

18 August 2014

Mr Ken Siong
Technical Director
International Ethics Standards Board for Accountants (IESBA)
International Federation of Accountants (IFAC)
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By email: kensiong@ethicsboard.org

Dear Ken,

RE: Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Exposure Draft *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* (Exposure Draft).

APESB is generally supportive of the proposed amendments to the IESBA's Code. We note that the changes to the emergency provisions will align IESBA's Code with APESB's Australian Code. In addition, the enhanced guidance in the Exposure Draft in respect of management responsibilities, administrative services and non-assurance services that are of a routine or mechanical nature, will provide useful guidance to external auditors and their clients to ensure that they understand their respective responsibilities.

APESB's role

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (CPA Australia, Institute of Chartered Accountants Australia and the Institute of Public Accountants). A secondary objective of APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional and ethical pronouncements for Professional Accountants.

Our essential function is the setting of standards, and in doing this we endeavour to incorporate a strong emphasis on professionalism and the role of sound judgement in those professional accountants who are obliged to follow our standards. We believe that setting high quality standards with demanding criteria contributes to the professional standing and behaviour of members of the accounting profession.

Specific Comments

APESB's responses to the specific issues raised by the IESBA in the Exposure Draft are as follows:

Emergency Provisions

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

APESB issued the revised Australian Code (APES 110) which was based on the 2009 version of the IESBA Code in December 2010. As APESB did not believe that there can be circumstances in Australia that would warrant the inclusion of the emergency provisions pertaining to an auditor performing bookkeeping and taxation services for a Public Interest Entity (PIE) audit client, APESB did not adopt these IESBA provisions in the Australian Code in 2010.

In Australia, the *Corporations Act 2001* requires all disclosing entities, public companies, companies limited by guarantee (except small companies limited by guarantee) and large proprietary companies to be audited. A large proprietary company is defined as large for a financial year based on its consolidated revenue, consolidated gross assets and number of employees. Some small proprietary companies may have to lodge financial reports in certain circumstances. Consequently, as the threshold for statutory audits in Australia is high, there are fewer SMEs that require to be audited. In addition, there are over 200,000 professionally qualified accountants who are members of the three major Australian accounting bodies.

Accordingly, APESB was of the view that if there is an emergency in respect of a PIE audit client, that there is a sufficient number of professionally qualified accountants who would be able to step in and assist with bookkeeping and taxation services. These prohibitions have been effective in Australia since 1 July 2011 and there have been no issues reported by Australian stakeholders in respect of practical implementation difficulties.

Since IESBA's proposal in this Exposure Draft is consistent with the existing position in the Australian Code, APESB strongly supports IESBA's proposal to remove the emergency provisions in respect of the external auditor performing bookkeeping and taxation services for audit clients who are PIEs in IESBA's Code.

Management Responsibilities

2. Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

APESB supports IESBA's proposal to amend the Code to make it clear that when providing a non-assurance service all decisions regarding the entity's functions are the responsibility of management.

We note that an important aspect of management's responsibilities is to monitor the performance of the entity in accordance with criteria established by those charged with governance of the entity. Accordingly, we propose the following amendments to paragraph 290.162 for your consideration:

290.162 *Management responsibilities involve controlling, leading, ~~and directing~~ and monitoring an entity, including making decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.*

3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

The examples of management responsibilities in paragraph 290.163 appear to be appropriate as they encompass relevant management responsibilities of an organisation's functions such as finance, human resource, operational and administrative responsibilities. We believe that the list could be enhanced with the inclusion of examples that cover management responsibilities such as monitoring performance of the entity and management of the entity's information systems.

The proposed additional examples for IESBA's consideration are:

- Monitoring performance of the entity against established criteria determined by those charged with governance.
- Taking responsibility for the design, implementation, and maintenance of the entity's information systems.

Whilst, the examples provided are useful, it will depend on the facts and circumstances in each specific case. Accordingly, it will be useful for IESBA to state that the professional accountant needs to exercise professional judgement in this regard. Therefore, we believe that the original lead in sentence to paragraph 290.163 should be reinstated to emphasise this point as the examples provided are non-exhaustive.

4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

APESB is supportive of the enhanced guidance proposed by IESBA in terms of an individual from the client's management team with suitable skill, knowledge and expertise overseeing the non-assurance services provided by the external auditor.

We question the inclusion of the new guidance which states that the person who is overseeing the services is not required to possess the expertise to perform or re-perform the services. In the majority of instances (i.e. accounting services) in Australia it is likely that the individual who is overseeing the services from the audit client will have the necessary skills to perform or re-perform the services provided by the external auditor or at least have sufficient knowledge to direct another person to perform the activity. We believe that this additional guidance can be deleted without impacting the key requirements in the prerequisite.

5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

APESB is of the view that the enhanced guidance will assist engagement teams to better understand what constitutes a management responsibility and should deter engagement teams from inadvertently assuming a management's responsibility.

6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

APESB agrees that the relocation of the guidance pertaining to administrative services into its own subsection provides greater clarity.

Routine or Mechanical

7. Does the proposed guidance on "routine or mechanical" clarify the term, or is additional guidance needed?

APESB supports the proposed enhanced guidance on "routine or mechanical" activities which also provides examples of administrative services where little to no professional judgement is exercised and is clerical in nature.

We note that in circumstances where professional judgement is exercised over certain matters (i.e. accounting estimates or accounting policies) it may not be appropriate for the external auditor to provide non-assurance services in respect of the following services:

- Payroll services.
- Preparing financial statements.

Accordingly, if the examples which pertain to the above circumstances are to be retained, they should be appropriately "ring fenced" in the following manner:

- Providing routine payroll services based on client-originated data without exercising professional judgement.
- Preparing Compiling financial statements based on information in the client-approved trial balance and other relevant information provided by management without exercising professional judgement.

We believe that these changes will be useful in clarifying the narrow circumstances in which the examples referred to paragraph 290.171 are applicable.

8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

APESB agrees that the identification of source documents is sufficiently clear. We note that with the advent of online software such as cloud based accounting applications, professional accountants are increasingly using this online software to record transactions into the client's accounting system. As the documentation is maintained electronically, it may be beneficial for IESBA to provide additional guidance in this regard.

Section 291

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

APESB is supportive of the enhanced guidance proposed by IESBA in terms of an individual from the client's management team with suitable skill, knowledge and expertise overseeing the non-assurance services provided by the external auditor.

Similar to our comments in respect of specific issue 4, we question the inclusion of the new guidance which states that the person who is overseeing the services is not required to possess the expertise to perform or re-perform the services. In the majority of instances in Australia, it is likely that the individual who is overseeing the services from the client will have the necessary skills to perform or re-perform the services provided by the professional accountant or at least have sufficient knowledge to direct another person to perform the service. We believe that this additional guidance can be deleted without impacting the key requirements in the prerequisite.

10. Are the examples of management responsibilities in paragraph 291.144 appropriate?

The examples of management responsibilities in paragraph 291.144 appear to be appropriate as they encompass relevant management responsibilities of an organisation's functions such as finance, human resource, operational and administrative responsibilities.

In accordance with our comments in respect of specific issue 3, we believe that the list could be enhanced with the inclusion of examples that cover management responsibilities such as monitoring of performance and management of information systems in accordance with our comments on section 290.

The proposed additional examples for IESBA's consideration are:

- Monitoring performance of the entity against established criteria determined by those charged with governance.
- Taking responsibility for the design, implementation, and maintenance of the entity's information systems.

11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

APESB agrees that the relocation of the guidance pertaining to administrative services into its own subsection provides greater clarity.

General Comments

APESB's responses to the general matters raised by the IESBA are as follows:

(a) *Impact on SMPs*

Professional accountants who work in Small and Medium Practices (SMPs) play a key role as a trusted business advisor to Small and Medium Entities (SMEs).

Emergency provisions

As noted in response to issue 1 of specific comments, the Australian Code already contains these prohibitions in respect of bookkeeping and taxation services and it has operated in Australia since 1 July 2011. Furthermore it should be noted that the Australian Code provides guidance on the entities that are likely to be PIEs and SMPs involvement with these kinds of entities are likely to be limited.

Management responsibilities

The proposed enhancements in respect of management responsibilities will provide more clarity to the SMP auditors and management of their respective responsibilities and will assist the auditor in ensuring that they do not assume a management responsibility.

Routine or Mechanical

SMP practitioners who are auditors are likely to provide clients with a range of non-assurance services. They will need to be educated on what is deemed to be "routine or mechanical" and what is not, in accordance with the proposed amendments to the IESBA Code as detailed in this Exposure Draft. The area that is likely to cause the greatest concern is the preparation or compilation of financial statements in respect of non-PIE audit clients. We believe that the additional guidance in the proposed Exposure Draft will assist SMP practitioners in determining the limited circumstances in which it is appropriate to provide these services to their non-PIE audit clients.

(b) *Impact on Preparers (including SMEs), and users (including regulators)*

SMEs account for the vast majority of businesses in Australia and globally. SMEs use the professional accountant as a professional advisory service to prepare the accounting records/ bookkeeping, financial statements, compliance matters (tax, health and safety and environmental regulations) or management advisory matters. In most circumstances particularly for small SMEs (e.g. non-profit organisations in Australia), management may not possess the required financial skills and expertise. Hence, SMEs normally rely on SMPs to assist them with their financial reporting and compliance obligations.

Emergency provisions

As noted above, APESB has defined which entities in Australia are likely to be PIEs in the Australian Code. Based on this additional guidance we believe that most SMEs in Australia are unlikely to be PIEs and thus will not be impacted by this change.

Management responsibilities

The proposed enhancements in respect of management responsibilities will provide more clarity to management of their responsibilities and will assist them in identifying an appropriate person who is able to oversee the provision of non-assurance services by the external auditor.

Routine or Mechanical

As noted above the area that is likely to cause the greatest concern in the SMP/SME environment is the preparation or compilation of financial statements.

(c) *Developing Nations* – Not applicable

(d) *Translations* – Not applicable

(e) *Effective Date*

APESB believes that a minimum period of one year would be sufficient to support effective implementation of these changes.

Concluding comments

Subject to our comments noted above, APESB is supportive of the proposed amendments to the IESBA's Code.

We hope you find these comments useful in your final deliberations. Should you require any additional information, please do not hesitate to contact me at nicola.roxon@apesb.org.au or APESB's Technical Director Channa Wijesinghe at channa.wijesinghe@apesb.org.au.

Yours sincerely



The Hon. Nicola Roxon

Chairman