

Constituents' Submissions – Specific Comments
Exposure Draft 02/13: APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants

Note: General comments relating to the Exposure Drafts are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
1	290.40	ACAG	ACAG notes the proposed requirement at paragraph 290.40 to "...terminate, suspend, or eliminate the interest or relationship that caused the breach". Auditors-General cannot comply with this requirement because they are unable to terminate their relationships with audit clients under the terms of their legislative mandates.
2	1.2 1.3	ACAG	ACAG considers there is a need to clarify in the "Scope and Application" that legislation takes precedence over the Code. Paragraph 1.2 (compliance by members in Australia) is silent on the precedence of legislation, whereas the following paragraph 1.3 (compliance by members outside Australia) states the exception. This conjunction may lead the reader to the incorrect inference there are no exceptions for members in Australia (which the last sentence in 100.1 clearly settles). ACAG believes the last sentence in 100.1 requires greater prominence and suggests that the sentence be moved to paragraph 1.2 in the Scope and Application section, immediately after the existing sentence.
3	Effective Date	Deloitte	Effective Date We note the effective date for all of the proposed amendments is 1 July 2014, while the Code's effective date for the amendments related to a Breach of the Requirement of the Code is 1 April 2014. This would result in a 3 month period where APES 110 does not correspond with the Code. However, as the Code's amendments to Conflicts of Interest also commence on 1 July 2014, in order to avoid confusion with multiple effective dates, we agree with the APESB's decision to make these changes effective from 1 July 2014. Should the APESB reconsider its proposal and decide to amend the definition of Engagement Team, we would suggest the effective date for that amendment be consistent with that of the Code, being applicable to audits of financial statements for periods ending on or after 15 December 2014.
4	Conflicts of Interest/ Breach of a requirement of	Deloitte	Deloitte is supportive of the proposed amendments to APES 110 regarding Conflicts of Interest, a Breach of a Requirement of the Code, and the definition of Those Charged With Governance, which are in line with the revisions introduced by the International Ethics Standard Board for Accountants (IESBA).

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
	the Code/ Definition of Those Charged with Governance		
5	Conflicts of Interest/ Breach of a requirement of the Code/ Definition of Those Charged with Governance	ICAA/CPAA	<p>The Institute and CPA Australia support the adoption of the proposed amendments to APES 110 which are consistent with the amendments incorporated internationally in the <i>Code of Ethics for Professional Accountants</i> issued by the IESBA in respect of the following areas:</p> <ul style="list-style-type: none"> • Breach of a requirement of the Code; • Conflicts of interest; • Definition of Those Charged with Governance.
6	Definition of Those Charged with Governance	ACAG	<p>ACAG notes the Exposure Draft has not adopted all changes in the international Code. These changes include adding the words “or a subgroup thereof” to references to “Those Charged with Governance” throughout the Code. ACAG suggests that, to comply with convention, the Board provide an explanation as to why the proposed Australian version departs from its international equivalent.</p> <p>The opportunity to comment is appreciated.</p>
7	Definition of Engagement Team	ASIC	<p>Internal audit</p> <p>We support the proposal not to amend the definition of “Engagement Team” in APES 110 in relation to internal auditors. We believe that all persons involved in performing external audit work should be subject to the same standards of independence and objectivity.</p> <p>We do not support using internal auditors employed by the audited entity to perform external audit work for the following reasons:</p> <ul style="list-style-type: none"> (a) Even where an internal auditor reports to an audit committee, the internal auditor is employed by the audited entity and would not appear to be independent in fact or appearance. This can affect confidence in the external audit process and the quality of an audited entity’s financial report; (b) Threats to the actual and apparent objectivity of the internal auditor may arise from internal auditors being

Exposure Draft 02/13: APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>remunerated by the audited entity, concerns about future career prospects, and familiarity with management;</p> <p>(c) The use of internal auditors employed by an entity would appear to be incompatible with the general auditor independence requirements of the Corporations Act and APES 110; and</p> <p>(d) To the extent that involvement of internal auditors is used to place pressure on external audit fees, there may be a further risk to the quality of external audits.</p> <p>The use of internal auditors to perform external audit work would appear to be inconsistent with the role of internal audit in focusing on matters such as operational efficiency.</p> <p>The use of internal auditors to perform external auditor work is less pervasive in Australia than in some other countries, and we understand that such use is most common for large financial institutions.</p>
8	Definition of Engagement Team	AUASB	<p>The AUASB supports the APESB proposals as they are now aligned with the proposed amendments as contained in AUASB ED 02/13 relating to the revision of ASA 610 <i>Using the Work of Internal Auditors</i>.</p> <p>Our detailed reasons for supporting the APESB proposals are outlined below:</p> <ul style="list-style-type: none"> • The International Auditing and Assurance Standards Board (IAASB) has revised ISA 610 <i>Using the Work of Internal Auditors</i> to now permit direct assistance by internal auditors on external audit engagements in jurisdictions where it is not prohibited by law or regulation. Nevertheless, the AUASB as the statutory national auditing standards setter is proposing to explicitly prohibit direct assistance in ASA 610 for public interest reasons as it believes that this practice would impair auditor independence on external audits. The AUASB is of the view that in Australia, direct assistance is currently not provided for under existing Auditing Standard ASA 610 (issued October 2009) and not permitted by the engagement team definition in the independence requirements in the existing APES 110. However, to remove any ambiguity about this matter, the AUASB supports the APESB's efforts to align with the proposed revised ASA 610, which will explicitly prohibit direct assistance, which we believe is not common practice in Australia. • The AUASB notes that the IESBA has amended the definition of "engagement team" in the International Code largely as a result of the IAASB's changes to ISA 610. That is, in order for direct assistance to be permissible under the independence requirements of the IESBA Code, the IESBA had to specifically exclude internal auditors from

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>the definition. Similar to the APESB, the AUASB believes that it would be inappropriate to imply that an internal auditor providing direct assistance is a substitute for an external audit team member and yet not regard that person as part of the engagement team who would be subject to the same independence rules as other engagement team members.</p> <ul style="list-style-type: none"> • The independence of the external auditor is fundamental to promoting both actual and perceived overall audit quality, auditor scepticism and to the actual and perceived value to stakeholders of an independent external audit. The AUASB believes that now is not the time to relax independence requirements for auditors, but to strengthen them where possible. • In its strategic review of audit quality in Australia in 2008, Treasury concluded that <i>Australia's audit regime compares well in terms of international best practice and that no fundamental reform is required</i>. The AUASB considers that any change to allow direct assistance in Australian Auditing Standards, or to amend the definition of "engagement team" in the APESB Code to exclude internal auditors providing direct assistance, would not be in the public interest. <p>In summary, the AUASB concurs with the APESB view that there is no necessity for the APESB to amend the existing definition of "engagement team" in APES 110, in view of the AUASB's proposal to prohibit direct assistance in a revised ASA 610.</p>
9	Definition of Engagement Team	EY	<p>We support the proposed amendments to APES 110 that have been incorporated in the recently amended <i>Code of Ethics for Professional Accountants</i> issued by the International Ethics Standards Board for Accountants (IESBA). We do however have a concern with the APESB not adopting the IESBA's amended definition of 'engagement team' which specifically excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement. As stated in Exposure Draft ED 02/13, by maintaining the existing definition of 'engagement team' in APES 110, the external auditor is effectively precluded from obtaining direct assistance from the client's internal auditors.</p> <p>We believe it is acceptable for internal auditors to provide direct assistance, albeit subject to appropriate safeguards and only to a very limited extent. We have therefore recommended to the AUASB in our recent comment letter on AUASB Exposure Drafts ED 02/13 Proposed Auditing Standard ASA 610 (Revised) <i>Using the Work of Internal Auditors</i> and ED 03/13 Proposed Auditing Standard ASA 2013-2 <i>Amendments to Australian Auditing Standards</i> that the relevant sections of ISA</p>

Exposure Draft 02/13: APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>610 (Revised 2013) relating to direct assistance be incorporated into ASA 610 (Revised). Parallel to this we recommend to the APESB that the definition of 'engagement team' be updated in APES 110 to permit direct assistance from the client's internal auditors, thereby aligning with the IESBA's definition.</p> <p>In issuing ISA 610 (Revised 2013) the IAASB has undertaken a rigorous and lengthy consultation process. The IESBA's 'Basis for Conclusions: Change to the Definition of Engagement Team' states that "with respect to the comments regarding the need for the IESBA to address objectivity if direct assistance is used, the IESBA noted that in finalizing the wording of ISA 610 (Revised), the IAASB had proactively consulted with the IESBA in relation to further strengthening of the threats and safeguards framework in the proposed ISA to respond to comments on exposure." Accordingly, the IESBA provided input to the IAASB on proposed amendments to the guidance on direct assistance in ISA 610 (Revised) which the IAASB took on board in finalizing ISA 610 (Revised). The final pronouncement of ISA 610 (Revised 2013) incorporates safeguards around the use of internal auditors providing direct assistance on the audit. Those safeguards, amongst other things, mitigate the excessive use of internal auditors and limit the scope of their involvement in the audit to those procedures that do not involve making significant judgments. Furthermore, ISA 610 (Revised) requires the external auditor make and document an evaluation of the existence and significance of threats to the objectivity of the internal auditors when the external auditor plans to use internal auditors to provide direct assistance on the audit.</p> <p>Whilst we recognise that the material on direct assistance in ISA 610 (Revised 2013) does not apply in jurisdictions where direct assistance is prohibited we believe that the safeguards contained within said material will result in the objectivity of the external auditor not being impaired and audit quality not being undermined by internal auditors being used in a direct assistance capacity. Accordingly, we do not see a need to create in effect an Australian specific prohibition to direct assistance and believe that our ASAs should be as consistent as possible with their ISA equivalents. Parallel to this, we do not see the need for the APESB to adopt and maintain a definition of 'engagement team' that deviates from the IESBA's definition.</p>
10	Definition of Engagement Team	MU	<p>We generally support the proposals in ED 02/13 as they are intended to reflect amendments that the International Ethics Standards Board for Accountants (IESBA) released in March 2013.</p> <p>However we do not support ignoring the amendment to the definition of the Engagement Team which was part of the amendments made by the IESBA. In our view APES 110 should be consistent with the IESBA's Code of Ethics.</p> <p>We note the comments in ED 02/13 that the APESB supports the proposal in ED 02/03 issued by the Auditing and Assurance Standards Board (AUASB) that direct assistance from internal audit should not be able to be used in an audit or</p>

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>review, however we suggest that before the APESB finalises its amendments, it considers what decision the AUASB makes on this issue.</p> <p>Macquarie University's submission to the Australian Auditing and Assurance Standards Board (AUASB) on its ED 02/13 which recommended a prohibition on the use of internal auditors to providing direct assistance in an audit or review, was not supported.</p> <p>If you require any further information or comment, please contact me.</p>
11	Definition of Engagement Team	Deloitte	<p>Definition of Engagement Team</p> <p>Deloitte is not supportive of the rationale provided by the APESB on which it has based its proposal to not amend the definition of Engagement Team in line with the revision made to the IESBA Code of Ethics.</p> <p>In accordance with our comments on previous revisions to APES 110, our view is that APES 110 should reflect the wording and structure of the IESBA Code of Ethics for Professional Accountants unless changes are shown to be required for legislative or regulatory reasons specific to the Australian jurisdiction.</p> <p>In addition, we consider that the rationale set out by the APESB to support its proposal is flawed.</p> <ol style="list-style-type: none"> 1. The APESB states "The existing definition of "Engagement Team" in APES 110 effectively precludes an external auditor obtaining direct assistance from internal audit as employees of the entity will not be independent of the audited entity." <p>It is reflected in various minutes of its meetings that the IESBA concluded that the client's internal audit staff are not considered part of the engagement team under the existing definition. The IESBA also concluded that the threats and safeguards approach being proposed in ISA 610 by which the external auditor would perform additional review and supervision of the work of the internal auditors, gave adequate recognition to the fact that internal auditors are not independent of the audit client. Auditing standards acknowledge that neither the internal audit function nor the internal auditors are independent of the client, and so have specific conditions that must be met before the external auditor could obtain direct assistance from the internal auditor.</p> <p>The revision to the definition of Engagement Team was proposed by IESBA in response to comments received by</p>

Exposure Draft 02/13: APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
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Exposure Draft 02/13: APES 110 Code of Ethics for Professional Accountants due to revisions to IESBA's Code of Ethics for Professional Accountants

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>For the reasons above we support that the definition of Engagement Team be amended in accordance with the IESBA's revisions. However we request that the APESB await the outcome of the AUASB's deliberations on the revision to ASA 610 before concluding, as there could be unintended consequences resulting from any decisions made by the APESB, depending on the outcome of those deliberations.</p>
12	Definition of Engagement Team	ICAA/CPAA	<p>Specific Comments</p> <p>While we agree with the position and the rationale expressed in the ED in relation to the Definition of Engagement Team, we urge the Board to consider the adoption of the amended definition. The adoption of the amended definition will not permit or forbid the use of direct assistance, as this is something that audit standard setters and regulators have the ability to do. What it is likely to achieve is that it will allow our members who are in different jurisdictions to comply with local law or regulation and not contravene the code, if direct assistance is allowed in those contexts.</p> <p>Further, given that the AUASB is currently consulting on the matter, it is not clear at this stage whether it will not allow direct assistance now or in the near future. We are therefore of the opinion that adopting the amended definition which excludes internal audit members from the engagement team, only where that is allowed by and in accordance with ISA 610 or equivalent local standard, is preferable.</p> <p>Further, in our submission to the AUASB's ED 02/13 Proposed Auditing Standard ASA 610 (Revised) <i>Using the Work of Internal Auditors</i>, we raised the following:</p> <p><i>We agree that the use of internal auditors to provide direct assistance in an Australian context is not desirable and also understand that currently it is not common practice in Australia. However, we also consider that it is important to take into account the application of Australian standards in the international context. ...</i></p> <p><i>We believe that it is important that there is guidance to assist auditors address the interaction of the Australian position and applicable standards in other countries. Therefore, if the AUASB determines to remove the paragraphs relating to direct assistance from the Auditing Standard, which provide such guidance, we recommend that the AUASB prepares specific guidance to assist Australian auditors assess the implications in the international context.</i></p>
13	Breach of a requirement of the Code	ASIC	<p>Breach of a requirement of the Code</p> <p>Overall, we support the proposed changes to strengthen APES 110 in connection with breaches of a requirement of that code.</p>

Item No.	Paragraph No. in Exposure Draft	Respondent	Respondents' Comments
			<p>The Board may wish to consider requiring the auditor to highlight in their audit or review report on non-Corporations Act financial reports where there has a breach of the independence requirements but the auditor does not resign. Alternatively, the Board might liaise with the Auditing and Assurance Standards Board in the context of the current review of auditor reporting.</p> <p>Such a reporting requirement could be based on the existing Corporations Act requirements relating to audit independence declarations. Transparency to users of the financial report concerning breaches would help to ensure that any decision not to resign is appropriate and act as a further incentive for auditors to have sound systems to prevent breaches from occurring.</p>

Staff Instructions:

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents' comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order.
- Use acronyms only for respondents. Update the attached table with details of additional respondents.

RESPONDENTS

1	ACAG	Australasian Council of Auditors-General
2	ASIC	Australian Securities & Investments Commission
3	EY	Ernst & Young
4	MU	Macquarie University
5	Deloitte	Deloitte Touche Tohmatsu
6	ICAA/CPAA	Institute of Chartered Accountants Australia/CPA Australia Ltd
7	AUASB	Auditing and Assurance Standards Board