

## AGENDA PAPER

**Item Number:** 17  
**Date of Meeting:** 4 November 2013  
**Subject:** International and other activities

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Action Required       For Discussion       For Information Only

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### Purpose:

To provide a quarterly update to the Board on:

- IESBA meetings, Exposure Drafts and other publications;
- International Developments; and
- APESB Presentations.

### IESBA

During the last quarter, the IESBA held one Board meeting on 16 – 18 September 2013 in Sydney. APESB's former Chairman Kate Spargo attended this meeting in her capacity as a Board member of the IESBA.

The following key agenda items were considered:

- Update on the status of the *Responding to a Suspected Illegal Act* ED;
- Structure of the Code (ways to improve usability);
- Emerging Issues & Outreach Working Group proposals in respect of processes to deal with emerging issues and outreach;
- Update on the project to review long association provisions with an Audit Client in Section 290 of the Code;
- Update on the project to review of Part C of the Code;
- Status update to review the provision of non-assurance services to an Audit Client in Section 290 and 291 of the Code;
- Future Strategy and Work Plan;
- Statement of principles to guide the IESBA's liaison activities with the IFAC SMP Committee; and
- Presentation on context and issues relating to ethical standards for professional accountants in Hong Kong and Mainland China.

The *IESBA Meeting Summary* (refer Attachment 17(a)) provides a summary of the September 2013 IESBA meeting outcomes.

### Definition of “Those Charged with Governance”

On 23 September 2013, the International Ethics Standards Board for Accountants (IESBA) released the final changes to the definition of “Those Charged with Governance” in its *Code of Ethics for Professional Accountants* (the Code).

The changes are intended to more closely align the definition of “Those Charged with Governance” in the Code with that in the International Auditing and Assurance Standards Board’s (IAASB’s) International Standard on Auditing (ISA) 260, *Communication with Those Charged with Governance*, thereby eliminating any potential confusion. The IESBA does not expect any changes will be necessary to accounting firms’ systems and methodologies or common practice.

The changes clarify that a subgroup of Those Charged with Governance of an entity, such as an audit committee, may assist the governing body in meeting its responsibilities. In those cases, if a professional accountant or firm communicates with such a subgroup, the Code requires the professional accountant or firm to determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

The changes are effective from 1 July 2014.

### **APESB’s Thought Leadership Events in connection with IESBA’s visit**

APESB hosted two thought leadership events on 18<sup>th</sup> and 19<sup>th</sup> September 2013 in conjunction with the visit of the International Ethics Standard Board for Accountants (IESBA) to Sydney. APESB’s thought leadership events provided the opportunity for the visiting IESBA delegation to connect with local stakeholders from the accounting profession, firms, members, regulators and government authorities.

### Dinner Event with IESBA Chairman Jörgen Holmquist at The Pavilion, Royal Botanic Gardens – 18<sup>th</sup> of September 2013

Jörgen Holmquist is the first independent Chairman of the IESBA and has been a public member of the IESBA since 2011. Previously he served as Director General, DG Internal Market and Services, at the European Commission from 2007 to 2010 and was responsible for developing the European Union (EU) regulatory response to the Global Financial Crisis (GFC).

Jörgen addressed two key topics. The first related to the challenges that the global accounting profession is facing, the importance of ethics and the professional accountant’s obligation to act in the public interest. He was of the view that the commitments made by the accounting profession to follow ethical standards and to act in the public interest is a significant aspect as to why auditors and accountants have fared better through the GFC compared to bankers, rating agencies and politicians. Jörgen encouraged the Board and the accounting profession to make a stronger case and to raise public awareness on the importance of the accounting profession’s obligation to comply with the Code of Ethics and to serve the public interest.

The second topic was the European Union, the Euro and the current economic crisis in Europe. He identified the differences between the northern and southern European countries at the time of adoption of the Euro currency and subsequent developments that have led to the current crisis. Jörgen was of the view that the crisis in Europe was brought about by the Southern European countries being slow in adopting stronger economic policies in a similar manner to the Northern European countries. However, Jörgen anticipates that there will be a

revival in the European economy in the medium term with the new policies currently being introduced and the modernisation of the Southern European economies.

*Luncheon Event with Victorian Auditor-General John Doyle at the Heritage Ballroom, Westin Sydney – 19<sup>th</sup> of September 2013*

John Doyle commenced his term as Victoria's 26th Auditor General on 1 July 2013. His prior appointments include being the Auditor General of British Columbia, Canada and the Deputy Auditor General for Western Australia.

John addressed the topic of accountability and trust in Government and the role of the Auditors-General. He identified some of the key factors that contributed to the GFC such as unethical conduct, poor risk management, failure of regulators; their consequences and issues to consider.

He also explored the role of Auditors-General to provide assurance to the Parliaments on the accountability and performance of the public sector. The Auditors-General are required to communicate their findings and recommendations to the Parliament and Government. However the power to enforce such recommendations lies with the regulators. John further noted that regulators have an important role to play and need to strengthen their enforcement and compliance activities.

### **Audit Committee Chairs/CFO Roundtable**

In conjunction with IESBA's visit, APESB also hosted a round table for Audit Committee Chairs/CFOs on 20<sup>th</sup> September 2013 to meet the IESBA Chairman Jörgen Holmquist. IESBA has commenced a number of projects for Members in Business/ CFOs and were interested in gaining the perspectives of Audit Committees and CFOs on these projects. The round table discussion was attended by 12 guests including representatives from Macquarie Group, Coffee International, SAI Global, Australian Prudential Regulation Authority, ICAA, IESBA and APESB.

### **Other International Developments**

#### **IAASB**

#### **Professor Arnold Schilder Reappointed to Chair the International Auditing and Assurance Standards Board (IAASB) from 2015 to 2017**

Professor Arnold Schilder has been reappointed as chairman of the International Auditing and Assurance Standards Board (IAASB) for the period 2015 – 2017. Professor Schilder's reappointment to a new three-year term as IAASB chairman commences on 1 January 2015. The Public Interest Oversight Board (PIOB) approved the appointment at its last meeting in Madrid, Spain.

Professor Arnold Schilder will continue to steer the Board into the future as it works to enhance public confidence in auditor reporting. Part of this agenda includes the IAASB's leading edge proposals for significant changes to the content of the auditor's report and considering the results of the implementation reviews of the ISAs. Also, the IAASB will closely monitor new developments, such as integrated reporting, and their implications for assurance and related services standards.

## **UK Competition Commission**

On 17 October 2013, the United Kingdom Competition Commission released its final report on its investigation into the audit services market for large listed companies in the UK. It recommends audit committees be solely responsible for negotiating audit fees and influencing the scope of audit work, including initiating audit firm tender processes, as a way of reducing the role of management in the audit process. The Commission further proposes for shareholders to have a say on whether the information provided by audit committees in annual reports is adequate. The Commission is of the view that audit committees can play an enhanced role and that this will lead to improved audit quality and shareholder engagement.

The Commission is proposing measures in response to its findings in February and July 2013 that competition is restricted in the audit market with companies facing significant hurdles comparing audit services and shareholders having limited engagement. Other recommendations include retendering the audit every ten years and increasing the inspection of audit engagements for certain companies.

It has been a long-running investigation for the Commission after the Office for Fair Trading referred the audit market to the Commission in October 2011. A key change of the report from its original proposals is that the Commission has dropped its proposed requirement for UK companies to tender for a new auditor every five years. FTSE 350 companies are now required to tender every ten years. The rest of the report remains largely unchanged from the Commission's earlier proposals.

Refer to Attachment 17(b) for an executive summary of the report. The full report can be accessed from [http://www.competition-commission.org.uk/assets/competitioncommission/docs/2011/statutory-audit-services/131016\\_final\\_report.pdf](http://www.competition-commission.org.uk/assets/competitioncommission/docs/2011/statutory-audit-services/131016_final_report.pdf).

## **APESB Presentations**

Channa Wijesinghe delivered a presentation on APESB Standards to the IPA SHICPA Shanghai and IMCTAA Inner Mongolia delegates in September and October 2013 (refer to Attachment 17(c) and 17(d)).

## **CPA Congress 2013 Melbourne**

APESB Technical Staff attended the CPA Congress 2013 held in Melbourne.

## **Material Presented**

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| Attachment 17 (a) | September 2013 IESBA Meeting Summary;  |
| Attachment 17 (b) | Statutory audit services for large companies market investigation – UK Competition Commission – Summary paper; |
| Attachment 17 (c) | APESB presentation to the IPA SHICPA Delegates September 2013; and   |
| Attachment 17 (d) | APESB presentation to the IPA IMCTAA Delegates October 2013  |

**Recommendation:**

That the report on international and other activities be noted.

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**Date:** 23 October 2013