

AGENDA PAPER

Item Number: 5
Date of Meeting: 28 January 2015
Subject: Definition of *Professional Activity* in APES 110 *Code of Ethics for Professional Accountants*

Action Required For Discussion For Noting For Information

Purpose

To present the Board with a proposed definition of *Professional Activity* in the Australian context.

Background

January 2014

At the January 2014 Board meeting, the Board discussed the definition of *Professional Activity* and its insufficient coverage of the range of services and 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 noted by the Board and the Board considered the importance of enhancing the definition. Accordingly, the Board requested that the Technical Staff prepare an options paper to investigate potential approaches to address the issue.

August 2014

Technical Staff presented an options paper at the August 2014 Board meeting incorporating the practices of several major jurisdictions. The Board considered these options and was of the view that the best approach is to develop a “principles” based definition rather than attempting to include all the different services performed by a professional accountant.

October 2014

Technical staff presented the Board with the current definition of *Professional Activity* and sought the Board’s views on proposed options to enhance the definition in the Australian context. Three options were presented:

1. Retain the definition of *Professional Activity* as per APES 110 which ensures the APESB Code’s consistency with the IESBA Code.

2. Retain the existing definition of *Professional Activity* in the Code and add an AUST paragraph to extend the definition to incorporate a broader range of services and introduce the provision of voluntary services.
3. Replace the existing definition of *Professional Activity* in the Code and define the term only in the Australian context. The proposed option defined the term by way of reference to activities for which professional pronouncements are promulgated by APESB or activities performed where the Member asserts membership of a Professional Body.

The Board discussed potential limitations of the term “accountancy and related skills” in Option 2. However, the Board agreed that the approach adopted in Option 2 is preferable due to its consistency with the international definition of *Professional Activity*. The Board requested Technical Staff to revise the AUST paragraph in Option 2 in a principles based manner and present to the Board for further consideration.

Consideration of Issues

The following definition of *Professional Activity* is now proposed for the Board’s consideration:

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

[AUST]

Professional Activities include services and activities performed by a Member as a principal, employee or on a volunteer basis:

- *for which professional pronouncements are promulgated by APESB; or*
- *where the Member’s Employer or Client is entitled to rely on the Member’s membership of a Professional Body or where the Member asserts membership of a Professional Body as giving the Member the required competence and skills to perform the relevant services or activities.*

The above definition offers the following benefits:

- consistency with the international approach by retaining the IESBA definition of Professional Activity and providing additional guidance to enhance the definition in the Australian context;
- definition of the term in plural allowing for greater consistency with the definition of *Professional Services* in the Code;
- restrictions by reference to specific activities such as accounting, auditing and taxation and use of the international definition in isolation are overcome. The international definition does not directly address the wide variety of roles performed by Members, the role information technology now plays in the activities of a modern professional accountant and activities that have evolved significantly over time to expand the role of the traditional professional accountant. The addition of the AUST paragraph incorporates and acknowledges both the traditional and modern responsibilities and functions of the Member;

- the services that a Member may perform which are referred to in the international definition are extended. The proposed AUST paragraph incorporates a range of services by the incorporation of the reference to APESB standards and reliance on membership of a Professional Body as giving the member particular competence and skills. This overcomes the ambiguity of the term “accountancy and related skills”;
- where recipients of Professional Activities are likely to rely on the competency of the Member arising from their professional affiliation, these activities are also captured by the definition; and
- reference to the performance of activities on a voluntary basis ensures that remuneration is not the driver of whether an activity is considered a Professional Activity.

Staff Recommendations

Technical Staff recommend that the Board:

1. Provide the Board’s feedback on the proposed definition of *Professional Activity* in the Australian context; and
2. Engage with stakeholders in the following manner:
 - I. initially engage with Professional Bodies and seek their feedback on the proposed definition.
 - II. Board to review and consider the Professional Bodies feedback on the proposed definition.
 - III. thereafter the Board to determine whether to progress the project to the next stage by seeking external stakeholder comments by including the proposed definition in a future Exposure Draft of APES 110 *Code of Ethics for Professional Accountants*.

Authors: Channa Wijesinghe
Rozelle Azad

Date: 15 January 2015