

Annual Ethics and Independence Update

Part A – All staff

Welcome to our Annual Ethics and Independence Update, presented by Keith Reilly*

Part 1 for all staff (1-1.30pm),

Part 2 (1.30-2pm) professional staff

Questions during the Presentation

*Keith was until July 2013 National Head of Professional Standards at Grant Thornton Australia, a member of Grant Thornton's International Independence Board, a former Chair of the 3 Accounting Bodies and the 6 Large Global Firms' Independence Taskforce and a member of the APESB's Independence Taskforce

Note: This is a summary of a 123 slide Pak. Original (August 2014) and current version (November 2015) are available on request

Why Ethics & Independence Training

- Independence and professional scepticism is the corner stone of a professional accounting firm and it applies to all staff, not just audit
- Independence is a legal and professional requirement
- It is constantly changing due to public perception
- It requires reinforcement regularly
- The costs of a breach of Independence can ultimately lead to the closure of the firm

Acting in the public interest is a fundamental principle for Accounting Firms

- “The overarching responsibility for professional accountants is the public interest. Paragraph 100.1 of APESB 110 Code of Ethics for Professional Accountants ES 110 Code explains that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a Member’s responsibility is not to exclusively satisfy the needs of an individual client or employer.”

Not Just Audit Activities

- Reinforcing that it is not just audit activities is a recent (July 2014) judgment from the Federal Court of Australia which replaced the liquidators of the Walton Construction group on the grounds of a perceived lack of independence.

APES 110 Conceptual but some Rules also & Corps Act

- APES 110 Code of Ethics for Professional Accountants is an International Standard and binding on accountants
- Corporations Act has specific rules on auditor independence
- Australian Auditing Standards that refer to independence also mandatory for auditors
- Independence is both being Independent but more importantly, as it is more difficult to achieve, being seen to be Independent

Independence

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Audit or Assurance Team's, integrity, objectivity or professional scepticism has been compromised.

APES 110 Threats & Safeguards

The conceptual framework requires Members to use their professional judgement in order to:

- identify any threats to compliance with the fundamental principles;
- evaluate the significance of the identified threats
- apply safeguards to eliminate threats or reduce them to an acceptable level

Ethical Conflict Resolution

A Member may be required to resolve a conflict in complying with the fundamental principles.

In resolving ethical conflict, the following factors may be relevant:

- Relevant facts
- Ethical issues involved
- Fundamental principles related to the matter in question
- Established internal procedures
- Alternative courses of action

References

- CPA Aust. An Overview of APES 110 Code of Ethics for Professional Accountants April 2014
- Joint Accounting Bodies Independence Guide February 2013
- APESB Compiled APES 110 Code of Ethics for Professional Accountants

Part B Professional Staff (92 Slides)

Keith Note: Slides in Italics can be skipped depending on time available but included for sake of completion & reference

- Independence must be at the forefront of all client work
- <http://www.charteredaccountants.com.au/Industry-Topics/Ethical-and-professional-standards/Independence-Guide>

3. Assurance Engagements & Related Parties

- The Code requires members to be independent of assurance clients. An assurance client normally includes the contracted party and its related entities.
- Related entity - The definition of a related entity in the Code can be a complex determination involving materiality and other factors. In relation to a company, its 'related entities' could include a holding company, an entity that has a significant influence in the company, its subsidiaries and associates, or any 'sister company' in a group.

4.6 Documentation

- It is crucial that the firm develops policies and procedures specifying the nature and extent of documentation for assurance engagements and for general use within the firm.
- These policies depend on a variety of factors, such as the complexity of the engagement and the firm's size, structure and assignment of responsibility. The policies are often simply embedded in the firm's audit engagement templates in the form of standard communications, questionnaires, checklists and memoranda. This practice tends to work well to ensure consistent application of the elements of the quality control system at both the firm and engagement level.

4.8 Case study – Application of the conceptual framework

- Step 1: Identify threats
- Step 2: Evaluate significance
- Step 3: Apply safeguards

5. Public interest entities

- The independence requirements for public interest entities are more extensive than for other audit and review clients, thereby recognising that the extent of public interest in an entity has a direct impact on the significance of identified threats.

6. Networks

- For audit and review engagements, the independence requirements extend to network firms. In other words, firms that belong to a network are independent of the audit and review clients of other firms in the network.
- For other assurance engagements, any threats that a firm has reason to believe are created by a network firm's interests and relationships will be evaluated.

7. Examples of independence issues

- The examples that follow are intended to provide guidance on common independence issues that arise in practice. The conceptual framework in Sections 290 and 291 is applied in dealing with each scenario and it is assumed that there are no other unmentioned facts that could be relevant.
- The factors that impact the significance of a threat and the safeguards proposed are only examples. Many other factors or actions could apply in any of the given situations. Furthermore, members must apply the specific work-environment safeguards that may be prescribed by a firm or network firm through its system of quality control.
- **In all situations, members must be mindful of what is in the public interest and, in particular, whether a situation could pass the 'independence in appearance' test.** Members should seek advice where necessary.

7.3 Examples

7.3.1 'The books' are prepared by the auditor

The general principles to apply are:

- For public interest entities, the auditor shall not provide accounting and bookkeeping services or prepare the financial statements of the client, even in emergency situations (Para 290.172).
- For entities that are not public interest entities, the auditor can provide services related to the preparation of accounting records and financial statements that are routine and mechanical in nature and provided the self-review threat is reduced to an acceptable level (Para 290.171).

8. Rotation requirements

Using the same senior personnel on an assurance engagement over a long period of time may create familiarity and self-interest threats.

The Code has established a seven-year rotation rule that applies to all key audit partners of audits and reviews of public interest entities. The new definitions of public interest entity (see Chapter 5) and key audit partner will have the effect of expanding the rotation requirements to include audit partners of some unlisted entities. A 'key audit partner' includes:

- The engagement partner
- The engagement quality control reviewer (EQCR)
- Any other audit partner who makes key decisions or judgements on significant matters with respect to the audit. This may include any individual engaged by the firm or a network firm who performs procedures on the engagement (for example, an audit partner responsible for significant subsidiaries or divisions).

9. Self-Managed Super Funds

- For self-managed superannuation fund (SMSF) audits, there is no difference in the application of the independence requirements and the conceptual framework of the Code of Ethics from other types of audit engagements. Some guidance and direction in applying the independence requirements and framework is provided in the specific SMSF context.

Latest (August 2014) Independence News from the IESBA

(also noted on the APESB website also as the APESB will automatically adopt any new IESBA pronouncements given its commitment to adoption of global Ethical Standards)

http://www.ifac.org/news-events/2014-08/iesba-eNews-august-2014?utm_source=IFAC+Main+List&utm_campaign=a1a8c9944a-IESBA_eNews_5_29_148_11_2014&utm_medium=email&utm_term=0_cc08d67019-a1a8c9944a-80296653