

2 March 2010

The Chairperson
Accounting Professional & Ethical Standards Board Limited
Level 7
600 Bourke Street
MELBOURNE VIC 3000

Via email: sub@apesb.org.au

Dear Ms Spargo

APESB Consultation Paper CP 01/09 : Proposed Revision of APES 110 *Code of Ethics for Professional Accountants*

Thank you for the opportunity to provide input into the proposed Exposure Draft to update *APES 110 Code of Ethics for Professional Accountants*. CPA Australia, The Institute of Chartered Accountants in Australia (the Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered the Consultation Paper and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Being members of the International Federation of Accountants (IFAC), all three professional accounting bodies strongly support a global set of high quality ethical standards. A global standard, which distinguishes the accountancy profession's acceptance of the responsibility to act in the public interest and includes a common understanding of what it means to be independent when providing assurance engagements, will contribute greatly to the confidence of investors in financial reporting. This commitment to a global Code of Ethics is embodied in IFAC's Statement of Member Obligations which requires that member bodies not apply any less stringent standards than those stated in the *IFAC Code of Ethics for Professional Accountants*. Further, where responsibility for the development of national codes of ethics lies with third parties, member bodies have as a central objective the convergence of the member country's code of ethics with the *IFAC Code of Ethics for Professional Accountants*.

Therefore, the Joint Accounting Bodies urge the Accounting Professional & Ethical Standards Board (APESB) to prefer the international wording wherever possible and to carefully consider the rationale for any changes considered necessary to enhance the ease of understanding and clarity for their members and maintain the existing Australian standards.

The Joint Accounting Bodies welcome the opportunity to provide views on specific matters which may impact the overall drafting of the revised APES 110.

Representatives of the Australian Accounting Profession



cpaaustralia.com.au



The Institute of
Chartered Accountants
in Australia

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nia.org.au

Specific comments

1. Consideration of the IFAC Code in the Australian Context

APESB Drafting Conventions

a) Mixture of mandatory requirements and guidance – In accordance with APESB drafting conventions, should the revised APES 110 be formatted so that mandatory requirements appear in separate paragraphs to guidance?

The members of the Joint Accounting Bodies have adopted differing approaches to this question.

CPA Australia and the National Institute of Accountants consider the current APES 110 contains a mixture of mandatory requirements and guidance, for example the requirement for partner rotation where mandatory requirements do not appear in separate paragraphs to guidance. This practice is consistent with the principles-based approach which does not require mandatory requirements to be shown in bold type black lettering. The principles-based approach establishes fundamental ethical principles governing conduct of professional accountants, which the individual accountant then applies to the particular circumstances using professional judgement. The mandatory requirements should therefore be read together with the guidance to assist with the consistent application of the principles. Separating the mandatory requirements from the guidance may place too much focus and emphasis on the mandatory requirements without enough consideration of the associated guidance. Further, we note that the objective of IFAC's Drafting Conventions Project was to improve the drafting conventions used in the IFAC Code so as to enhance the clarity and understanding of its provisions; in particular the use of the word "shall" to indicate a requirement, rather than a requirement being shown in a separate paragraph.

The Institute is not convinced that the APESB should abandon its drafting convention of separating mandatory and guidance paragraphs, which has been comprehensively adopted in other APES standards and is considered to be effective and beneficial there. The Institute therefore encourages the APESB to carefully examine any proposal that involves retreating from these drafting conventions already established and comprehensively applied by the Board.

b) Defined terms – Should the revised APES 110 use IFAC defined terms, use defined terms tailored to the Australian environment, or, where applicable, use defined terms which are consistent with those used in Australian Auditing Standards?

The Joint Accounting Bodies support the use of consistent terms and definitions where possible, with changes made only where necessary. The revised APES 110 should use IFAC defined terms, unless there is sufficient reason to tailor these defined terms to the Australian environment.

In developing the current APES 110, APESB modified and added defined terms to suit the Australian environment. Some of these changes addressed the perception that the professional code be no less stringent than the requirements of the *Corporations Act* resulting from CLERP 9, as well as aligning definitions in APES 110 with those in the legislation to ensure clarity and consistency. It is essential to always consider the specific context when incorporating definitions from legislation into a Code of Ethics, as the objectives of the legislation may not match those of a set of professional standards.

Consistency with defined terms used in the Australian Auditing Standards would be desirable. In revising its Code of Ethics, IFAC aimed to ensure consistency of defined terms with those used in the International Auditing Standards; for example, the definition of assurance engagement.

Consistency with defined terms used in other APESB professional standards is also desirable. Any professional standards impacted by revisions to the current APES 110 definitions as a consequence of adopting IFAC defined terms, would necessitate a timely review of those professional standards.

c) Capitalisation of defined terms – Should defined terms be differentiated from non-defined terms by capitalising defined terms in the revised APES 110?

The Joint Accounting Bodies support the drafting conventions adopted by the APESB, and its objective of achieving consistency and clarity with other professional standards, with the capitalisation of defined terms in the revised APES 110.

However, it is noted that in trying to avoid repetition the revised IFAC Code states the following in paragraph 290.3:

In this section, the term(s):

- “Audit”, “audit team”, “audit engagement”, “audit client” and “audit report” includes review, review team, review engagement, review client and review report, and
- “Firm” includes network form, except where otherwise stated.

This may pose a problem when capitalising definitions. A suggested solution would be to refer to paragraph 290.3 and paragraph 291.1 in each of the definitions to ensure the terms used within the revised APES 110 are fully understood, especially in Sections 290 and 291. This would then cater for the IFAC drafting.

d) Definition of “public interest entity” – Should the revised APES 110 use the IFAC definition of “public interest entity” or provide guidance on the application of the IFAC definition in the Australian context or redefine this term in the Australian context?

The Joint Accounting Bodies support the provision of guidance on the application of the IFAC definition in the Australian context.

2. References to Australian legislative requirements

Should specific references to the *Corporations Act 2001* and Australian Auditing Standards be incorporated into the revised APES 110 where relevant?

The Joint Accounting Bodies do not support including specific references to the *Corporations Act 2001* in the body of the revised APES 110. The timetable for changes/amendments to legislation rarely coincides with the required due process for amending professional standards. This can cause situations where the requirements embodied in the professional standards do not align with legislative requirements and can cause unnecessary compliance problems for members.

It is preferred that references to the *Corporations Act 2001* be contained in an appendix which cross-references paragraphs of the revised APES 110 to the requirements of the corporations law, or alternatively be included as footnote references (a practice adopted by the Auditing and Assurance Standards Board).

A similar practice could be used to reference Australian Auditing Standards.

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

Do you believe sections 290 and 291 of the IFAC Code should be presented in their current form in the revised APES 110 or should they be restructured to remove duplication where possible?

The members of the Joint Accounting Bodies have adopted differing approaches to this question.

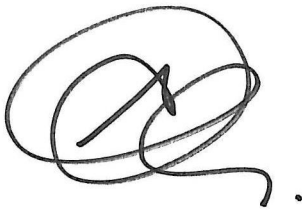
CPA Australia believes that sections 290 and 291 of the IFAC Code should be presented in their current form in the revised APES 110. Despite the apparent duplication, having a “standalone standard”, in particular, which addresses the independence requirements for the growing number of assurance engagements that are not audit or review engagements is very helpful to practitioners who perform these types of engagements.

The Institute and the National Institute of Accountants believe that the split of sections 290 and 291 has resulted in considerable duplication and expansion of the overall size of the Code. It is not clear how this will deliver tangible benefits to members. The Institute urges the APESB to carefully consider the alternative approaches, and the costs and benefits of each.

The National Institute of Accountants is of the view that on balance, it would be preferable to avoid the additional confusion, complexity and cost which would result from having sections 290 and 291 presented in their current form.

If you have any questions regarding this submission, please do not hesitate to contact either Tiina-Liisa Sexton (CPA Australia) at tiina-liisa.sexton@cpaaustralia.com.au, Paul Meredith (The Institute) at paul.meredith@charteredaccountants.com.au or Reece Agland (NIA) at reece.agland@nia.org.au

Yours sincerely



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