

4 February 2015

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 Mr Siong,

**RE: IESBA's Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on IESBA's Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants* (Consultation Paper).

APESB commends IESBA's efforts to revise and restructure the Code in order to enhance its understandability and enforceability. Subject to the comments noted in this submission, APESB is supportive of IESBA's proposals in the Consultation Paper.

***Recommendations***

APESB's key recommendations for IESBA's consideration are:

- to use the terms, for example "professional accountant", in a consistent manner in all sections and to **not** deem the same term in different ways (refer page 3);
- to be clear on the applicability of a defined term when it is used for the first time in a paragraph (i.e. audit engagement or review engagement) and subsequently, to use an abbreviated term to represent any recurring instances in the same paragraph (refer page 6);
- to state *Requirements* in bold-type (black lettering) and *Application and Other Explanatory Material* in normal type (grey lettering) in order to enhance the prominence of mandatory requirements (refer page 3);
- to avoid restating sections (i.e. section 100) as there are linkages to where the provisions are initially stated in the Code (refer page 3);
- to increase the indicative timeframe for IESBA to complete the restructure and reorganisation of the Code (refer page 5); and
- to allow a time frame of two years for global stakeholders to adopt the new Code (refer page 5).

## Questions

APESB's responses to the questions raised by the IESBA in the Consultation Paper are as follows:

- 1. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?**

APESB supports IESBA's efforts to make the Code user-friendly in order to facilitate stakeholders' understanding of the Code's conceptual framework and the interconnections between the different sections of the Code by:

- developing a new *Preface* Section to provide guidance on the terms used in the Code and how to use the Code;
- adding a table setting out the structure of the different sections of the Code;
- developing an introductory *Purpose* paragraph to provide the context of a specific section; and
- clearly separating the mandatory paragraphs (i.e. *Requirements*) from the guidance paragraphs (i.e. *Application and Other Explanatory Material*).

APESB strongly supports IESBA's view in the Consultation Paper that the best approach is to state mandatory professional and ethical obligations (i.e. *Requirements*) first which is immediately followed by the related guidance (i.e. *Application and Other Explanatory Material*).

- 2. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?**

APESB is of the view that the Consultation Paper approach outlined by IESBA is conducive to the effective adoption of the Code into laws and regulations as the requirements would be clearly identified.

In Australia, legislative backing to the domestic Code (i.e. APES 110 *Code of Ethics for Professional Accountants* (APES 110)) is provided by Australian Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102).

ASA 102 creates a legislative obligation in Australia for external auditors who are performing Corporations Act audits to have regard to the applicable requirements of APES 110 issued by APESB. Australian Auditing Standards are based on International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) and IESBA's amendments appear to be making the IESBA Code more aligned with IAASB's drafting approach which has already been accepted by legislators in Australia. Accordingly, we are of the view that IESBA's proposed Consultation Paper approach will assist in the Code's effective implementation, consistent application and enable enforcement by raising the visibility of the Code's requirements.

In addition, APESB respectfully raises the following matters for IESBA's consideration:

- We question whether deeming the same term (e.g. professional accountant) in different ways to address different segments of professional accountants in sections 100, 200 and sections 300 to 500 is likely to lead to confusion. This may give rise to unintended legislative consequences or may cause enforcement difficulties to regulators. An approach APESB uses to address this issue is to state the applicable segment of the accounting profession at the start of each paragraph (i.e. either professional accountant in public practice, professional accountant in business or professional accountants, if it is applicable to all professional accountants) and to subsequently use professional accountant for the remainder of the paragraph. Whilst it is acknowledged that this may add to the overall length, when each paragraph is considered in isolation (even if a user does not read the introductory paragraphs in each section), it clearly states which segment of the membership is being addressed. Please refer to APESB's APES 200 and APES 300 series of professional and ethical standards available via this [link](#) where this approach has been adopted.
- In order to further enhance the prominence of the mandatory requirements, IESBA could consider stating the *Requirements* in bold-type (black lettering) and *Application and Other Explanatory Material* in normal type (grey lettering). APESB has adopted this approach for its Standards in Australia.
- APESB has a preference for providing the list of defined terms at the beginning of the Code rather than at the end of the Code. If the definitions are placed at the start of the Code, it will facilitate a user's reading of the Code and it is not necessary to re-introduce key definitions at the start of each section. Furthermore, if there are cross-reference linkages from the defined term to the definitions list, IESBA may be able to avoid any repetitive '*Terms Used in the Section*' (such as professional accountant, audit engagement, audit client etc.) as proposed in the Consultation Paper and thus reducing the length of the Code.
- In the illustrative examples, some steps in the conceptual framework in section 100 are repeated. Although we acknowledge that IESBA has intentionally restated this material to assist a user's comprehension and understanding of a specific section without having to read the entire section 100, this approach inadvertently duplicates the information in section 100. This leads to an increase in the length of the Code for an insignificant benefit. We are of the view that as IESBA is proposing to add links to the conceptual framework and definitions, the issue of assisting a user's understanding and comprehension of the Code could be better addressed through these links and education rather than duplicating material in the Code.

**3. Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C) as set out in paragraph 20 of the Consultation Paper?**

APESB agrees that the proposed reorganisation of the Code will enhance its usability. We also support the reordering of the Code's content e.g. moving the current Part C before the current Part B since that order enables similar materials in respect of:

- professional accountants in business (proposed 200 section) to be presented first; and
- professional accountants in public practice (proposed 300-500 sections) to be grouped together and the auditor independence provisions to be presented at the end as sections 400 and 500.

APESB supports the above reorganisation as professional accountants in business (who represent the majority of accountants) can then easily access the collective self-contained sections that relate to them whilst this approach continues to maintain the existing organisation of sections for professional accountants in public practice.

**4. Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?**

This is worthy of consideration since a significant component of the Code of Ethics is the auditor independence provisions (approx. 89 pages out of 157 pages). Furthermore, the auditor independence provisions impact on a smaller proportion of professional accountants in public practice in comparison to the other provisions that impact upon all professional accountants in public practice.

APESB is supportive of IESBA's proposal to issue the auditor independence provisions of the Code as a separate standard (for example, International Standards on Auditor Independence). We are supportive of the IESBA's Illustrative Example in the Consultation Paper that present a standard on sections 100-300 and then a separate standard on Auditor Independence i.e. sections 400-500 (the previous sections 290/291). This would shorten the Code of Ethics to about 68 pages and improve its accessibility, readability and understandability by the majority of professional accountants who are not engaged in audits.

**5. Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?**

APESB is supportive of IESBA's proposed approach to enhance the readability and clarity of the Code by:

- using simpler and shorter sentences;
- simplifying complex grammatical structures;
- consistently using the word 'shall' to denote mandatory requirements; and
- aligning terminology used in the independence sections with that used by the IAASB.

APESB also agrees with IESBA's approach to include a link, both in paper and electronic versions, to terms, which are described in greater detail within the text of the Code.

- 6. Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approaches would you recommend?**

APESB considers that it is important to clarify responsibilities in the Code as it provides clarity whether the professional accountant in public practice or the firm has the responsibility to ensure a specific professional obligation is complied with. This approach is likely to assist professional bodies and regulators who enforce the Code. We believe that the illustrative approach is an appropriate means to achieve this outcome.

- 7. Do you find the examples of responsible individuals illustrated in paragraph 33 useful?**

Yes, the examples of responsible individuals illustrated in paragraph 33 of the Consultation Paper are useful and where appropriate this approach should be adopted in other sections of the Code.

- 8. Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?**

APESB agrees that an interactive web version of the Code will be useful and is supportive of IESBA's proposals in this regard.

- 9. Do you have any comments on the indicative timeline described in Section VIII of this Paper?**

Subsequent to IESBA receiving feedback from stakeholders on this Consultation Paper, IESBA appears to be estimating a time period of approximately one year to complete the reorganisation of the Code. We caution IESBA whether this indicative timeline is realistic. We believe that this is a significant project and the reorganisation of the material in the Code is likely to lead to unintended consequences and it may take significant time to resolve the issues created by this reorganisation.

We also believe that the proposed timeline of one year from the completion date (i.e. January 2017) for the Code to become effective may not suffice, even if there are insignificant changes to the requirements. It may be more appropriate to provide a longer period of 18 months to 24 months from January 2017 for the new Code to become effective.

For example, assuming that IESBA meets the January 2017 deadline, a commencement date of January 2019 is more realistic for stakeholders to consider the new Code and then to go through the relevant jurisdiction's due process to incorporate the Code into applicable legislation, regulation and professional requirements.

We note that when the most recent rewrite of the Code occurred in 2009, it took most countries until 2012-14 to fully adopt the Code. Accordingly, we believe that a period of two years is appropriate, particularly where there are legislative and regulatory considerations and to allow more time for SMP practices (which are the majority of accounting practices) who have historically struggled with the effective implementation of the Code.

## 10. Do you have any other comments on the matters set out in the Consultation Paper?

In relation to defined terms with a specific meaning (for example, audit or review engagement) and the continuing use of 'audit engagement' to include 'review engagement', APESB agrees that to include the term 'audit or review engagement' in every instance would be cumbersome. Similar to our comments in question 2 (first bullet point), we propose that IESBA be clear on the application of the defined term (such as audit or review engagement) when it is used for the first time in a paragraph and subsequently, an abbreviated term (such, as engagement) be used in respect of recurring instances in the same paragraph.

The following excerpt on paragraph 290.150 is set out below to illustrate our proposal:

### *General Provisions*

*290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit or review engagement over a long period of time. The significance of the threats will depend on factors such as:*

- *How long the individual has been a member of the audit or review team;*
- *The role of the individual on the audit engagement team;*
- *The structure of the firm;*
- *The nature of the audit engagement;*
- *Whether the client's management team has changed; and*
- *Whether the nature or complexity of the client's accounting and reporting issues has changed.*

*The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:*

- *Rotating the senior personnel off the audit engagement team;*
- *Having a professional accountant who was not a member of the audit engagement team review the work of the senior personnel; or*
- *Regular independent internal or external quality reviews of the engagement.*

### **Concluding comments**

We trust you find these comments useful in your final deliberations. Should you require any additional information, please contact APESB's Technical Director Channa Wijesinghe at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



The Hon. Nicola Roxon  
**Chairman**