

The Chairperson
Accounting Professional & Ethical Standards Board
Level 7, 600 Bourke Street
Melbourne Victoria 3000

Via email: sub@apesb.org.au

1 March 2010

Dear Kate,

Consultation Paper: Proposed Revision of APES 110 Code of Ethics for Professional Accountants

We appreciate the opportunity to respond to the Consultation Paper: Proposed Revision of APES 110 Code of Ethics for Professional Accountants, issued by the Accounting Professional & Ethical Standards Board (APESB).

Deloitte is supportive of the adoption in Australia of the IFAC Code of Ethics for Professional Accountants as revised in July 2009 (the Code). Indeed we support any progress made towards achieving the adoption of a single set of high quality global independence standards, which would serve the public interest by providing a consistent understanding among users of audit reports of the independence of auditors.

We consider that the revised APES 110 should reflect the wording and structure of the Code, preferably with no changes, unless changes are shown to be required for legislative or regulatory reasons. We would urge the APESB to take the lead in supporting the progress of the Code towards becoming a global benchmark.

Response to specific questions

1. Consideration of the Code in the Australian context

As stated above, we support the full adoption of the Code and do not believe that changes are essential for the Code to be adopted in Australia. We consider even minor changes made to the Code will create differences that will continue to cause significant challenges for compliance, particularly across network firms.

a) Mixture of mandatory requirements and guidance

We do not support a restructure of the Code to show mandatory requirements and explanatory guidance in separate paragraphs. The Code applies a principles-based approach which is sufficiently flexible to address the wide array of circumstances encountered by users of the Code. If the guidance is separated from the mandatory paragraphs, then we believe that users of the Code will pay attention only the bold paragraphs and the principles will be somewhat lost. In addition, we consider that every effort should be made to retain the look and feel of the Code unless otherwise warranted, which includes maintaining paragraph numbering.

The IESBA undertook consultation on this point and it was shown that the majority of the respondents were supportive of retaining the present structure of the Code. The view was that the nature of the Code differs from the International Standards on Auditing (ISAs) and that revising the Code to separately present the objective to be achieved, the requirements designed to achieve that objective, and the application guidance (as is the case in the ISAs) would not further improve the clarity of the Code, and would be in fact difficult to achieve.

b) Defined terms

We are supportive of maintaining the defined terms in the Code without modification where possible. We do not consider that modifications to suit the Australian environment are warranted; particularly as we are not in favour of references to Australian legislative requirements being included in the Code (refer Question 2 below).

There are terms in the Australian Auditing Standards that may have been revised for very specific purposes and in respect of the application of those standards. This does not naturally lead to the conclusion that similar terms contained in the Code must be in all respects consistent with terms used in the Australian Auditing Standards, for the purpose of the application of the Code. Further, we understand that the IESBA's staff undertook a review of common key terms between the Code and the clarified ISAs for consistency in early 2009.

We would expect the APESB to demonstrate in the Exposure Draft that any proposed changes to the terms in the Code (such as any terms believed to be inconsistent with those in Australian Auditing Standards) are essential.

Further, we agree that there is a sound basis for arguing that certain defined terms such as "audit engagement" and "review engagement" need to be used consistently in APESB and AUASB pronouncements. The Code does not however seek to attribute different meanings to these terms. The Code makes clear, when read in context, that in certain sections those terms are to be read as including references to other terms. A similar approach can be found in the current APES 110, for example, in paragraph 290.34 which states that when an audit client is a listed entity, the term "audit client" will always include its related entities. This is also reflected in the definition.

It would be expected that users of APES 110 read Sections 290 and 291 of the Code in their entirety and understand their application to audit and review engagements and non-audit assurance engagements respectively. We consider this is achieved through guidance and education, not redefining or restructuring the Code.

Whilst we do not support any changes being made to the structure of the Code, a possible solution to mitigate any risk of potential confusion is to add additional text to the definitions of “audit”, “audit team”, “audit engagement”, “audit client” “audit report” and “firm” such as: The use of this term in Section 290 is defined in paragraph 290.3 or In Section 290, this term is used as described in paragraph 290.3.

c) Capitalisation of defined terms

Despite the APESB drafting conventions, we do not support any changes being made to the Code that are not required by legislation or regulation and prefer retaining the look and feel of the Code to ensure consistency. Notwithstanding, it is more important that the meaning and wording of the Code remains identical and the capitulation of defined terms should not, in itself, have any effect on the application of the Code.

d) Definition of “public interest entity”

We do not consider that the definition of this term should be redefined in the Australian context in the revised APES 110. There is sufficient guidance in the current definition to allow firms to consider whether certain entities, other than listed entities, should be treated like “public interest entities” and the Code should therefore stand with current definition.

We would urge the APESB to consider the development of guidance and interpretations at a later date. Given that opinions differ broadly on what the definition should include, the release of the Exposure Draft for the revised APES 110 should not be delayed by what would likely become a complex issue.

2. References to Australian legislative requirements

We do not support the inclusion of the independence requirements contained in the Corporations Act 2001 in the revised APES 110. The current APES 110, in which this approach was taken, has been shown in practice and application to have several weaknesses, including:

- significant delays in reflecting legislative changes, leading to inconsistency in the application of force of law requirements
- the inadvertent extension of the application of auditor independence obligations in the Corporations Act beyond their legislative intent, and
- requirements and revised defined terms in APES 110 which are not in all respects consistent with the Corporations Act requirements and terms they seek to replicate.

We are of course mindful that existing legislative independence requirements may not be entirely consistent with the Code in all respects, and that it is in the public interest for users of the Code to understand their obligations regardless of what source they arise. Notwithstanding, there are other methods for alerting users of the Code in Australia to additional legislative requirements without in essence changing the Code, for example, adding an Appendix highlighting the Corporations Act requirements that may be more stringent than those contained in the Code.

3. Structure of Sections 290 and 291 of the IFAC Code

We fully support the presentation of Sections 290 and 291 of the Code in their current form in the revised APES 110. We consider that the split of the Code in fact provides greater focus and clarity to users of the Code on the requirements relating to audits and reviews on the one hand, and assurance engagements which are not audits or reviews on the other.

While there is some repetition and length added to the Code by splitting it in this manner, this is far outweighed, in our view, by the benefit of having a stand-alone section that can be applied by practitioners who provide assurance services that are not audit or review engagements, such as carbon assurance engagements.

General comment - APESB comment letters to the IESBA

We note from its comment letters that the APESB has been supportive of many of the decisions reached by the IESBA which are today reflected in the revised Code. For example, the APESB stated that it was supportive of the concept of splitting the independence section into two (one relating to audit and review engagements, the other to other assurance engagements) and also supportive of not separately presenting the mandatory requirements from the guidance. We would therefore be interested in understanding the reasons why the APESB has decided to raise these issues in the Consultation Paper.

We would be pleased to discuss our comments with you. If you wish to do so, please do not hesitate to contact me on (02) 9322 5258.

Yours sincerely,



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Partner