suite of quality management standards.

To verify the accuracy of the draft compiled Code and the Amending Standards issued to date, APESB Technical Staff have performed a comparison against the new IESBA Handbook. As part of this review APESB Technical Staff have noted a few matters that require resolution.

APESB Technical Staff have identified that the following matters need to be corrected:

- In paragraph 200.6 A1, in the first bullet point under (a) Self-interest Threat, a comma is missing after the word 'from' as noted in the mark-up of the paragraph below:
 - A **Member** holding a **Financial Interest** in, or receiving a loan or guarantee from, the employing organisation.
- In paragraph 360.19 A1, there is a reference to 'reccurrence', which is spelt incorrectly. It should be 'recurrence.'

APESB Technical Staff are of the view these two changes should be approved by the Board and included in the Amending Standard on Quality Management-related conforming amendments to the Code.

APESB Technical Staff also noted three matters which do not appear to correspond to content in the Final Standards issued by the IESBA. The matters were:

- Changes have been made to paragraph 6 of the Guide to the Code, which appears to align with changes in the role and mindset Final Standard. The changes are reproduced in the paragraph below in the mark-up:

'6. The Code requires Members to comply with the fundamental principles of ethics. The Code also requires Members to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires [having an inquiring mind](#), exercising professional judgement, ~~remaining alert for new information and to changes in facts and circumstances~~, and using the reasonable and informed third party test.'

- There were additional words 'or a group of individuals' in the IESBA Code paragraph 400.5, which were not included in the QM Final Pronouncement issued by the IESBA.
- There is an additional word ('the') in paragraph R400.80 (c)(ii), as shown below, which was not included in the QM Final Pronouncement issued by the IESBA
 - The individual with operational responsibility for the compliance with Independence requirements;

APESB Technical Staff have contacted the IESBA Technical Staff about these matters and will provide a verbal update to the Board at the September Board Meeting.

Way forward

There are still substantial changes to be made to the Code, which are included in the proposed amending standard on Non-Assurance Services (NAS). The NAS amending standard is scheduled to be approved at the December 2022 meeting with an effective date of 1 July 2023.

Technical Staff are of the view that the Compiled Code should incorporate the NAS amending standard. Therefore, we propose to present an updated draft Compiled Code at the December 2022 meeting for Board approval.

Staff Recommendation

The Board:

- approve the inclusion of the editorial amendments (as noted in this agenda paper) in the Amending Standard Quality Management-related Conforming Amendments to the Code; and
- provide feedback on the draft Compiled APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

Material Presented

Agenda Item 18 (a) Draft Compiled Code of Ethics

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Date: 15 September 2022