

10 November 2022

Quality Management-related Conforming Amendments to the Code

Accounting Professional & Ethical Standards Board (APESB) today issued Quality Management-related Conforming Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

The amendments align the Code with the quality management conforming amendments made to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) resulting from the new quality management standards issued by the International Auditing and Assurance Standards Board (IAASB).

The revisions also consist of conforming and consequential amendments to the Code for terminology, concepts and principles used in the reissued APES 320 *Quality Management for Firms that provide Non-Assurance Services* and the Australian Auditing and Assurance Standards Board (AUASB) Quality Management Standards, which apply to Australian assurance practices.

Please refer to Appendix 1 of this technical update for details of all the revisions. The amendments to the Code will be effective from 1 January 2023, with early adoption permitted.

The interactive PDF of the amending standard is available from APESB's [website](#).

– ENDS –

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Appendix 1

Amendments to APES 110 (Issued November 2018 and amended September 2020, March 2021, February 2022, July 2022 and November 2022)

APESB has approved the following revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, which was issued in November 2018 and amended in September 2020, March 2021, February 2022, July 2022 and November 2022.

Paragraph/Section Reference	Revisions
GUIDE TO THE CODE	
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 <u>having an inquiring mind</u> , exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third party test.
SCOPE AND APPLICATION	
1.1	Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> (this Code). This Code is operative from 1 January 2020 and supersedes APES 110 <i>Code of Ethics for Professional Accountants</i> (issued in December 2010 and subsequently amended in December 2011, May 2013, November 2013, May 2017 and April 2018). Earlier adoption of this Code is permitted. Transitional provisions relating to Key Audit Partner rotation, revisions to Part 4B, the role and mindset expected of Members, the objectivity of Engagement Quality Reviewers and other appropriate reviewers, and the fee-related provisions <u>and the quality management-related conforming amendments</u> apply as specified in the respective transitional provisions on page <u>1927</u> .
GLOSSARY	
[AUST] ASQM 1	<u>Auditing Standard ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> issued by the AUASB.</u>
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 <u>management</u> control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK	
	Considerations for Audits, Reviews, Other Assurance and Related Services Engagements <i>Firm Culture</i>

Paragraph/Section Reference	Revisions
AUST 120.14 A1	<p>APES 320 <i>Quality Management Control for Firms that provide Non-Assurance Services and ASQM 1</i> 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 <u>non-assurance services engagements and audits or reviews of Financial Statements, or other assurance or related services engagements.</u></p> <p><u>Considerations for Audits, Reviews, Other Assurance and Related Services Engagements</u></p>
120.15 A3	<p>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 <u>aAssurance eEngagements, the existence of a system of quality management system designed, and implemented and operated</u> by a Firm in accordance with APES 320 Quality Management for Firms that provide Non-Assurance Services and the quality management standards issued by the AUASB is an example of such conditions, policies and procedures.</p>
PART 2 - MEMBERS IN BUSINESS (INCLUDING EMPLOYMENT RELATIONSHIPS OF MEMBERS IN PUBLIC PRACTICE)	
200.6 A1	<p>Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a Member when undertaking a Professional Activity:</p> <p>(a) Self-interest Threats:</p> <ul style="list-style-type: none"> • A Member holding a Financial Interest in, or receiving a loan or guarantee from, the employing organisation. • A Member participating in incentive compensation arrangements offered by the employing organisation. • A Member having access to corporate assets for personal use. • A Member being offered a gift or special treatment from a supplier of the employing organisation. <p>(b) Self-review Threats:</p> <ul style="list-style-type: none"> • A Member determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision. <p>(c) Advocacy Threats:</p> <ul style="list-style-type: none"> • A Member having the opportunity to manipulate information in a prospectus in order to obtain favourable financing. <p>(d) Familiarity Threats:</p> <ul style="list-style-type: none"> • A Member being responsible for the financial reporting of the employing organisation when an Immediate or Close Family member employed by the organisation makes decisions that affect the financial reporting of the organisation.

Paragraph/Section Reference	Revisions
	<ul style="list-style-type: none"> • A Member having a long association with individuals influencing business decisions. <p>(e) Intimidation Threats:</p> <ul style="list-style-type: none"> • A Member or Immediate or Close Family member facing the threat of dismissal or replacement over a disagreement about: <ul style="list-style-type: none"> ○ The application of an accounting principle. ○ The way in which financial information is to be reported. • An individual attempting to influence the decision making process of the Member, for example with regard to the awarding of contracts or the application of an accounting principle.
PART 3 – MEMBERS IN PUBLIC PRACTICE	
300.7 A5	<p>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:</p> <ul style="list-style-type: none"> • 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 <u>any</u> 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.
320.3 A4	<p>Factors that are relevant in evaluating the level of such a threat include:</p> <ul style="list-style-type: none"> • An appropriate understanding of: <ul style="list-style-type: none"> ○ 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. • The existence of quality control <u>Policies and procedures that the Firm has implemented, as part of a system of quality management in accordance with quality management standards such as APES 320 <i>Quality Management for Firms that provide Non-Assurance Services</i> or ASQM 1, that respond to quality risks relating to the Firm's ability to perform the engagement in accordance with professional</u>

Paragraph/Section Reference	Revisions
	<p>standards and applicable legal and regulatory requirements designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.</p> <ul style="list-style-type: none"> • 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.
325.5 A1	<p>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 <i>Quality Management for Firms that provide Non-Assurance Services</i> (APES 320) and ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> (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 <i>Engagement Quality Reviews</i> (ASQM 2).</p>
330.4 A2	<p>Factors that are relevant in evaluating the level of such threats include:</p> <ul style="list-style-type: none"> • 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 <u>management</u> 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.
360.19 A1	<p>Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, Those Charged with Governance include whether:</p> <ul style="list-style-type: none"> • The response is timely. • The NOCLAR or suspected NOCLAR has been adequately investigated. • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any NOCLAR. • Action has been, or is being, taken to deter the commission of any NOCLAR where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the risk of reoccurrence, for example, additional controls or training. • The NOCLAR or suspected NOCLAR has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

Paragraph/Section Reference	Revisions
PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS	
400.4	<p>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 establish policies and procedures designed to provide it with reasonable assurance that the Firm, its personnel and, where applicable, others subject to Independence requirements (including Network Firm personnel), maintain Independence where required by relevant ethics requirements. 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. 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.</p>
R400.53	<p>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:</p> <p>(a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);</p> <p>(b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);</p> <p>(c) The entities within the structure share common quality <u>management control</u> policies and procedures. (Ref: Para. 400.53 A4);</p> <p>(d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);</p> <p>(e) The entities within the structure share the use of a common brand name. (Ref: Paras. 400.53 A6, 400.53 A7); or</p> <p>(f) The entities within the structure share a significant part of professional resources. (Ref: Paras. 400.53 A8, 400.53 A9).</p>
400.53 A4	<p>Common quality management control policies and procedures are those designed, implemented and operated <u>monitored</u> across the larger structure. (Ref: Para. R400.53(c)).</p>
400.73 A1	<p>Examples of such transitional measures include:</p> <ul style="list-style-type: none"> • Having a Member in Public Practice review the audit or non-assurance work as appropriate.

Paragraph/Section Reference	Revisions
	<ul style="list-style-type: none"> • 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 <u>consistent with the objective of</u> 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.
R400.80	<p>If a Firm concludes that a breach of a requirement in this Part has occurred, the Firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;</p> <p>(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:</p> <p style="padding-left: 20px;">(i) Comply with those requirements; and</p> <p style="padding-left: 20px;">(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;¹⁴</p> <p>(c) Promptly communicate the breach in accordance with its policies and procedures to:</p> <p style="padding-left: 20px;">(i) The Engagement Partner;</p> <p style="padding-left: 20px;">(ii) These individual with operational responsibility for the policies and procedures relating to compliance with Independence requirements;</p> <p style="padding-left: 20px;">(iii) Other relevant personnel in the Firm and, where appropriate, the Network; and</p> <p style="padding-left: 20px;">(iv) Those subject to the Independence requirements in Part 4A who need to take appropriate action;</p> <p>(d) Evaluate the significance of the breach and its impact on the Firm's objectivity and ability to issue an audit report; and</p> <p>(e) Depending on the significance of the breach, determine:</p> <p style="padding-left: 20px;">(i) Whether to end the Audit Engagement; or</p> <p style="padding-left: 20px;">(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.</p> <p>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.</p> <p><i>[Footnote 14 remains unchanged from the extant Code]</i></p>
400.80 A1	<p>A breach of a provision of this Part might occur despite the Firm having <u>a system of quality management policies and procedures designed to address</u> provide it with reasonable assurance that Independence requirements is maintained. It might be necessary to end the Audit Engagement because of the breach.</p>

Paragraph/Section Reference	Revisions
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 Management for Firms that provide Non-Assurance Services 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.
PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS	
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 establish policies and procedures designed to provide it 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 Firms 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.
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 Management for Firms that provide Non-Assurance Services 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.
TRANSITIONAL PROVISIONS	
	<p>The Code is subject to the following transitional provisions:</p> <p><i>[Paragraphs 1 to 5 of the transitional provisions in the extant Code and amending standards remain unchanged]</i></p> <p><u>Quality Management-related Conforming Amendments to the Code</u></p> <p>6. <u>Quality Management-related Conforming Amendments to the Code will be effective as of 1 January 2023. Early adoption will be permitted.</u></p>

Paragraph/Section Reference	Revisions
CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS	
	<p data-bbox="513 315 906 344"><i>APES 110 and the IESBA Code</i></p> <p data-bbox="513 365 1385 488">APES 110 incorporates the <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to April 2022⁴.</p> <p data-bbox="513 508 938 537"><i>Compliance with the IESBA Code</i></p> <p data-bbox="513 557 1385 629">The principles and requirements of APES 110 and the IESBA Code are consistent except for the following:</p> <ul data-bbox="513 669 1385 775" style="list-style-type: none"> <li data-bbox="513 669 1385 775">• <u>For quality management of non-assurance services, APES 110 refers to APES 320 <i>Quality Management for Firms that provide Non-Assurance Services</i>.</u> <p data-bbox="513 815 1385 887"><i>[All other items on the extant list of compliance with the IESBA Code in the extant Code and amending standards remain unchanged.]</i></p>