

AGENDA PAPER

Item Number: 3
Date of Meeting: 22 March 2018
Subject: Proposed Exposure Draft for APES 110 *Code of Ethics for Professional Accountants*

Action Required For Discussion For Noting For Information

Purpose

To obtain the Board's approval to issue, subject to the Board's review comments and editorials:

- (a) the Exposure Draft *Proposed Standard APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110 ED);
- (b) the Explanatory Memorandum: *Exposure Draft 02/18 APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Explanatory Memorandum) subject to the Board's review comments and editorials; and
- (c) Mapping Table: IESBA's restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* with APES 110 *Code of Ethics for Professional Accountants (Compiled 2017)* (the Mapping Table).

Background

APES 110 *Code of Ethics for Professional Accountants* (the Code) issued by APESB is based on the *Code of Ethics for Professional Accountants* (the International Code) issued by the International Ethics Standards Board for Accountants (IESBA).

At the August 2016 Board Meeting, the Board approved a [project](#) to revise the Code to incorporate changes proposed to the International Code.

During 2016 and 2017 APESB held roundtables to determine Australian views on the IESBA's exposure drafts proposing changes to the International Code.

In January 2018 the IESBA released a document with the approved restructured text of the International Code, excluding the Inducement provisions. The IESBA is expected to release the final version of the International Code, excluding Inducements, once the Public Interest Oversight Board (PIOB) approves the text at their March 2018 meeting (held on March 22 – 23).

Consideration of issues

Technical Staff have prepared APES 110 ED using the approved restructured text of the International Code. Refer to Agenda Item 3(a) for the draft APES 110 ED.

The proposed revisions to the existing Code are based on the IESBA's revisions to the restructured and renamed International Code plus amendments required to tailor the International Code for the Australian environment.

Revisions based on the IESBA's revisions to the International Code

The IESBA revisions stem from three completed significant projects and a completed short-term project. The projects undertaken by the IESBA are:

- Structure of the Code;
- Safeguards and the applicability to Non-Assurance Services;
- Review of Part C of the Code (including applicability); and
- Professional Scepticism (short-term project).

The IESBA also included consequential amendments to its recently released pronouncements on NOCLAR and the Long Association of Senior Personnel with an Audit or Assurance Client (Long Association).

A high-level summary of the key changes from each of these listed projects is set out in the Explanatory Memorandum at Agenda Paper 3(b).

Revisions by APESB to tailor content to Australian environment

While APESB has used the International Code as the base document for the Exposure Draft, additional amendments are required to tailor the International Code to the Australian environment.

Technical Staff have performed an analysis of the Australian specific information in the extant Code, in terms of whether the content:

- is still relevant for the revised Code; and
- needs amendments to be consistent with the new drafting conventions applied in the restructured International Code.

A key change identified as a result of this analysis was the need to update the types of entities regulated by the Australian Prudential Regulation Authority (APRA) that should be treated as Public Interest Entities when applying the provisions of the Code. APRA now regulate private health insurers under the *Private Health Insurance (Prudential Supervision) Act 2015*. This amendment has been included in the new paragraph AUST 400.8.1 A.1.

Refer to Agenda Paper 3(c) for the full details of the analysis performed on the extant Australian content in the Code.

In addition, Technical Staff have reviewed the text of the restructured International Code to determine if additional Australian Content was required. These changes are identified in the Mapping Table (discussed below).

Based on the analysis performed, Technical Staff have included the following amendments from the revised International Code in the APES 110 ED:

- Removal of the term 'International' from the title;
- The addition of a Scope and Application section;
- Requirement paragraphs are in **bold-type font** to achieve consistency with APESB's other pronouncements;
- APES 110 refers to Members whereas the IESBA Code refers to professional accountants;
- Defined terms are in title case;
- Designating any Australian specific paragraphs and definitions with an AUST prefix;
- The additional Australian definitions are AASB, Administration, AUASB, Auditing and Assurance Standards, Australian Accounting Standards, Member and Professional Bodies;
- APES 110 tailors the following IESBA defined terms to the Australian environment: Assurance Engagement, Audit Engagement, Director or Officer, Engagement Team, Financial Statements, Firm, Member in Public Practice, and Review Engagement;
- Definition of Engagement Team in APES 110 does not exclude individuals within the client's internal audit function who provide direct assistance on an Audit Engagement as the AUASB has prohibited the use of direct assistance in ASA 610 *Using the Work of Internal Auditors* (November 2013);
- APES 110 uses the term NOCLAR whereas the IESBA Code refers to non-compliance;
- APES 110 includes additional text in the section heading of Part 2 to indicate that the section includes employment relationships of Members in Public Practice;
- Enhancing the clarity of provisions in Sections 320 and 360 by replacing some of the references to the Proposed Accountant with the term Member in Public Practice;
- The addition of references to the requirements of applicable APESB pronouncements including requirement paragraph AUST R330.4.1 prohibiting the use of Contingent Fees in certain circumstances and a footnote to paragraph R350.3 about the requirements in APES 310 *Client Monies*);
- Paragraph AUST 400.8.1 in APES 110 mandates Firms to determine whether additional entities are Public Interest Entities and the reference to member bodies has been removed; and
- Amendments to refer to Australian legislation and applicable Accounting, and Auditing and Assurance Standards.

Many of these amendments are consistent with the changes that were required when drafting the extant Australian Code. Although Technical Staff wish to highlight two specific changes to the Board being all requirement paragraphs to be denoted in bold-type font and the use of the term NOCLAR instead of non-compliance.

1. Requirements denoted in bold-type font

In the past APESB have followed the structure and formatting of the International Code, even when requirements and application material were included in the same paragraph. This drafting convention is reflected in APESB's *Due process and working procedures for the development and review of APESB pronouncements* in paragraphs 5.2 and 5.3.

However, the IESBA's new drafting conventions include clear separation of requirements and application. All requirements paragraphs will be designated with the R and the numbering is in bold with the text of the paragraph in normal font. Technical Staff are of the view that this may confuse users and propose to format all requirements paragraph in bold-

type font. This will also allow the Code to be formatted consistently with APESB's all other pronouncements. This has no impact on the actual application of the requirements to Members and is going to provide clarity to the Australian market.

II. Use of the term NOCLAR

Since the release of the Responding to the Non-Compliance of Laws and Regulations provisions, the APESB has been promoting the changes to Members by using the term NOCLAR. This term has also been used by the IESBA in publications, resources and promotional materials. However, in the IESBA Code the provisions do not include the term NOCLAR at all. Instead they have shortened the phrase 'Non-compliance with Laws and Regulations' to 'non-compliance'.

APESB staff believe that Members are now familiar with the term NOCLAR and that introducing a new term is going to confuse users of the Code. Therefore, we propose to replace the term 'non-compliance' used in the IESBA Code with the term NOCLAR.

Mapping Table

Technical Staff have also prepared a Mapping Table (refer to Agenda Item 3(d)) which has been prepared to assist users of the restructured Code navigate to the corresponding provisions in the extant Code. Technical Staff have also used the Mapping Table to analyse the nature of changes to the requirements and guidance in the Code.

Way forward

The ED 02/18 is the first of two Exposure Drafts that APESB expects to release in relation to the revision of the Code. The APES 110 ED, once approved, will be issued with a 90 day comment period.

The IESBA is expected to release revised Inducements provisions in June/July 2018. APESB will issue another Exposure Draft based on these provisions in the second half of 2018.

The outcomes from both exposure drafts will be consolidated and APESB will then release the complete revised Code in late 2018 or early 2019.

Staff Recommendation

Subject to PIOB's approval of the IESBA's Code, the Board approve for issue:

- (a) the draft Exposure Draft *Proposed Standard APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* for public comment;
- (b) the Explanatory Memorandum: *Exposure Draft 02/18 APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Explanatory Memorandum) subject to the Board's review comments and editorials; and
- (c) Mapping Table: IESBA's restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* with APES 110 *Code of Ethics for Professional Accountants (Compiled 2017)* (the Mapping Table).

Material Presented

Agenda Item 3(a)	Exposure Draft Proposed Standard APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> ;
Agenda Item 3(b)	Explanatory Memorandum: <i>Exposure Draft 02/18 APES 110 Code of Ethics for Professional Accountants (including Independence Standards)</i> ;
Agenda Item 3(c)	Analysis Table of Australian specific content; and
Agenda Item 3(d)	Mapping Table: IESBA's restructured <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> with APES 110 <i>Code of Ethics for Professional Accountants (Compiled 2017)</i>

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Date

14 March 2018