

**APESB**

Accounting  
Professional and  
Ethical Standards Board

**COMMENTS ON THE PROPOSED SECTION 290 OF THE CODE OF  
ETHICS FOR PROFESSIONAL ACCOUNTANTS**

*Independence – Audit and Review Engagements*

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## **1. Introduction**

The Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the exposure draft *Independence – Audit and Review Engagements of the Code of Ethics for Professional Accountants* issued by the International Ethics Standard Board for Accountants (IESBA) and commends the IESBA on the issue of the exposure draft.

## **2. Background to the APESB**

APESB was established as an initiative of the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. In November 2006, the National Institute of Accountants (NIA) was admitted to APESB. The primary role of APESB is to:

- Develop and issue in the public interest, professional and ethical standards that will apply to professional body membership; and
- Provide a formal and rigorous forum for the consideration, promulgation and approval of professional and ethical standards, which is performed in an open, timely, independent and proactive manner.

The Australian equivalent to the *Code of Ethics for Professional Accountants* was issued in July 2006 and a compiled version which includes subsequent amending standards (including network firm amendments) was issued in July 2008.

## **3. APESB's responses to IESBA's specific questions**

APESB in principle supports the proposed revisions of Section 290 Independence – Audit and Review Engagements provisions. APESB has reviewed the proposed revisions and offer the following comments in respect of IESBA's specific questions.

### **Question 1: Respondents are asked for their views on whether the proposed restriction on providing internal audit services to public interest audit clients is appropriate.**

We note that the exposure draft of the proposed *Code of Ethics for Professional Accountants* define a public interest entity as a listed entity or an entity that is defined by regulation or legislation as a public interest entity.

In the case of audits of public interest entities, we agree with the IESBA's proposed restriction on the provision of internal audit services.

**Question 2: Respondents are asked for their views as to whether there should be an exception for immaterial internal audit services provided to an audit client that is a public interest entity.**

We agree with IESBA's proposal to provide an exception for immaterial non-recurring internal audit services provided the conditions in paragraph 290.189 are met and the facts and circumstances related to the internal audit service are discussed with those charged with governance.

**Question 3: Respondents are asked for their views on the appropriateness of the required frequency of the application of the safeguard and the requirement to determine whether a pre-issuance review is required in those instances when the total fees significantly exceed 15%.**

APESB commends the IESBA on the inclusion of appropriate safeguards when total fees from a public interest audit client exceed 15% and for considering the importance of the pre-issuance reviews.

We agree with IESBA's proposals in paragraph 290.215 of the proposed Code of Ethics.

However, we believe that more guidance is required in respect of circumstances in which total fees are significantly greater than 15%. Given that a quantitative threshold is initially specified (i.e. 15%) when the specified safeguards are required then to impose further requirements when certain conditions are qualitatively higher (i.e. significantly) than the base quantitative measure (i.e. 15%) can be problematic. There is potential for the term "significantly exceed 15%" to be interpreted in different ways by different stakeholders.

Accordingly, we recommend that IESBA reconsider this issue and provide clear guidelines on circumstances in which threats will be so significant that a professional accountant will be required to perform a pre-issuance review.

#### **4. Further Information**

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