

APESB Update for SMPs

IPA Australia
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Agenda

- APESB's role and mandate
- Fee revisions to the Code
- Recent ethical failings in the accounting profession
- Proposed Technology-related revisions to the Code
- Taxation Services
- Proposed revisions to APES 310 Client Monies
- Recent developments in professional standards
- Q & A

APESB's role and mandate



APESB's role and mandate

- Established in 2006 as an independent standard setter to develop professional & ethical pronouncements for the three professional accounting bodies
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members' compliance and discipline overseen by professional bodies
- APESB's structure is globally unique
- A comprehensive suite of accounting professional pronouncements developed during the first decade of operations

APESB's role and mandate

- Influence international standards setting process:
 - IESBA's National Standards Setters group
 - Representation on the IESBA and IFAC Committees
- To date APESB has released 21 pronouncements consisting of 15 Standards and 6 Guidance Notes
- The critical role ethics plays in maintaining the public trust, reputation and good standing of the profession

Fees Revisions to the Code



Fees Revisions – effective 1 January 2023

Address threats
created by fees paid
by the audit client

New provisions re:
level of audit fees

Address issues re
proportion of fees paid
for services other than
audit to audit fees

Enhanced existing
provisions re: fee-
dependency (for all
audit clients)

Promote transparency
of fee-related
information for PIE
audit clients

Fee Dependency – Referral Source

- Referral source provisions were an Australia addition to APES 110 in 2013 – specific to **SMSFs**.
- Provisions have been revised to align with IESBA fee dependency provisions including:
 - Reference to ‘large proportion of fees’ replaced with **30%** threshold.
 - Applies to firm, individual partner and office.
 - 5 year cumulative period before requirement applies
 - pre-issuance review to be completed at 5 years by an appropriate reviewer not involved in the audit
 - Required to clarify position if dependency continues beyond 5 years



Resources – Fee-related provisions

IESBA International Ethics Standards Board for Accountants
Staff Questions & Answers 1 January 2022

Revised Fee-related Provisions of the Code Guidance for Professional Accountants in Public Practice

Q&As Relevant to Non-Public Interest Entities (Non-PIEs) and PIEs

Context:

Q1: Section 410 includes provisions relevant to fees and other types of remuneration received from an audit client. Is there a particular method a firm should use to determine which fee for a specific service (e.g., fee quoted, charged or paid) it should take into consideration when evaluating the level of the threats to independence created by the provision of that service to the audit client?

A: Given that fee arrangements and methods of payment vary widely in practice, the IESBA does not believe it would be appropriate for the Code to be overly prescriptive in terms of the method a firm should use to determine the fees and other types of remuneration (for example, the fees quoted, charged or paid) that should be taken into consideration for purposes of identifying, evaluating and addressing threats to independence.

A firm should consider any type of payment received from the audit client for purposes of evaluating and addressing the level of the threats created. In line with the Code's conceptual framework, the firm should exercise professional judgment in determining the amount of the fee or other type of remuneration received for providing audit or any other services to the audit client, including any payment-in-kind. To evaluate the level of the threats created by fees from an audit client, the firm may consider the fees quoted or charged or actually paid for the specific service, depending on the time and circumstances of the evaluation.

Q2: Section 410 refers in various places to "audit fees" and "fee for the audit of the financial statements." Are these the same?

A: No, they are not the same. Paragraph 410.3.A3 provides that for the purposes of Section 410, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. This is consistent with the general auditing convention established in paragraph 400.2 for Part 4A, whereby the term "audit" applies equally to "review". However, where reference is made in paragraphs 8410.23(a), 410.25.A1 and 8410.31(a) specifically to the "fee for the audit of the financial statements," this does not include any fee for an audit of special purpose financial statements or a review of financial statements.

1. In this document, the term "fee" is used in line with its definition in the Glossary in the Code.

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- Q&As Relevant to PIEs Only
 - Fee Dependency
 - Enhanced Transparency with Respect to PIE Audit Clients
 - Communication with Those Charged with Governance
 - Public Disclosure

This Questions and Answers (Q&As) publication is issued by the staff of the International Ethics Standards Board for Accountants (IESBA). It is intended to assist national standard setters, audit member bodies and professional associations (PIEs) in public practice (including those who have adopted and implemented the measures to the fee-related provisions of the IESBA International Code of Ethics for Professional Accountants (Including International Independence Standards) (this Code). The IESBA issued its first pronouncement in April 2021.

This publication is designed to highlight, illustrate or explain aspects of the relevant IESBA provisions in the Code, and thereby assist in their proper application.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading this Q&As is not a substitute for reading the Code. The Q&As are not intended to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

IESBA Staff Q&As - Fees

- Relevant to both PIE & non-PIE audit clients
- Threats created by fees paid by audit client
- Proportion of Fees
- Fee Dependency
- Transparency for PIE audit clients:
 - Communication with Those Charged with Governance
 - Public Disclosure

Available on the [IESBA's website](https://www.iesba.org/)

Recent ethical failings in the accounting profession



Recent ethical failings

UK – Kingman and CMA Reviews, Brydon Report, FRC overhaul and Big 4 operational separation as a result:

- Carillion – KPMG issued with a £14.4m fine from the UK FRC
- BHS – PwC fined £6.5m. Auditor fined £325k and banned for 15 years

EU – Wirecard collapse in Germany 2020 – €1.9b fictitious assets, unqualified audit reports and alleged audit failures

USA – US SEC & PCAOB Independence and Ethics breaches

- US\$ 100M fine for EY
- US\$ 450K fine for KPMG

AU – Parliamentary inquiries on audit regulation, use of consultants and ethics and structural accountability

- PwC – Breach of Confidentiality (Multinational taxation schemes)
- KPMG - Conflict of interests (NSW Transport)



APESB response to Australian ethical failings

Media Statement on the PwC matter

- released 6 June 2023 – available on [APESB's website](#)
- APESB will monitor and assess impact on its standards

Key recommendations to IESBA Consultation Paper Proposed Strategy & Work Plan for 2024-2027:

- IESBA undertake a project on firm leadership and cultural issues
- Need for thought leadership activities or guidance on leadership and culture

Submissions and attendance at Government Inquiries

- Senate Committee Inquiry into management & assurance of integrity by consulting services (April 2023) - [submission](#)
- NSW Government's use and management of consulting services (July 2023) – [submission](#) and attended a public hearing on 9 August 2023
- PJC Inquiry into Ethics & Professional Accountability (August 2023) – [submission](#) and scheduled to appear at a public hearing on 2 November 2023

APESB's recommendations to the Government

Potential measures to improve the ethics and professional accountability of large professional firms:

Opening Statement at the NSW Government public hearing (August 2023) – available on [APESB's website](#)

- Provide legislative backing for APESB's professional and ethical standards;
- Move APESB under the oversight of the FRC (consistent with the Australian Accounting and Auditing standard setters);
- APESB consider the development of a standard (based on the UK FRC's Audit Firm Governance Code) that focuses on large firm culture and governance in the Australian;
- APESB considers the development of a professional standard for Management Consulting;
- Enhance transparency of large professional firms by requiring them to prepare general purpose financial reports, including remuneration disclosures and subject them to audit;
- Establish an independent body to monitor all professional services firms that provide audit, assurance and consulting services. This body will undertake enforcement actions where appropriate and prepare an annual report of its monitoring and enforcement activities to enhance public trust.
- Enhance the existing ethics module of the professional programs and mandatory continuing professional development by increasing coverage of the APESB Standards.

Technology- related revisions to the Code

Proposed Technology related revisions to the Code

- Revisions guides ethical mindset and behavior of professional accountants (PAs) in dealing with changes brought by technology
- International effective date: Dec 2024
- Aust proposed effective date - Jan 2025



April 2023

IESBA issues final Standard

1 September 2023

APESB issues Exposure Draft

21 October 2023

Comments due

Proposed Technology-related revisions to the Code

Draws attention to the **competence, confidentiality, & leadership** imperatives of the digital age

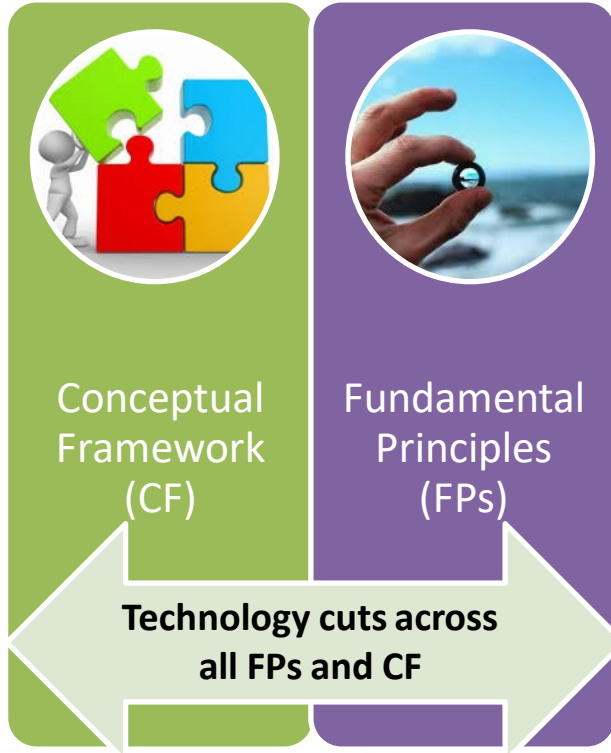
Considers ethical threats from **use of technology & complexity** when exercising professional judgment

Addresses the ethical dimension of **using output of technology**

Strengthens **auditor independence** for technology-related services & business relationships

Applies to assurance on **non-financial information** (e.g. ESG disclosures)

Technology and the Conceptual Framework



- The data available might not be sufficient for the effective use of the technology.
- The technology might not be appropriate for the purpose for which it is to be used.
- The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- The technology was designed or developed using the knowledge, expertise or judgment of the accountant or employing organisation.

Ethical considerations when using technology outputs

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.

Taxation Services



Key proposals in the Tax Planning & Related Services ED

Role of the professional accountant in acting in the public interest

Credible basis

Consideration of the overall tax planning advice or recommendation

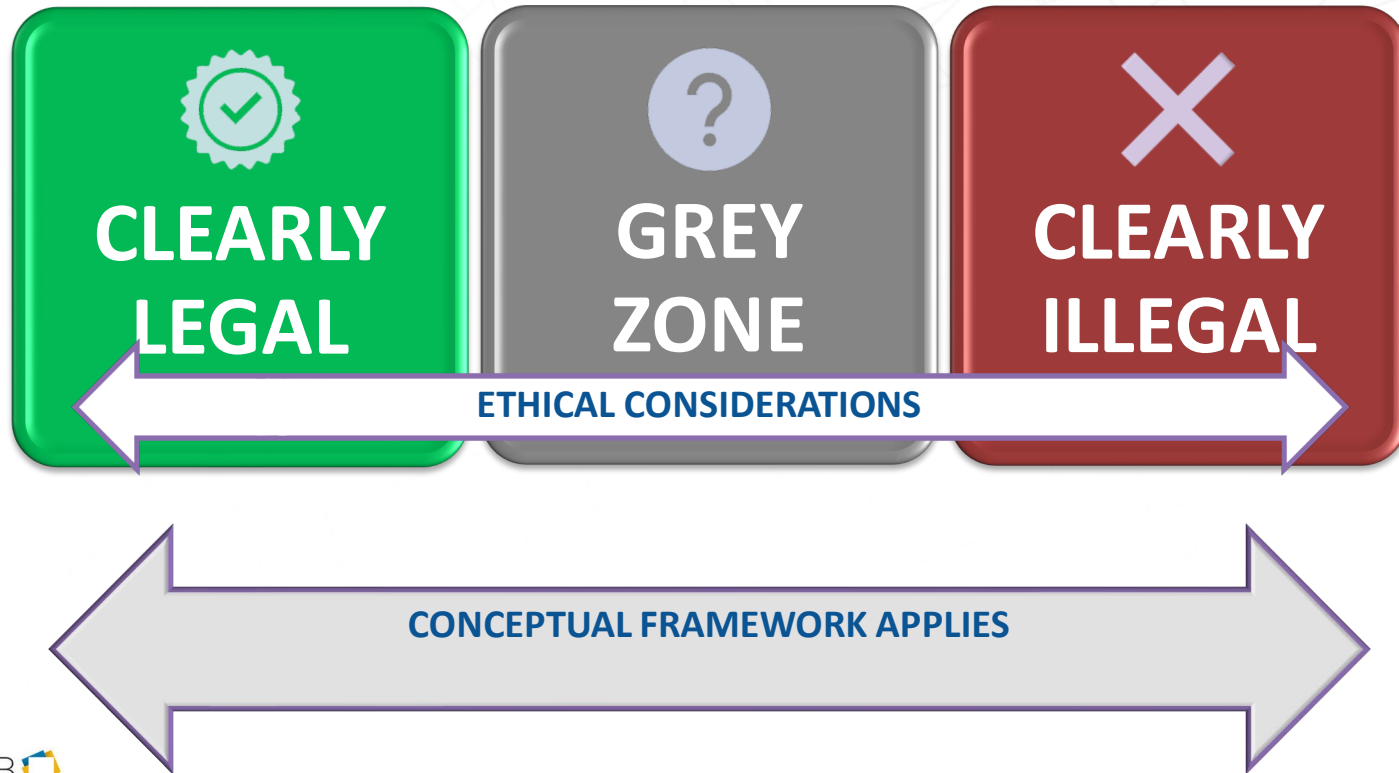
Multi-jurisdictional tax benefit

Application of the conceptual framework

Disagreements

Documentation

Conceptual framework application: Broad Spectrum of Tax Planning



Credible Basis

- A Professional Accountant (PA) can only provide, recommend or advise on a Tax Planning arrangement if the PA has concluded that there is a credible basis.
- When determining whether there is a credible basis:
 - Use professional judgement;
 - Must be based on tax laws and regulations prevailing at time of the assessment; and
 - Consider jurisdictional variations.
- If there is no credible basis, should explain rationale to client.



Consideration of the Overall Tax Planning Advice or Recommendation

- Having established a credible basis, PA now performs stand back test.
- Critical public interest test which also has the PLOB's support
- Stand back test involves considering reputational and commercial risks, and wider economic consequences.
- Consider adverse implications such as negative publicity, fines or penalties.
- Consider the tax base of the jurisdiction(s) – OECD BEPS
- Communication of final basis of PA's conclusion.

APESB submission on IESBA

APESB generally agrees with IESBA's proposals.

Key recommendations included:

- Clarify the description of tax planning services regarding exclusions, duration of related services, and ongoing treatment of transfer pricing compliance arrangements;
- Clearly state the inclusion of related services in the scope of section 280 and 380
- Clarify the drafting of the public interest considerations;
- Addressing uncertainty in determining a credible basis for a tax planning service, including when circumstances change;
- Reframe the stand-back test to prioritise consequences for PAs & firms;
- Review the proposed actions for PAs in business
- Introduce documentation for circumstances of uncertainty and high risk
- Clarify the responsibilities when referring a client to a third-party provider

Submission released in May 2023 – available on [APESB's website](#)

Proposed revisions to APES 310 Client Monies

APES 310 Client Monies

- APES 310 sets out mandatory professional requirements and guidance for members in public practice who:
 - deal with client monies (through the operation of trust accounts or client bank accounts), or
 - who act as an auditor of client monies.
- Requirements on Trust Accounts in place since 1997 (via APS 10 until APES 310 issued in 2010)
- Expanded to address operation of client bank accounts in July 2011
- Exposure draft released 9 June 2023



Proposed revisions to APES 310

- Amendments to the definition of Assurance Engagement to align with the definition in APES 110;
- Aligning the wording in paragraph 6.9 on being unable to deposit client monies into a bank account to be consistent with paragraph 5.23; and
- Amendments to the template assurance reports in Appendix 2 and Appendix 3 to:
 - incorporate quality management-related conforming amendments,
 - Incorporate references to APES 110 and
 - align with the revised ASAE 3100, which is effective for assurance engagements commencing on or after 15 December 2022.

Request for specific comments

Specific comments and feedback was sought on:

- whether any practical issues in complying with the requirements of APES 310, such as opening a trust account or the operation of client bank accounts; and
- existing mechanisms or processes that may facilitate or hinder the operation of this standard.



Project timeline

Consultation process	Date
Exposure Draft comment period closed	18 August 2023
APESB Board consideration of ED outcomes	17 November 2023
Proposed effective date	1 April 2024

Recent developments in professional standards



International Sustainability Standards Infrastructure



IESBA actions on Sustainability:

- IESBA considered feedback from global roundtables at June 2023 meeting and supported including the profession-agnostic independence standards for Sustainability Assurance in a new part 5 of the Code.
- IESBA established the Sustainability Reference Group (SRG) with APESB CEO, Channa Wijesinghe appointed to chair the SRG.
- Aim to issue an Exposure Draft for Sustainability Ethics and Independence Standards by December 2023.

Australia actions on Sustainability:

- Treasury issued [Second Consultation Paper](#) on climate-related financial disclosures in June 2023. Comments closed in July 2023.
- AUASB issued [Consultation Paper](#) seeking public comment by November 2023 on IAASB's Exposure Draft on International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*.

NAS Revisions – effective 1 July 2023

Introduction of **new self-review threat (SRT) prohibition** for PIE audit clients

New requirements for firm communication with those charged with governance (TCWG) for PIE audit clients

More clarifications to assist in the application of the conceptual framework to independence in identifying, evaluating and addressing threats created by providing a NAS to an audit client

Updated [list of prohibitions for auditors](#) available on APESB website

Other APESB developments

Project	High-level overview / Key revisions
APES GN 30 <i>Outsourced Services</i>	<ul style="list-style-type: none">• Issued 14 September 2023 – effective from date of issue• New guidance to clarify the meaning of ‘Geographical Location’ could be the country for outsourced services or cloud computing• Updated definition of ‘Network’ to align with other pronouncements• New example addressing the situation where an overseas entity holds an individual’s employment contract, and the individual provides services to Australian Clients under the supervision of an Australian Firm
APES 315 <i>Compilation of Financial Information</i>	<ul style="list-style-type: none">• Issued March 2023 – effective from 1 April 2023• Quality management-related conforming amendments• Amended ‘significant accounting policies’ to ‘material accounting policies’ to conform with APES 205 <i>Conforming with Accounting Standards</i>

Other APESB developments

Project	High-level overview / Key revisions
APES 215 Forensic Accounting Services	<ul style="list-style-type: none">• Issued 23 June 2023 – effective from 1 October 2023• Quality management-related conforming amendments• Amended examples and definitions to provide greater clarity between Lay Witness Service and Expert Witness Service• Requirement for members in business and public practice undertaking Forensic Accounting Service to comply with section 200, 220 and 300 of the Code• Differentiation between observed and scientific facts• Amended definition of ‘Other Evidence’ to remove references to ‘summary’ to prevent confusion with ‘summary’ presented under section 50 of the <i>Evidence Act 1995</i>
APES 225 Valuation Services	<ul style="list-style-type: none">• Issued 11 September 2023 – effective from 1 January 2024• Quality management-related conforming amendments• Technology, Conflict of Interest and Confidentiality related revisions in the Code• Exercise professional judgment on Whistleblower protection legislation and NOCLAR



Discussion

Further Information

For more information visit www.apesb.org.au

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