

27 February 2014

Mr Jörgen Holmquist
Chairman
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Jörgen,

RE: IESBA Proposed Strategy and Work Plan, 2014-2018

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to comment on the Consultation Paper *IESBA Proposed Strategy and Work Plan, 2014-2018* (SWP).

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.

General comments

APESB commends the IESBA on its SWP. APESB is also supportive of IESBA's proposed approach of developing a five year work plan which we believe is realistic and achievable given IESBA's global due process. We favourably note your recognition that the environment changes over the term of a five year plan and that you have allowed some capacity in the SWP to deal with emerging issues.

We suggest that the IESBA spend some time examining the role of the Professional Accountant in the future and in particular the breadth of the role played and the impact evolving technology is having on that role. The observation could be made that the IESBA's definition of Professional Activities is somewhat focused on the traditional roles and activities of Professional Accountants and not what they have become and are likely to become in the digital age.

Comments on specific questions raised by IESBA

- a) *Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.*

APESB supports the four work streams that IESBA added to its SWP in 2012.

We note that there have been significant ongoing debates in various jurisdictions in respect of auditor independence issues associated with long association of senior personnel and non-assurance services provided by the external auditor. In some jurisdictions this has led to mandatory audit firm rotation and limits being placed on non-assurance services that can be provided by the entity's external auditor.

Accordingly, it is imperative that IESBA as the global standard setter for auditor independence matters consider these issues and develops its own position on these matters. This will also be an opportunity for IESBA to perform a reassessment of these provisions in IESBA's Code taking in to consideration the current global regulatory environment and stakeholder concerns.

APESB is also supportive of the IESBA project on the review of Part C of the Code which impacts on Professional Accountants in Business (PAIBs). This member segment is a significant proportion of all Professional Accountants and the issues they have to face and deal with can be substantially different from the ethical challenges encountered by Professional Accountants in Public Practice.

We believe that the restructure of the Code to increase its global usability and adoption will be the most challenging project for IESBA in the 2014-2018 strategic period. This project needs to consider jurisdictional differences, institutional arrangements for auditor independence requirements in the various jurisdictions, and the interests of different stakeholder groups who will have diverging views on the optimal structure of the Code.

- b) *Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.*

APESB agrees with IESBA's four strategic themes identified for the period 2014-2018. These strategic themes are broadly consistent with APESB's own strategic themes in Australia for the strategic period 2013 - 2015. We are particularly supportive of IESBA's efforts in respect of promoting and facilitating global adoption and effective implementation of the Code and increasing engagement with key stakeholders. In this regard we encourage IESBA to continue your outreach and engagement activities with SMP practitioners and developing nations to drive the global acceptance and effective implementation of the Code.

- c) *Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.*

APESB agrees with the actions identified with respect to each strategic theme and their relative priorities. APESB is supportive of the proposed new work streams in respect of *Audit Quality, fee dependency and guidance regarding safeguards in the Code.*

IESBA proposed activities in respect of *emerging issues and outreach* is also supported as it is important to engage and communicate with all stakeholders. We believe that over the long term these efforts will be a contributing factor to the global adoption of the Code.

When undertaking the activities noted above, IESBA should engage with SMP practitioners and developing nations who have limited time and resources to be engaged with standard setting activities. However, these two market segments make up a major proportion of the global accounting profession. IESBA may need to develop innovative communication and engagement strategies (i.e. virtual roundtables, webcasts, and short targeted surveys) to engage with these market segments in order to understand and address the challenges faced by them to adopt and implement the Code.

- d) *Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).*

We have identified two areas that IESBA may wish to consider in your review of auditor independence matters and Part C of the Code.

i. Outsourced Services

The trend of outsourcing of *Professional Activities* has grown rapidly over the last two decades with benefits such as staff utilisation on core activities, lower costs and access to specialised skills, all resulting in greater efficiencies for various organisations. However, with these benefits risks also arise such as confidentiality of client information, integrity of information transferred between the organisation and the outsourced service provider, cross jurisdictional transfer of information, and sufficient control and supervision of the work performed.

Given the increasing use of outsourced services and the involvement of Professional Accountants in Public Practice as well as Professional Accountants in Business in the delivery of outsourced services, it is important that risks associated with conducting

business in this manner are managed to minimise risks to the Professional Accountant, the firm and the client. For example, if the external audit firm is outsourcing some of the external audit work to a member firm in a low cost jurisdiction then the client should be made aware of this practice and approve its use as ultimately it is the client's information.

In 2012 APESB completed a project (APES GN 30 Outsourced Services <http://www.apesb.org.au/attachments/APES%20GN30%20Guidance%20Note.pdf>) to provide guidance for Professional Accountants in Public Practice to manage risks associated with providing or utilising Outsourced Services in the delivery of Professional Services.

International guidance in this area would be particularly beneficial to the global accounting profession. IESBA could consider developing a specific section which addresses outsourced services within sections 290 and 291 on matters that an external auditor or other assurance provider should consider when they provide or utilise outsourced services. Similarly in Part C IESBA should consider developing guidance for PAIBs such as the Chief Financial Officer who is involved in providing or utilising outsourced services.

ii. Senior Leadership Roles – PAIBs

Professional Accountants in Business (PAIBs) undertake senior leadership roles such as being Chief Executive Officer, Chief Financial Officer or being a Non-Executive Director in an organisation. It would be beneficial, if in Part C of the Code a specific section was developed which provided ethical guidance on roles and responsibilities of PAIB's who act in these senior leadership roles. For example, professional and ethical obligations of a PAIB who is on an audit or due diligence committee of an organisation. Another example is where a PAIB has dual roles such as being an executive as well as being a director of an entity. APESB is undertaking projects in these areas and would welcome supporting IESBA's initiatives.

With the exception of matters noted above, we have not identified any other matters that IESBA should consider in its SWP. The matters noted above can be considered to be enhancements to IESBA's proposed projects on auditor independence and review of Part C of the Code and it is not necessary to displace any of the proposed projects on its SWP.

Comments on any other matters you believe would be important for IESBA to consider in developing its SWP for 2014-2018

We note that in the international arena there are two key standard setting bodies under the auspices of IFAC for Professional Accountants, the IESBA and the International Auditing and Assurance Standards Board (IAASB). As you are aware, IAASB's focus is

the development of standards for auditing, assurance and other related standards. IESBA compliments the work of the IAASB by providing high quality ethical standards for Professional Accountants including auditor independence requirements. However, in the international arena due to the current mandates of these two boards there is a gap in respect of specific professional pronouncements for non-assurance services provided by the accounting profession.

While we acknowledge that the Code stipulates the fundamental principles that are to be applied by all Professional Accountants, there are a number of different Professional Activities performed by the accounting profession that would benefit from specific professional pronouncements for non-assurance services. In Australia, APESB has filled this gap and issued a suite of pronouncements that address professional and ethical obligations of a Professional Accountant when they provide services such as forensic accounting, taxation, valuation, financial planning, and insolvency.

APESB acknowledges the extensive time period covered by the IESBA SWP and as stated above agree with the priorities identified therein. However, we encourage IESBA to consider this issue for the next strategic period (i.e. 2019-2023 period). We respectfully suggest that, if possible, IESBA should consider filling this gap in respect of specific professional and ethical pronouncements for non-assurance services for the global accounting profession in a manner similar to APESB in Australia.

Concluding comments

We hope you find these comments useful in your final deliberations of your SWP. If you require any additional information, please do not hesitate to contact me at s.a.black@bigpond.com or Channa Wijesinghe, Technical Director at channa.wijesinghe@apesb.org.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Stuart Black', written over a horizontal line.

Stuart Black AM

Chairman