

AGENDA PAPER

Item Number: 3
Date of Meeting: 4 September 2018
Subject: Proposed revised APES 110 *Code of Ethics for Professional Accountants*

Action required **For discussion** **For noting** **For information**

Purpose

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

- (a) the revised *APES 110 Code of Ethics for Professional Accountants* (APES 110); and
- (b) the new Basis for Conclusions for restructured APES 110.

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.

At the April 2018 Board Meeting, the Board approved the release of an exposure draft on restructuring the Code, excluding the Inducement provisions of the Code.

At the June 2018 Board Meeting, the Board approved the release of an exposure draft on the Inducements provisions in the restructured Code. To allow stakeholders to consider the entirety of the changes, Technical Staff also provided a compiled version of the Code which combined the two exposure drafts. The comment period for both exposure drafts closed on 10 August 2018.

Consideration of Issues

APESB received seven submissions from stakeholders, and an additional comment by a stakeholder via email, and they are tabulated in the General and Specific Comments tables in Agenda Item 3(b) and Agenda Item 3(c), respectively.

Stakeholders were generally supportive of the proposed revisions to APES 110. The key issues raised by stakeholders in the submissions and how these responses have been addressed are noted below.

1. Reporting of breaches under S307C of the *Corporations Act 2001*

Section 307C of the Act requires the auditor to provide a declaration to their audit client that they have complied with the auditor independence provisions of the Act and relevant codes of professional conduct (e.g. APES 110). However, there is an exemption from the need to disclose some breaches if the auditor had in place a quality control system that provided reasonable assurance that the auditor and his or her employees complied with the auditor independence sections of the Act.

The exemption only applies to breaches of the Act's auditor independence requirements. It does not apply to breaches of the professional Code of Conduct provisions, which are not included in the auditor independence provisions of the Act.

Paragraph R510.4 (extant paragraph 290.108) of APES 110 requires other partners in the same office as the Engagement Partner to not hold a direct financial interest or material indirect financial interest in Audit Clients of the Engagement Partner. This requirement is not replicated in the Act.

An issue was raised by respondents regarding the *Corporations Act 2001* (the Act) requirement to report auditor independence breaches of APES 110 which relate to financial interests of partners who are not part of the Audit Engagement Team. Note that this issue has not arisen due to the proposed changes to the Code but reflect an anomaly in the extant requirements.

If paragraph R510.4 was breached, even inadvertently, the auditor would either need to:

- issue a qualified declaration of Independence, or
- apply to ASIC for an exemption order under s340 of the Act to avoid having to issue a qualified declaration of Independence.

Three respondents believe this is an anomaly, and results in the need to report inadvertent breaches of auditor independence requirements that occur in a day-to-day practice, which are quickly addressed when the auditor becomes aware of the breach.

Technical Staff have consulted with ASIC on this matter, who are supportive of the new paragraph as long as it is in relation to the requirement in paragraph R510.4(c) and that all breaches are reported to Those Charged with Governance (as required under paragraph R400.80 extant paragraph 290.46).

To address this issue, Technical Staff propose to include a new requirements paragraph in the Code as set out below:

AUST R510.4.1 If a Firm concludes that a breach of the requirement in R510.4(c) has occurred, this will not be considered a contravention of the Code for legislative purposes¹ provided that the Firm:

- (a) Promptly complies with the requirements of R400.80 including eliminating the financial interest or relationship that created the breach;**

¹ Refer to s307C of the *Corporations Act 2001* which requires the reporting of a breach of any applicable code of professional conduct in relation to the audit or review as part of the auditor's independence declaration.

- (b) **Has policies and procedures designed to provide it with reasonable assurance that independence is maintained in accordance with APES 320 *Quality Control for Firms*; and**
- (c) **Discusses the breach with Those Charged with Governance in accordance with R400.82.** ^{SC17}

2. Transitional provisions on Long Association provisions

A stakeholder raised their concern with the sunseting of transitional provisions for the long association of personnel with an audit client.

The stakeholder commented that the need to meet the separate requirements of the *Corporations Act 2001* and APES 110 will create an onerous position for audit partner rotation once the transitional provisions lapse. The stakeholder recommended the Board consider the removal of the transitional provision in paragraph AUST R540.19.1.

The stakeholder also raised that there is no empirical data or authoritative research supporting a link between cooling-off and audit quality.

Technical Staff note the concerns raised by the stakeholder. APESB has raised this issue of the sunseting of the transitional provision with the IESBA; most recently in [APESB's submission](#) to the IESBA's Strategy and Work Plan 2019-2023. In addition, the APESB have been engaging with academics regarding the need to conduct research to obtain empirical evidence on audit partner rotation to provide input to IESBA's post-implementation review of the Long Association provisions.

At this point in time, Technical Staff do not propose to make any changes to the text of APES 110. However, the Board will continue to engage with the IESBA in relation to the sunseting of the transitional provision relating to the long association provisions in APES 110.

Technical Staff have prepared an Extract of Key Changes (marked up) which is presented as Agenda Item 3(a). This does not include other minor editorial amendments.

Basis for Conclusions

Due to the substantive changes included in the revised APES 110 from the extant APES 110, Technical Staff have developed a new Basis for Conclusions (refer to Agenda Item 3(d)).

The Basis for Conclusion document sets out key issues considered by the IESBA in the development of the international version of the Code, as well as issues raised by respondents during the development of the revised APES 110 and how APESB addressed them.

Technical Staff propose to release the Basis for Conclusions in conjunction with the release of the revised APES 110.

Recommendation

Subject to the Board's review comments, the Board approve the issue of the revised APES 110 and the Basis for Conclusions.

Materials Presented

Agenda Item 3(a)	Extract of Key Changes (marked up)
Agenda Item 3(b)	General Comments Table – EDs 02/18 and 03/18
Agenda Item 3(c)	Specific Comments Table – EDs 02/18 and 03/18
Agenda Item 3(d)	Draft Basis for Conclusions
Agenda Item 3(e)	Revised APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> (Marked-up version)

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Date: 26 August 2018