

APESB Update

CPA Australia Public Practice Advisory Committee
4 October 2023



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Agenda

- APESB's role and mandate
- Recent ethical failings in the accounting profession
- Proposed Technology-related revisions to the Code
- Taxation Services
- 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

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

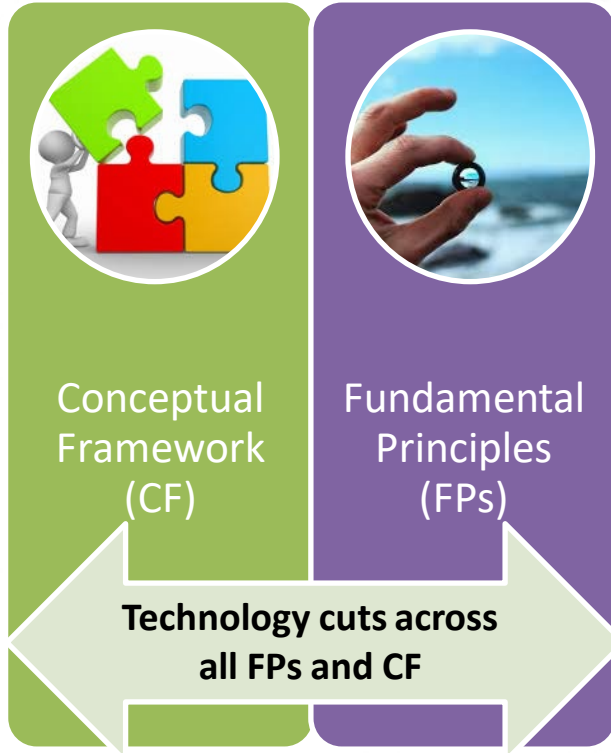
Considers ethical threats from **use of technology & complexity** when exercising professional judgment

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

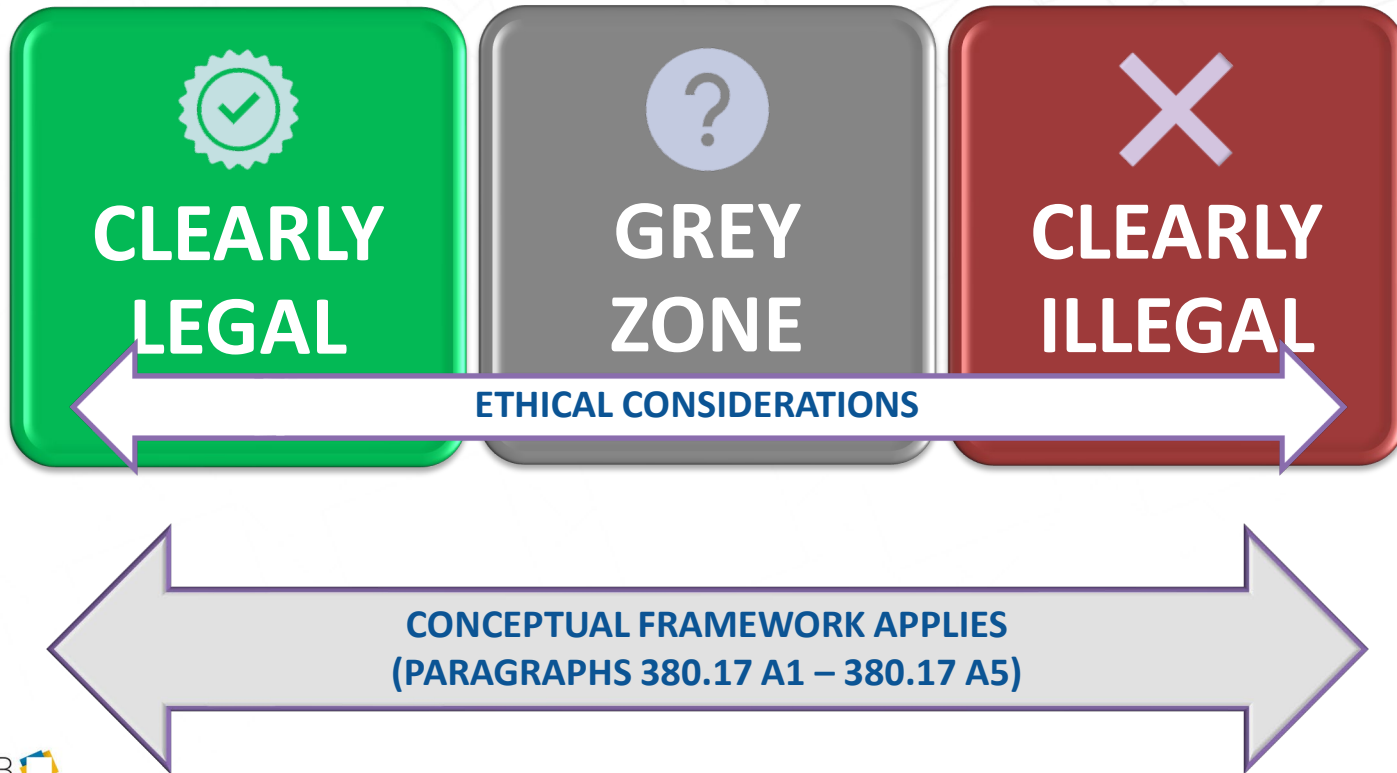
Multi-jurisdictional tax benefit

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.

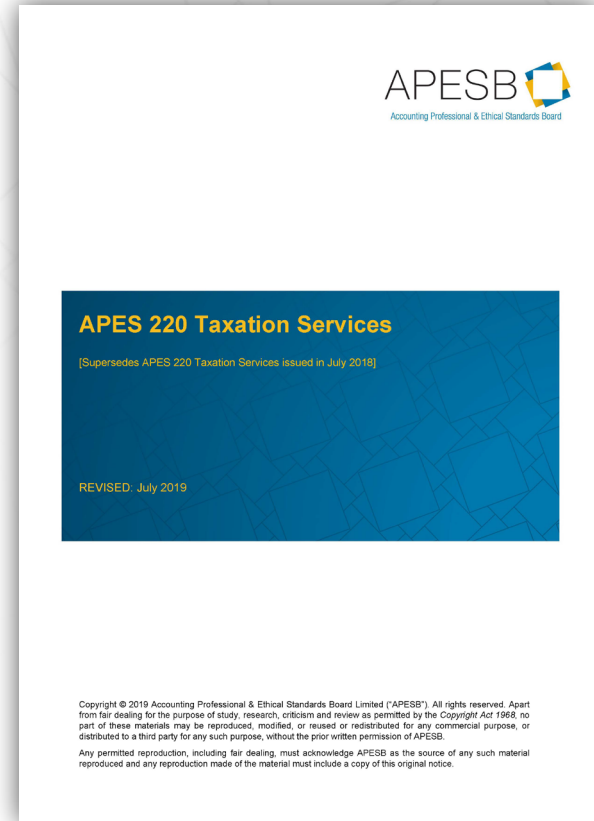
Key recommendations included:

- 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](#)

Considerations for APES 220 Taxation Services

- Covers a broader range of tax services than the proposals in the IESBA exposure draft
- Provisions that may be impacted:
 - Section 5 – Tax schemes and arrangements
 - Section 7 – False and misleading information
- APESB project on APES 220 expected to commence late 2023 and will address:
 - Revisions to align with IESBA Final standard
 - Matters on APESB issues register relating to whistleblowing, supervisory arrangements and quality management-related conforming amendments



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*.

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

Follow the APESB [LinkedIn page](#) for timely updates,

To download APESB's mobile app:



Purpose & Disclaimers

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