

**Report to the
Accounting Professional & Ethical
Standards Board
on the definition of
“Professional Services”**

Prepared by Paul Meredith CA, Manager Professional Standards, Institute of Chartered Accountants in Australia

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1. Introduction

1.1 Background

In June 2005, the International Federation of Accountants (IFAC) issued a Code of Ethics for Professional Accountants. That Code contained a definition of “Professional Services”, which is:

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

This definition was incorporated into the Australian Code APES 110 *Code of Ethics for Professional Accountants* when the Accounting Professional & Ethical Standards Board (APESB) issued its code with effect from 1 July 2006.

1.2 The use of the word “including” in the IFAC definition

The IFAC definition uses the word “including” to indicate services that are considered to require accountancy and related skills, and are therefore within the meaning of the term “professional services”.

It is understood that the use of the words “includes” and “including” in definitions is intended to *extend* or *enlarge* the meaning of the preceding words; by way of contrast, where the intention is to enumerate all aspects of the defined term, the words used would be “means” and “meaning”. It follows that the IFAC definition of “professional services” is not intended to list all skills which can be construed as accountancy skills or related to accountancy skills. Therefore, any activity which is unlisted does not necessarily fall outside the definition. It simply falls to be considered as to whether it is part of the defined term or not.

1.3 Reason for this report

At its meeting in November 2007, during the consideration of the final version of APES 205, APESB discussed the definition of “professional services” and requested a discussion paper on this topic to identify issues for their consideration.

2. Perceived problems with the current definition

2.1 Uncertainty about what services are within the definition

There is a presumption that the wording of the current definition will be problematic if members are providing services that are not specifically identified in the definition – the member may therefore be unsure about whether a particular provision of a standard applies to their circumstances, or may seek to argue that the provisions do not apply to them, when the expectation would otherwise be that they did.¹

2.2 Interrelation with terms used by the professional bodies

One of the primary consequences of the definition of the term is that it determines who will be considered to be a member in public practice. This is because the definition of Member in Public Practice includes the term Professional Services, viz.

A Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides **Professional Services**.

The professional bodies identify sections of their membership as being in public practice, and require a subset of such members, those members who are principals of such practices, to hold a certificate of public practice (variously described) if so identified. The holding of this certificate imposes obligations on the member, in the same way that the Code and other APESB pronouncements impose particular standards on members in public practice.

There is a belief within the professional bodies that a member who is required to hold a certificate of public practice should, as far as is practicable, be considered to be a member in public practice for APESB purposes.

The term used by the Institute of Chartered Accountants in Australia

The comparable term used by the Institute is “public accountancy services”. This is defined in the Bylaws at paragraph 2(f):

“Public accountancy services” means accounting, auditing, management consulting, taxation, financial management and insolvency services and such other services as the Board may from time to time determine to be “public accountancy services”.

The Institute’s Board determined in March 2005 to include forensic accounting, risk management and corporate advisory services, with effect from 1 July 2005.

In recent times it has been recognised that terminology in the definition could be updated, for example, use of the broader term “assurance” rather than “auditing”.

¹ Since the issuing of APES 110 on 1 July 2006, the Institute is not aware of any instances of such problems occurring with the definition of “Professional Services” in respect of its members.

The term used by CPA Australia

It is understood that CPA Australia uses the term “public accounting services” in a similar context. The following information appears on the [CPA website](#):

Detailed definition of public accounting services

Public accounting services include, but are not limited to accounting (including bookkeeping), auditing, reports for prospectus or similar work, taxation, secretarial work, receivership, insolvency and reconstruction, financial planning and other statutory functions.

Public accounting services do not include computer consultancy or management consulting services unless such services are ancillary to and provided in conjunction with other public accounting services.

The term used by the National Institute of Accountants

It is understood that the NIA uses the term “Public Practice services”. Public Practice is apparently² defined to mean the provision of accounting services to the public, including services relating to taxation, auditing, financial or investment advice, business or management consulting, superannuation, insurance and information technology.

² It was not possible within the time constraints available for the preparation of this paper to confirm this information with an NIA representative.

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For comparative purposes, the following table lists the various specific services identified in the IFAC definition and those of the professional bodies.

Specific services identified	IFAC	ICAA	CPAA	NIA
Accounting	•	•	•	•
Bookkeeping			•	
Auditing	•	•	•	•
Taxation	•	•	•	•
Management consulting	•	•	Only if ancillary	•
Financial management services	•	•		
Corporate advisory		•		
Secretarial work			•	
Insolvency		•	•	
Receivership			•	
Reconstruction			•	
Forensic accounting		•		
Risk management		•		
Financial planning			•	
Financial or investment advice				•
Reports for prospectus or similar work			•	
Superannuation				•
Insurance				•
Information technology			Only if ancillary	•

3. Strategies to address these problems

3.1 Expanding the list of included services

One possible approach to the problem is to seek to expand the list of services identified as included in the definition.

The Institute has been giving consideration to the definition of the related concept of "public accountancy services" for some time and, in the context of the schemes which limit the liability of its members, has taken legal advice regarding the desirability of including additional services in the definition, to broaden the scope of services which might be considered to be "public accountancy services".

The danger highlighted in the legal advice is that if the list of services included in the definition becomes so extensive that it *suggests* that it is intended to cover the field, any service not listed might be considered to have been deliberately excluded.

On this basis the Institute's Board considered that it was preferable to retain the current (unexpanded) definition of public accountancy services, recognising the possibility that other services may be included from time to time.

3.2 Minimising use of the defined term

Another approach is to consider each use of the defined term and to consider whether its use is necessary. Alternatively it could be considered whether the usage of the term is such as would require a definition to be consulted.

3.2.1 The APESB's previous consideration of this definition

In May and June 2006, when the APESB was preparing for the release of APES 110, it considered the IESBA's use of the term "professional services" within the IFAC Code. As a result of that consideration, APESB:

- removed the word "professional" where it appeared before "services" from paragraphs 130.1(b), 130.6, 240.1, 250.2, 290.33, and 290.208, and from the definitions of *Clients*, *Engagement*, *Existing Accountant* and *Partner*, where the term appears in the equivalent paragraphs in the IFAC Code, because it considered that those paragraphs did not require the type of services to be specified;
- determined not to remove the use of the term from paragraphs 200.2, AUST200.2.1 and AUST200.2.2, because, in the board's view, an understanding of those paragraphs did not turn on the definition of "professional services"; and
- retained the use of the term "professional services" in the definition of *Member in Public Practice*.

4. Recommendation

In the Institute’s view, expanding the list of identified services is problematic, because of the changing nature of such services over time, and the divergent views on what should be included or excluded.

It may be more useful to consider whether the defined term is really required in the particular contexts in which it is used in APESB pronouncements. Prior experience suggests that the general word “services” could often be used where “professional services” currently appears, thus removing the issues around the definition.

Appendix A - Use of the term in APESB pronouncements

This appendix identifies all uses of the defined term “Professional Services” in published APESB pronouncements.

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A.1. Use of the term in APES 110

Apart from the definition of the term itself in the Code, there are seven distinct uses of the term “professional services” in APES 110:

- ❖ **Paragraph 200.2** – This paragraph deals with the prohibition against members engaging in businesses that are incompatible with their principal business as accountants. The board had previously considered (in May/June 2006) that an understanding of this and the next two paragraphs did not turn on the definition of “professional services”.

A Member in Public Practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of **Professional Services**.

- ❖ **Paragraph AUST200.2.1** – This paragraph elaborates on the same issue as paragraph 200.2, and seems to draw a parallel between the terms Professional Services and Public Accountancy:

The simultaneous engagement in another business, occupation or activity unrelated to the provision of **Professional Services** to Clients which has the effect of not allowing the accountant to properly conduct the practice in accordance with the fundamental principles of professional conduct is inconsistent and incompatible with the practice of public accountancy.

- ❖ **Paragraph AUST200.2.2** – This paragraph seeks to identify features of an incompatible business:

A business, occupation or activity is inconsistent and incompatible with the provision of **Professional Services** to Clients when it:

- (a) Creates or would create conflict of interest with existing Clients;
- (b) Impairs or would impair integrity, objectivity or independence in providing **Professional Services** to Clients;
- (c) Impairs or would impair to a material extent the ability to provide **Professional Services** to the general public;
- (d) Impairs or would impair the good reputation of the profession.

- ❖ **Section 250** – The heading of Section 250 contains the term – **Section 250 Marketing Professional Services** – but the term itself is not used within the paragraphs of Section 250.

- ❖ **Paragraph 280.1** – Section 280 deals with objectivity for members in public practice:

A Member in Public Practice should consider when providing any **Professional Service** whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a Client or Directors, Officers or employees. For example,

a familiarity threat to objectivity may be created from a family or close personal or business relationship, or where a person in a Firm has a mutual business interest with an Officer or employee of a Client or has an interest in a joint venture with a Client.

- ❖ **Paragraph 280.3** – This discussion of objectivity is elaborated on in paragraph 280.3:

The existence of threats to objectivity when providing any **Professional Service** will depend upon the particular circumstances of the Engagement and the nature of the work that the Member in Public Practice is performing.

- ❖ **Definition of Member in Public Practice** – The definition of “Member in Public Practice” utilises the defined term “Professional Services”.

A Member, irrespective of functional classification (e.g., audit, tax or consulting) in a Firm that provides **Professional Services**.

A.2. Use of the term in APES 320

There is only one occurrence of the term in APES 320 *Quality Control for Firms*, in the definition of the term “Partner”:

- (k) “Partner” – any individual with authority to bind the Firm with respect to the performance of a **professional services** engagement;

A.3 Use of the term in APES 220

The term “Professional Services” is defined in APES 220 *Taxation Services*, in identical wording to that in APES 110. There are three uses of the defined term in the standard:

- ❖ **Paragraph 1.5** – This paragraph is part of the Scope and Application section of the standard:

Members shall be familiar with relevant professional standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.

- ❖ **Definition of Engagement** – The definition of “Engagement” utilises the defined term “Professional Services”.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of Professional Services by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Note that this is the definition from the IFAC Code. The word “professional” does *not* appear before the word “services” in the APES 110 definition.

- ❖ **Definition of Member in Public Practice** – The definition of “Member in Public Practice” is identical to that in APES 110, and therefore uses the defined term “Professional Services”.

A.4 Use of the term in APES 205

The term “Professional Services” is defined in APES 205 *Conformity with Accounting Standards*, in identical wording to that in APES 110. There are two uses of the defined term in the standard:

- ❖ **Definition of Client** – Note that the definition of “Client” in APES 205 differs from the definition of that term in APES 110, notably because the Code’s definition refers to services rather than professional services:

Client means an individual, firm, entity or organisation to whom or to which Professional Services are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

- ❖ **Definition of Member in Public Practice** – The definition of “Member in Public Practice” is identical to that in APES 110, and therefore uses the defined term “Professional Services”.

A.5 Use of the term in APES 305

The standard APES 305 *Terms of Engagement* makes use of the term “professional services”. The definition of that term in this standard is identical to the definition in the Code.

- ❖ **Paragraph 1.2** – This paragraph is one of the introductory paragraphs of the standard. The opening sentence of the paragraph reads:

APES 305 sets the standards in respect of Terms of Engagement for Members in Public Practice in the provision of quality and ethical **Professional Services** to Clients.

- ❖ **Paragraph 1.3** – This mandatory paragraph is part of the Scope and Application section:

Members in Public Practice in Australia shall follow the mandatory requirements of APES 305 when they provide Professional Services to Clients.

- ❖ **Paragraph 1.5** – This paragraph is also a mandatory part of the Scope and Application of the standard:

Members in Public Practice shall be familiar with relevant professional standards and guidance notes when providing Professional Services. All Members shall comply with the fundamental principles outlined in the Code.

- ❖ **Definition of Client** – Note that the definition of “Client” in APES 305 differs from the definition of that term in APES 110, notably because the Code’s definition refers to services rather than professional services:

Client means an individual, firm, entity or organisation to whom or to which **Professional Services** are provided by a Member in Public Practice in respect of Engagements of either a recurring or demand nature.

- ❖ **Definition of Engagement** – The definition of “Engagement” utilises the defined term “Professional Services”.

Engagement means an agreement, whether written or otherwise, between a Member in Public Practice and a Client relating to the provision of **Professional Services** by a Member in Public Practice. However, consultations with a prospective Client prior to such agreement are not part of an Engagement.

Note that the definition of “engagement” in APES 305 is identical to that in APES 110, except that the word “professional” does *not* appear before the word “services” in the APES 110 definition.

- ❖ **Definition of Member in Public Practice** – The definition of “Member in Public Practice” is identical to that in APES 110, and therefore uses the defined term “Professional Services”.

- ❖ **Section 3** – The term appears in the title of section 3 and in the first paragraph of that section:

3. Terms of Engagement for **Professional Services**

3.1 A Member in Public Practice shall document and communicate the Terms of Engagement when providing **Professional Services** to Clients.

- ❖ **Use of the term “Professional Services Legislation”** – APES 305 contains reference to “Professional Services Legislation” (in paragraphs 4.5, 6.1 and 6.2). This terminology is incorrect. The correct term is “Professional Standards Legislation” – see [a list of this legislation on the Professional Standards Council's website](#). The use of the correct term will obviate the need for any further consideration of those paragraphs in this discussion paper.

A.6 Use of the term in the Network Firm amendments to the Code

In December 2007 the APESB released its amendments to APES 110 in relation to Network Firms, in line with the international amendments to the IESBA Code. Those amendments contain two references to "professional services".

- ❖ **New paragraph 290.16** – This paragraph deals with the newly-introduced network concepts:

To enhance their ability to provide **professional services**, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends upon the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is considered to be a network.

- ❖ **New paragraph 290.21** – This paragraph discusses the concept of a common business strategy:

Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is considered to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not considered to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a **professional service**.