

AGENDA PAPER

Item Number: 17
Date of Meeting: 8 May 2014
Subject: International and other activities

Action Required For Discussion For Information Only

Purpose:

To provide a quarterly update to the Board on:

- IESBA meetings, Exposure Drafts and other publications;
- International Developments; and
- APESB Presentations.

IESBA

Jörgen Holmquist

APESB notes with great sadness that on the 28th of March 2014 Jörgen Holmquist passed away. Jörgen was a public member of the International Ethics Standards Board for Accountants (IESBA) since 2011, and in September 2012 became the first independent chairman of the IESBA. Jörgen was also the chair of the European Corporate Governance Institute and the European Fisheries Control Agency. From 2007 – 2010 Jörgen was the director general for the European single market and financial market regulation in the European Commission, from 2007 to 2010. Before joining the European Commission in 1997, he served in the Swedish Ministry of Finance for twenty years and from 1993 to 1997 as the senior civil servant responsible for the Swedish public finances.

It was a great honour to have Jörgen as the keynote speaker at the APESB thought leadership event held in conjunction with the IESBA's visit to Sydney in September 2013. Jörgen will be sadly missed and the APESB appreciates his contribution to the global accounting profession.

IESBA Board Meeting

During the last quarter, the IESBA held one Board meeting from 7 – 9 April 2014 in Toronto, Canada.

The following key agenda items were considered:

- Status update to review the provision of non-assurance services to an Audit Client in Section 290 and 291 of the Code;
- Update on the project to review Part C of the Code;
- Structure of the Code (ways to improve usability);
- Emerging Issues & Outreach Working Group proposals;
- Update on the project to review long association provisions with an Audit Client in Section 290 of the Code;
- Future Strategy and Work Plan; and
- IESBA's views on matters arising from the IAASB's Auditor Reporting project as it relates to a proposed statement of compliance with independence and ethical requirements in the auditor's report.

Notes from the IESBA podcast are shown in Attachment 15(a) and provide a summary of the April 2014 IESBA meeting outcomes.

Other International Developments

European Union Auditor Rotation Reforms

On 3rd April 2014 the European Union (EU) announced political agreement between its parliament and member states on planned reforms to the EU's audit market (see Attachment 15(b)). After much consideration and background work, as stated in the *European Commission – Memo/14/256 03/04/2014* (Attachment 15(c)) the EU is currently proposing a number of reform measures including the following key changes in respect of Public Interest Entities (PIEs):

- Introducing mandatory rotation of statutory auditors and audit firms every 10 years. This term could be extended for one additional 10 year period if a public tender is held. Where the audit is a joint audit, the period of extension may increase to a maximum of 14 years;
- Establishing a list of non-audit services that cannot be provided by the statutory auditor or audit firm to the audited entity;
- Imposing limitations on the fees charged for non-audit services to 70% of the audit fee over 3 years;
- Reinforcing the role and competences of the audit committee, enhancing its composition and giving it a prominent direct role in the appointment of the statutory auditor or the audit firm, as well as in the monitoring of the audit;
- Strengthening the requirements on the audit report, and introducing an additional, more detailed report to the audit committee, containing thorough information about the performance of the audit; and
- Establishing a dialogue between the statutory auditor or audit firm and the supervisor of a PIE.

The political agreement remains subject to technical finalisation and formal approval by the EU parliament which is expected to occur by mid-2014.

IFAC Press release on the European Parliament vote on statutory audit legislation

On the 3rd April 2014, IFAC issued a press release commenting on the European Parliament vote on the statutory audit legislation. Some aspects of the reforms that adopt a globally

consistent approach were welcomed by IFAC. However, concerns were raised in other areas that were believed to “promote regulatory fragmentation and divergence”. The IFAC press release is provided as Attachment 15(d).

IAASB

On 18 February 2014, the International Auditing and Assurance Standards Board (IAASB) released *A Framework for Audit Quality, Key Elements that Create an Environment for Audit Quality, February 2014* (the Framework). This Framework is designed to encourage auditors, audit clients, audit firms, regulators, and others to increase audit quality in their environments and also to create an increase in dialogue between them on audit quality.

The Framework describes the input factors, process factors and output factors that contribute to audit quality at the engagement, audit firm and national levels, for financial statement audits. It also demonstrates the importance of appropriate interactions among stakeholders and the importance of various contextual factors.

As stated by the IAASB, the IAASB believe that issuing this Framework is in the public interest as it will:

- Encourage national audit firms, international networks of audit firms, and professional accountancy organisations to reflect on how to improve audit quality and better communicate information about audit quality;
- Raise the level of awareness and understanding among stakeholders of the important elements of audit quality;
- Enable stakeholders to recognise those factors that may deserve immediate attention to enhance audit quality. For example, the Framework could be used to inform those charged with governance about audit quality and encourage them to consider their roles in its enhancement;
- Assist standard setting, both internationally and at a national level. For example, the IAASB will use the Framework when it revises International Standard on Quality Control (ISQC) 11 and the International Standards on Auditing (ISAs). It may also assist the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB) in considering improvements to their authoritative pronouncements;
- Facilitate dialogue and closer working relationships between the IAASB and key stakeholders as well as among key stakeholders themselves;
- Stimulate academic research on the topic; and
- Assist auditing students to gain a better understanding of the fundamentals of the profession they are aspiring to join.

Due to the length of the document, the complete Framework has not been provided as an attachment. The complete Framework can be viewed at:

<https://www.ifac.org/sites/default/files/publications/files/A-Framework-for-Audit-Quality-Key-Elements-that-Crete-an-Environment-for-Audit-Quality-2.pdf>

IFAC Appointments

James Gunn Appointed as Managing Director

The International Federation of Accountants announced the appointment of James Gunn as Managing Director on the 28 April 2014. Mr Gunn's appointment is effective upon the retirement of Jim Sylph at the end of June 2014.

Mr Gunn is currently the Technical Director of the International Auditing and Assurance Standards Board (IAASB) and has been with the IAASB for over a decade. In this role Mr Gunn has managed and overseen the activities of the Board and its staff, played a pivotal role in representing the Board, building relationships, and conducting outreach with international stakeholders in more than 35 countries around the world.

PAIB – International Good Practice Guide, Developing and Reporting Supplementary Financial Measures

On the 26th February 2014 the Professional Accountants in Business (PAIB) committee of the International Federation of Accountants (IFAC) released for public exposure a proposed International Good Practice Guide, *Developing and Reporting Supplementary Financial Measures* (refer Attachment 15(e)).

As stated by IFAC, the aim of this International Good Practice Guidance (IGPG), *Developing and Reporting Supplementary Financial Measures*, is to establish a benchmark for good practice for developing and reporting supplementary financial measures to assist management, investors, and other stakeholders in understanding some aspect of an organization's performance.

The emphasis of the guidance is to support professional accountants in business by helping them consider how to apply good practice principles rather than instructing them on implementing specific supplementary performance measures.

APESB Submissions

IESBA Proposed Strategy and Work Plan 2014 – 2018 – Consultation Paper

On 17 December 2013, the IESBA released for public consultation its *Proposed Strategy and Work Plan 2014 – 2018*. The proposed Strategy and Work Plan builds on the strong base established by the revised *Code of Ethics for Professional Accountants* (the Code) issued in July 2009, which clarified requirements for all professional accountants and significantly strengthened independence requirements for auditors. Comments on the Consultation Paper are requested by 28 February 2014.

APESB prepared a response to the consultation paper for IESBA's consideration (refer to Attachment 15(f)).

APESB Presentations

Channa Wijesinghe presented on APES 215 *Forensic Accounting Services* at CPA Australia Forensics & Financial Investigations Discussion Group (FFIDG) Meeting in March 2014. Refer to Attachment 15(g).

Material Presented

- Attachment 15 (a) April 2014 IESBA Meeting Podcast Notes;
- Attachment 15 (b) European Union Press Release on Auditing Reforms;
- Attachment 15 (c) European Commission – Memo/14/256 03/04/2014;
- Attachment 15 (d) IFAC Press Release on EU Auditor Reforms;
- Attachment 15 (e) International Good Practice Guide, *Developing and Reporting Supplementary Financial Measures* ED;
- Attachment 15 (f) APESB Submission to IESBA Proposed Strategy and Work Plan 2014 – 2018 – Consultation Paper; and
- Attachment 15 (g) APESB presentation at the CPA Australia Forensics & Financial Investigations Discussion Group (FFIDG) Meeting.

Recommendation:

That the report on international and other activities be noted.

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