

AGENDA PAPER

Item Number: 4
Date of Meeting: 23 July 2010
Subject: Draft Exposure Draft ED 03/10 *Proposed Standard: APES 110 Code of Ethics for Professional Accountants*

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Purpose

To seek feedback from the APES Board on Exposure Draft ED 03/10 *Proposed Standard: APES 110 Code of Ethics for Professional Accountants* and to seek direction on the outstanding drafting matters noted in this agenda paper.

Background

At the May 2009 meeting, the Board approved a project to update APES 110 *Code of Ethics for Professional Accountants* to bring the requirements of APES 110 into alignment with the revisions made internationally by IESBA in July 2009 to its *Code of Ethics for Professional Accountants* (IESBA Code).

At the November 2009 meeting, the Board decided to issue a Consultation Paper seeking views of stakeholders on three key areas:

- Consideration of the IESBA Code in the Australian Context and application of APESB drafting conventions;
- Reference to Australian legislative requirements; and
- Structure of sections 290 and 291 of the IESBA Code.

At the March 2010 meeting, the Board considered responses to its Consultation Paper along with ten potential drafting approaches that could be used to update APES 110.

The Board instructed Technical Staff to draft an Exposure Draft applying the following drafting conventions:

- Change spelling from US to Australian English;
- Capitalise definitions;
- References to professional accountant to be changed to Member, Member in Public Practice or Member in Business as appropriate;
- Mandatory requirements and explanatory guidance will not be shown in separate paragraphs nor will bold or grey type be used to distinguish between mandatory requirements and explanatory guidance;

- Adopt IESBA definitions where possible with amendments or additions where these refer to Australian legislative requirements and Australian Auditing Standards;
- 2006 Board decisions which tailored the IESBA Code (2005) to the Australian environment be reconsidered and retained where there is sufficient justification to do so;
- A review of substantive matters be undertaken and that consideration be given to incorporating guidance to those issues identified as requiring further clarification; and
- A high level redraft of sections 290 and 291 be considered to determine the merit or otherwise of attempting to remove duplication of those sections.

At the April 2010 meeting the Board considered the structure of sections 290 and 291 of the IESBA Code and agreed that the format of sections 290 and 291 in the IESBA Code be retained in the revised APES 110.

At the May 2010 meeting the Board agreed that:

- Paragraphs 290.39, 290.117, 290.133, 291.33 and 291.122 be redrafted to require the documentation of inadvertent violations unless such violation is trivial and inconsequential;
- The AUST Preface to section 290 (as introduced in the 2006 version of APES 110) which addresses materiality be retained;
- The exemption on emergency situations for public interest entities for bookkeeping and tax be removed and that a guidance paragraph on what constitutes an emergency situation for non public interest entities be drafted;
- An additional AUST paragraph be included in section 290 to clarify the level of acceptable fees for non-public interest entities;
- No change be made with respect to requirements relating to internal audit services;
- An additional AUST paragraph be drafted to address documentation for multiple threats that are individually less significant but accumulate to a significant threat;
- Appropriate cross-referencing to the *Corporations Act 2001* be included below the relevant paragraph for consideration in the next version of the exposure draft;
- No structural or terminological changes be made to clarify the application of requirements contained in sections 290 and 291;
- A technical staff recommendation to retain, modify or remove 2006 insertions and removals be included in the next draft Exposure Draft for the Board's consideration;
- To the extent possible, definitions should be internationally and jurisdictionally consistent;
- The IESBA definition of public interest entity be adopted; and
- Requirements relating to the preparation of financial statements in accordance with an applicable financial reporting framework be clarified for Members in Business.

The attached draft Exposure Draft ED 03/10 *Proposed Standard: APES 110 Code of Ethics for Professional Accountants* reflects the drafting decisions approved by the Board and identifies the outstanding matters for the Board's consideration.

Explanatory Guide to mark-ups

- The draft Exposure Draft 03/10 is a marked up version of the IESBA Code (July 2009) with editorial changes relating to 2006 Board Decisions highlighted in yellow. The replacement of “professional accountant” with “Member” and the capitalisation of defined terms as per APESB drafting conventions have not been highlighted in yellow.
- Obvious deletions are not shown in the mark-up (for example, capitalisation of a defined term or a spelling amendment). However, the associated insertion change is reflected with the amended text.
- Additional AUST paragraphs from the existing APES 110 are relocated next to the relevant IESBA paragraph and are highlighted in yellow.
- The definitions in section 2 highlight new IESBA defined terms in blue. In sections 2 and 3, the comment box adjacent to each definition denotes the source of each definition: I09 (IESBA Code 2009), A06 (APES 110 2006), and other references as appropriate;
- Additional Australian definitions are included directly following IESBA definitions as AUST definitions.
- Technical Staff recommendations concerning the 61 decisions made by the Board in 2006 appear below the relevant paragraph.

Outstanding matters for the Board’s consideration

In order to finalise drafting of the Exposure Draft, technical staff seek the Board’s direction on the following matters:

1. Content and wording of the Australian Preface to sections 290 and 291;
2. Content and wording of the Australian Appendix to section 290 – minor editorials incorporated from APES 110 (2006 version).
3. Review of the 61 decisions made by the Board in 2006 to confirm whether those decisions should be retained, modified or removed;
4. Content and wording of specific paragraphs that were agreed in principle by the Board at the May 2010 meeting – refer paragraphs AUST 290.29.1, AUST 290.39.1, 290.117, 290.133, AUST 291.29.1, 291.33, 291.112, and AUST 320.2.1;
5. Comment period for the Exposure Draft – at a minimum technical staff recommends a 45 day comment period.

Material Presented

- Exposure Draft ED 03/10 Proposed Standard: APES 110 *Code of Ethics for Professional Accountants [marked-up, version 1.10, 13-07-2010]*;

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Date: 14 July 2010