S3 The revised Code of Ethics and new Auditor Independence requirements

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Overview

- Background to the revised APES 110 *Code of Ethics for Professional Accountants*
- IESBA revision to its Code
- APESB's amendments to the revised IESBA Code
- APESB's changes to the existing Code
- APESB's consideration of respondents' comments to APES 110 ED
- Questions

Background to the revised Code of Ethics for Professional Accountants

- APES 110 (the Code) is based on *Code of Ethics for Professional Accountants* issued by IESBA
- IESBA issued a revised Code in July 2009
- APESB provided input to the IESBA process by completing 3 submissions

Background cont.

- APESB reviewed and revised the Code based on four sources of input and public consultations:
  1. IESBA's revisions to its Code
  2. APESB's amendments to revised IESBA Code
  3. APESB's changes to existing Code
  4. APESB's consideration of respondents' comments to APES 110 Exposure Draft

Background cont.

- Operative date 1 July 2011 with early adoption permitted

IESBA's Revision to its Code

- Three projects undertaken by IESBA

1. <u>Independence I</u>
    - Auditor independence requirements extended from Listed Entities to audits of all Public Interest Entities (PIEs)
    - Mandatory Partner rotation requirements for audits of PIEs
        - Extended from Engagement Partner and Engagement Quality Control Review Partner to all Key Audit Partners i.e.
            - » Engagement Partner
            - » Quality Control Review Partner
            - » Other Partners responsible for key decisions or judgments on the audit engagement

IESBA's Revision to its Code cont.

- – Key Audit Partner rotation required after 7 years and time-out of 2 years
  - » An exemption available where there are only a few people with knowledge & skill to serve as a Key Audit Partner;
  - » Independent regulator has provided an exemption; and
  - » Independent regulator has provided safeguards

- Mandatory cooling off period for a Key Audit Partner before joining former Audit Client that is a PIE as a:
  - Director;
  - Officer; or
  - Employee with significant influence over accounting records or financial statements

IESBA's Revision to its Code cont.

- Cooling off period:
  - Senior or managing Partner = 1 year
  - Key Audit Partner = 1 audit opinion covering 12 months
- New section on Management responsibilities
- New or enhanced provisions dealing with Taxation Services and Corporate Finance Services

IESBA's Revision to its Code cont.

- Structure of Code changed to enhance clarity and understanding of the Independence requirements for Audit/Reviews and Other Assurance Engagements:
  - Section 290: Audit and Review Engagements of Financial Statements
  - Section 291: Other Assurance Engagements

IESBA's Revision to its Code cont.

2. *Independence II*

- Additional requirements/guidance on provision of internal audit services to Audit Clients

- Additional requirements/guidance on providing other services to Assurance Clients on a Contingent Fee basis

IESBA's Revision to its Code cont.

- Relative size of Fees
  - where total fees from a PIE audit client & its related entities exceed 15% of total fees of the Firm for two consecutive years:
    - Pre-issuance review required ;or
    - Post-issuance review required and
    - Must be performed by professional accountant who is not a member of the Firm

IESBA's Revision to its Code cont.

- Partner compensation and evaluation
  - Evaluation or compensation based on Key Audit Partner's success in selling non-assurance services to audit clients is prohibited

    (prohibition commences on 1 January 2012)

  - Compensating or evaluating other members of the audit team for selling non-assurance services may also create a threat

IESBA's Revision to its Code cont.

3. *<u>Drafting conventions</u>*

- Consistent use of following terms throughout the Code:
  - Shall - mandatory requirement
  - Consider - Member required to think about a matter
  - Evaluate - Member to assess and weigh significance of matter
  - Determine - Member to conclude and make a decision

APESB's amendments to the revised IESBA Code

- Scope & application section added
- Addition of Australian paragraphs with prefix AUST
- Additional defined terms: AASB, Administration, AuASB, AUASB, Auditing and Assurance Standards, Australian Accounting Standards and Member
- Replace "Professional Accountants" with "Members"
- Defined terms in title case

APESB's amendments to the revised IESBA Code cont.

- Tailored definitions of: Audit Engagement, Engagement Team, Financial Statements, Firm, Member in Public Practice and Review Engagement

- Prohibitions in respect of Accounting, Bookkeeping & Taxation Services provided to Public Interest Entities
  - Provision of accounting and bookkeeping services and preparation of tax calculations for Audit Clients which are Public Interest Entities are prohibited even in emergency situations

APESB's changes to the existing Code

- Legislative references
  - Legislative references which were incorporated within the existing APES 110 to the *Corporations Act 2001* and *Privacy Act* have been removed
  - Where more stringent independence requirements are imposed by the *Corporations Act 2001*, a footnoting system to warn readers has been adopted in the revised APES 110

APESB's consideration of respondents' comments to APES 110 ED

- Inadvertent violations of the Code
  - IESBA Code recognises that inadvertent violations of independence requirements do occur in practice
  - The revised APES 110 introduces additional mandatory requirements that:
    - Unless the inadvertent violation of independence is trivial and inconsequential, the Firm must document and discuss the matter with Those Charged with Governance of the entity

APESB's consideration of respondents' comments to APES 110 ED cont.

- Definition of Public Interest Entity (PIE)
  - Auditor independence requirements extended from listed entities to audits of all Public Interest Entities in the IESBA Code
  - IESBA defines a PIE as:
    - Listed Entities; and
    - Entities
      - Defined by regulation or legislation as a Public Interest Entity; or
      - For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of Listed Entities

Consideration of respondents’ comments to APES 110 ED cont.

– Countries such as New Zealand, Canada and the European Union have proposed or are proposing to capture a broader range of entities, in addition to Listed Entities

– IESBA is encouraging Firms and member bodies to determine whether to treat other entities as PIE’s because the entities have a large number and wide range of stakeholders

APESB's consideration of respondents' comments to APES 110 ED cont.

– APESB has adopted the IESBA definition for the moment and is working on a project to determine what constitutes a Public Interest Entity in the Australian context

– Due to transitional provisions, independence requirements applicable to Public Interest Entities only commence 1/1/2012

Summary of significant changes

Audit & Assurance Practitioners	All Practitioners
The restrictive Independence requirements extended from Listed Entities to Public Interest Entities	Clarification and revision of the Code through the use of consistent drafting conventions
Rotation requirements extended to Key Audit Partners	Consistent use of Shall to specify a mandatory obligation
Key Audit Partner cooling off period	Addition of Scope & Application section
Splitting existing section 290 into new 290 and 291	AUST paragraphs
Prohibition on provision of tax, bookkeeping & accounting services to PIE that are audit clients even in emergency situations	Additional Australian definitions
Definition of Public Interest Entity	
Professional obligations in respect of inadvertent violations of independence requirements	

Questions?