

## AGENDA PAPER

**Item Number:** 18  
**Date of Meeting:** 26 August 2014  
**Subject:** Definition of *Professional Activity* in APES 110 *Code of Ethics for Professional Accountants*

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### Purpose

To present the Board with an analysis of the current definition of *Professional Activity* and to seek the Board's views on the proposed options to enhance the term *Professional Activity* in the Australian context.

### Background

At the January 2014 Board meeting, the Board discussed the definition of *Professional Activity* and its insufficient coverage of the range of activities performed by a professional accountant in the Australian context. Such services include valuation services, forensic accounting services and insolvency services.

A number of concerns in respect of the current definition were highlighted by the Board and the Board considered the importance of clarifying the definition. Accordingly, the Board directed Technical Staff to investigate potential approaches to rectify the issue and present a paper for consideration at a subsequent meeting.

### Consideration of Issues

#### Existing definition of Professional Activity in APES 110

The term *Professional Activity* is currently defined in APES 110 *Code of Ethics for Professional Accountants* (the Code) as follows:

**Professional Activity** means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting and financial management.

*Professional Activity* then forms the basis of the defined term *Professional Services* as follows:

**Professional Services** means Professional Activities performed for clients.

It should be noted that the definitions above are consistent with the approach taken by the IESBA in its *Code of Ethics for Professional Accountants*.

## **Issues with the current definition of Professional Activity in APES 110**

The definition of *Professional Activity* in the Code raises a number of issues for consideration:

1. The definition of *Professional Services* refers to *Professional Activities* in a plural form whereas the term *Professional Activity* is defined in a singular form.
2. The current definition focuses on the traditional roles and activities of Members. However, a Member's professional activity has broadened significantly and evolved progressively in the information age. Thus, the current definition excludes the impact of the wide variety of roles performed by Members and the role technology plays in the role of a modern professional accountant.
3. The existing definition refers to an activity requiring accountancy or related skills but does not clarify the accounting activities or related activities performed by a contemporary professional accountant.

Previously, the traditional accounting roles were largely concerned with tasks such as bookkeeping, financial accounting, audit and taxation. This was followed by an increased diversification into non-accounting areas and the addition of consultancy services. Presently, the related activities performed by Members (e.g. financial analysts, financial planners, management accountants, internal auditors and financial controllers) are extensive such as strategic planning, risk management, human resources, information technology, data analytics, marketing, forensic accounting and insolvency services.

4. The definition of *Professional Activity* includes reference to management consulting. However, the conventional term of management consulting does not include the provision of Outsourced Services such as virtual CFO services, marketing, information technology or human resources. Since contemporary management consulting also provides services such as virtual management, change management assistance, executive leadership, talent management, process /operational improvement, development of coaching skills, process analysis, technology implementation and strategy development; there appears to be a need to enhance the definition of *Professional Activity* by incorporating a broader range of activities
5. The term financial management encompasses a wide range of activities. Financial management refers to the efficient and effective management of funds to accomplish an entity's objective. Alternatively, financial management can be generally defined as the activity concerned with planning, organising, directing, raising, controlling and administering of funds. Another term that is used in this context is the term 'financial advisory services'. Financial advisory services means advisory services provided to Clients on managing business controversy & disputes, executing deals and maintaining regulatory compliance involving fraud, forensic investigation, litigation, reorganisation and valuation issues. Therefore, a matter to consider is whether the term 'financial management' in the definition of *Professional Activity* incorporates a wide range of activities and if it is clear from the definition that these activities are included.

**Approaches taken by professional bodies or member bodies in other jurisdictions to define the term Professional Activity**

Technical staff analysed the approach taken by professional bodies or member bodies in other jurisdictions to define the term *Professional Activity* and noted that in several jurisdictions, professional bodies continue to define the term *Professional Services* rather than *Professional Activities* as in the IESBA Code. The approaches taken by professional bodies or member bodies in other jurisdictions are summarised in the table below.

Summary of approaches taken by professional bodies or member bodies in other jurisdictions	AICPA	CGAC	CIMA	ACCA	ICAEW	CARB	NZICA
Same approach as the current IESBA Code?	-	-	-	Y	-	-	Y
Approach consistent with the superseded IESBA Code?	-	-	Y	-	Y	Y	-
Defines term <i>Professional Activity</i> ?	-	-	-	Y	-	-	Y
Defines term <i>Professional Service</i> ?	Y	Y	Y	Y	Y	Y	Y

The excerpts of definitions by professional bodies or member bodies in other jurisdictions for either *Professional Services* or *Professional Activity* are as follows:

**USA: American Institute of Certified Public Accountants (AICPA)**

AICPA defines the term *Professional Services* in the AICPA Code of Professional Conduct as follows:

*Include all services requiring accountancy or related skills that are performed by a member for a client, an employer, or on a volunteer basis. These services include, but are not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by bodies designated by Council.*

**Canada: Certified General Accountants Canada (CGA)**

CGA defines the term *Professional Services* in the Code of Ethical Principles and Rules of Conduct as follows:

Any services performed or offered to be performed by a member for a client or employer, in which the member asserts membership in the Association. In addition, 'professional services' refers to those activities, including the provision of goods, where the public or the member's associates are entitled to rely on the member's membership in the Association as giving particular competence.

Chartered Professional Accountants of Canada (CPA Canada) is the national organisation established to support the unification of the Canadian accounting profession. The CPA legislation to unify The Canadian Institute of Chartered Accountants (CA), Certified Management Accountants (CMA) and CGA was passed on 16 May 2012.

### Chartered Institute of Management Accountants (CIMA)

CIMA defines the term *Professional Services* in their Code of Ethics for Professional Accountants as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

### The Association of Chartered Certified Accountants (ACCA)

The ACCA rulebook takes a similar approach to the IESBA Code by defining *Professional Activity* as:

*An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.*

*Professional Services* are then defined as:

*Professional activities performed for clients.*

### United Kingdom: Institute of Chartered Accountants in England and Wales (ICAEW)

ICAEW defines the term *Professional Services* in their Code of Ethics for Professional Accountants as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

### Ireland: Chartered Accountants Regulatory Board (CARB)

The Chartered Accountants Regulatory Board in Ireland defines the term *Professional Service* as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

### New Zealand: New Zealand Institute of Chartered Accountants (NZICA)

The NZICA *Code of Ethics* takes a similar approach to the IESBA Code by defining *Professional Activity* as:

An activity requiring accountancy or related skills undertaken by a member, including accounting, auditing, taxation, management consulting, and financial management.

*Professional Services* are then defined as:

Professional activities performed for clients.

## **Review of approaches taken by professional bodies or member bodies in other jurisdictions to define the term *Professional Activity***

Technical Staff reviewed the definitions of *Professional Activity* or *Professional Services* adopted by professional bodies or member bodies in other jurisdictions and is of the view that the approaches adopted by AICPA and CGA address some of the issues raised by the Board.

AICPA's definition of *Professional Services* states that the activities include all services requiring accounting or related skills performed by a Member in broader circumstances and incorporates all services addressed in the Standards issued by their professional body.

CGA's defines the term *Professional Services* with reference to activities that are undertaken by a Member where the public or the Member's associates are entitled to rely on the Member's membership in the Association as giving particular competence.

Potential options for the Board to consider in respect of the term '*Professional Activity*' are:

1. Retain the definition of 'Professional Activity' as per APES 110 which ensures APESB's Code's consistency with the IESBA Code.
2. Adopt the definition of 'Professional Services' in CGA's Code of Ethical Principles and Rules of Conduct but to replace the term 'Professional Services' with 'Professional Activities' and to replace the term 'services' with 'activities' as follows:

*Any ~~services~~ activities performed or offered to be performed by a ~~member~~ Member for a client or employer, in which the ~~member~~ Member asserts membership in the ~~Association~~ Professional Bodies. In addition, "~~professional services~~" 'Professional Activities' refers to those activities, including the provision of goods, where the public or the ~~member's~~ Member's associates are entitled to rely on the ~~member's~~ Member's membership in the ~~Association~~ Professional Bodies as giving particular competence.*

3. Adopt the definition of 'Professional Services' in the AICPA Code of Conduct but to replace the term 'Professional Services' with 'Professional Activities' and to replace the term 'services' with 'activities' as follows:

*Include all ~~services~~ activities requiring accountancy or related skills that are performed by a ~~member~~ Member for a ~~client~~ Client, an employer or on a volunteer basis. These services include, but are not limited to accounting, audit and other ~~attest~~ assurance services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational and those services for which standards are promulgated by ~~Council~~ APESB.*

4. Adopt a combination of options 2 and 3 noted above to incorporate the wide ranging services performed by a professional accountant as well as the concept of relying on the Member's professional membership in the following manner.

*Professional Activity means 'all ~~services~~ activities requiring accountancy or related skills that are performed by a ~~member~~ Member for a ~~client~~ Client, an employer, or on a volunteer basis. These ~~services~~ activities include, but are not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by APESB by ~~bodies designated by Council~~ or*

any other activities performed by a Member in which the Member asserts membership of a Professional Body.

If the Board wishes to pursue any of the options 2 to 4, the APESB Secretariat will need to communicate with AICPA and CGA, as applicable, and obtain their permission to reproduce the relevant definitions.

## **Recommendations**

From the options noted above in respect of the definition of 'Professional Activity', Technical Staff recommends that the Board consider Option 4 which is:

**Professional Activity** means 'all activities requiring accountancy or related skills that are performed by a Member for a Client, an employer, or on a volunteer basis. These activities include, but are not limited to accounting, audit and other assurance services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by APESB or any other activities performed by a Member in which the Member asserts membership of a Professional Body.

If the Board wishes to explore this matter further then the next step would be to consult with stakeholders.

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