

# Perspective

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*This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas*



## Code Essentials for Professional Accountants

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In November 2018, APESB issued the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code). The revised standard incorporates amendments to the International Code issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018, with adaptations to suit the Australian environment.

In this article, APESB Technical staff explain the essentials of the restructured Code, provide an outline of key amendments to the Code, and explain how the changes to the restructured Code will affect other APESB pronouncements.

### Code Essentials

The Code is the foundation for professional accountants on professional and ethical behaviour. It guides accountants on how to act in the public interest and to maintain and increase trust in the accountancy profession.

There have been substantial improvements made to the Code including a revised structure, clear distinctions between requirements and application material, clarification on applicability and refinement of concepts such as the conceptual framework and safeguards. The improvements are aimed at making the Code easier to understand and to implement in practice.



While there have been many improvements made to the restructured Code, it is important to remember that ***the essence of the Code remains the same.***

Professional accountants must continue to:

- ☑ comply with the fundamental principles;
- ☑ apply the conceptual framework to identify, evaluate and address threats to the fundamental principles; and
- ☑ be independent when providing specific professional activities.

The five fundamental principles that underpin the Code are Integrity, Objectivity, Confidentiality, Professional behaviour, and Professional competence and due care. These principles have not changed but if you need a refresher, the principles are explained in more detail in our last article [Restructure of the Code of Ethics](#) (Perspectives, May 2018).

## Enhanced Conceptual Framework

The conceptual framework provides a systematic approach for Members on how to identify, evaluate and address threats to the fundamental principles. The framework requires Members to remain alert for new information and changes in facts and circumstances, including the use of the reasonable and informed third-party test and the need to exercise professional judgement. This supports Members in meeting their responsibility to act in the public interest.

The conceptual framework has been enhanced to require a Member to ‘step back’ and make an overall conclusion about whether the actions they have taken will eliminate or reduce threats to an acceptable level.

The changes to the conceptual framework require a change in mindset. It is no longer a “threats and safeguards” approach, whereby a Member identified a threat to compliance with the fundamental principles and then determined which safeguards to apply in order to reduce the threat to an Acceptable Level.



***Applying a safeguard to an identified threat is one type of response, but it is not the only response. Not all threats can be addressed by applying safeguards.***

The restructured Code clarifies that not all threats can be addressed by the application of safeguards. Instead, Members need to deal with threats, not at an acceptable level in one of three ways:

- By eliminating the circumstances that are creating the threats;
- By applying safeguards; or
- By declining or ending the specific professional activity or service.

## Safeguards

To support the changes in the conceptual framework, the safeguards provisions across the Code have also been revised. The definition of safeguards has been amended, and guidance amended to remove references to safeguards created by the profession, legislation, and regulation. These types of extant safeguards are now considered to be factors to consider in identifying or evaluating threats.

The restructured Code provides more examples of safeguards that could apply across a range of circumstances, for example, a new safeguard is included on obtaining the partial payment of long overdue fees to reduce self-interest threats.

## Inducement provisions applicable to all Members

Strengthened inducement provisions set out clear guidelines for all Members on appropriate behaviour in relation to gifts, hospitality, entertainment, donations, appeals to friendship or loyalty, employment or other commercial opportunities and preferential treatment, rights or privileges.

The definition of inducements has been revised and is supported by a new framework to determine what is an acceptable inducement. The integral part of the framework is a new intent test that prohibits the offering or accepting of inducements where there is actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

### Key elements of the Inducements Framework

- Follow applicable laws and regulations;
- Determine if there is actual or perceived intent to improperly influence behaviour;
- If no perceived intent, consider if the inducement is trivial or inconsequential; and
- Apply the conceptual framework, if necessary, to determine whether to offer or receive the Inducement

## Preparing and presenting information

Members will also need to be aware of the revised section of the Code dealing with preparing and presenting information. There is a new requirement to exercise professional judgement and consider the purpose, context, and audience when information is not required to comply with a reporting framework. The restructured code also includes enhanced guidance on disassociating from misleading information.

## Pressure to breach the fundamental principles

The new section on the pressure to breach the fundamental principles includes a new requirement for Members not to allow pressure, or to apply pressure to others, to breach the fundamental principles in the Code. This is supported by new application material and practical examples which illustrate situations where Members in Business may experience pressure to breach the fundamental principles when performing Professional Activities.

## Employment relationships of Members in Public Practice

Additional guidance has been added to the Code to clarify that the provisions in Part 2 for Members in Business also apply to Members in Public Practice when they are performing Professional Activities in accordance with their employment relationship with the Firm, whether as an employee, contractor or owner.

This may be a change of thinking for some Members in Public Practice, so we encourage all Members in Public Practice to become familiar with the professional and ethical obligations in Part 2 of the Code.

## Compliance with other APESB pronouncements

The Code established a 'principles-based' standard of professional ethics for members and provided a conceptual framework for applying these principles. APESB also issue professional standards and guidance notes which deal with ethical requirements or guidance that are to be applied in specific circumstances. These ethical requirements and guidance supplement those in the Code.

The Code now includes a specific requirement for Members to comply with other Professional Standards and be familiar with relevant guidance notes when providing professional activities.

## More information

This article provides a very high-level summary of the restructured Code. We encourage Members to familiarise themselves with the revisions and the key concepts that underpin the restructured Code.

The restructured Code, including a Mapping Table developed by Technical staff to assist stakeholders in navigating the key revisions of the restructured Code to corresponding provisions in the extant Code, is available on the APESB website at [www.apesb.org.au](http://www.apesb.org.au).

The restructured Code is effective from **1 January 2020** with early adoption permitted.

## Revision of APESB pronouncements ED

Due to the interconnectedness of the APESB pronouncements, the restructure of the Code means that APESB will update all of the other APESB pronouncements during 2019.

APESB has recently released an exposure draft on proposed revisions to a batch of ten pronouncements:

- APES 210 *Conformity with Auditing and Assurance Standards*;
- APES 215 *Forensic Accounting Services*;
- APES 220 *Taxation Services*;
- APES 225 *Valuation Services*;
- APES 305 *Terms of Engagement*;
- APES 345 *Reporting on Prospective Financial information prepared in connection with a Public Document*;
- APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*;
- APES GN 20 *Scope and Extent of Work for Valuation Services*;
- APES GN 21 *Valuation Services for Financial Reporting*; and
- APES GN 31 *Professional and Ethical Considerations relating to Low Doc Offering Sign-offs*.

Key revisions include updated cross-references to the restructured Code, updated provisions and definitions to align with the restructured Code, amendments to address matters on the APESB issues register and revisions to ensure consistency across the pronouncements.

To align with the effective date of the restructured Code, the revised pronouncements are proposed to be effective from 1 January 2020, with early adoption permitted.

## Have your say

The APESB is seeking feedback from Members and stakeholders on the provisions included in Exposure Draft 01/19, including any specific comments on whether the pronouncements need amendments to reflect the use of digital technology and artificial intelligence.

Respondents can submit feedback on the Exposure Draft via the [APESB website](#) up until **17 April 2019**.

