



IESBA 2014-2016 Strategic Review Survey

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Note to the Board: This survey will be completed online. The following is a copy of the survey details in Word for purposes of review therefore formatting of document may differ from the online version. Background comments in blue text are for information purposes only and will not be submitted to the IESBA. Comments in red text will be submitted to the IESBA.

IESBA 2014-2016 Strategic Review Survey

The IESBA is conducting a strategic review to develop a new strategy and work plan for the period 2014-2016. It is seeking the views of interested parties at an early stage to identify key issues for discussion during this review.

Please complete this short survey electronically at <http://www.surveymoz.com/s3/1128376/IESBA-2014-2016-Strategic-Review-Survey> by **March 15, 2013**. Individual responses to the questionnaire will not be on public record. They will be summarized for discussion purposes. The summary, which may be made public, will not identify the names or organizations of the respondents.

Part 1: Classification

1. In which country or jurisdiction is your organization located? *

Australia

2. Please provide the following contact information:

Your name and job title/role:

Channa Wijesinghe, Technical Director

Your email address:

channa.wijesinghe@apesb.org.au

Your organization's name:

Accounting Professional & Ethical Standards Board

3. From which perspective are you providing this online feedback? *

- ☐ Professional accountant in public practice
- ☐ Professional accountant in business
- ☐ Professional accountant in government
- ☐ Regulator
- ☐ Audit oversight body
- ☐ User of financial statements other than regulator (e.g., Investor, Audit Committee member, Customer, Creditor/Supplier, Lender, Analyst), please specify: *
- ☒ Standard setter
- ☐ Representative of an IFAC member body
- ☐ Academia
- ☐ Other, please specify: *

Part 2: Possible Future Projects

The IESBA recently added the following new work streams to its current work plan:

- A project to review the long association provisions in Section 290 of the Code to ensure that they continue to provide robust and appropriate safeguards against the familiarity and self-interest threats arising from long association with an audit client;
- A project to review the non-assurance services provisions in Sections 290 and 291 of the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements; and
- A review of Part C of the Code.

This part of the survey first seeks your views on possible projects the IESBA should address in the next 3-4 years, and then asks you to indicate the relative priority of these and the following possible future projects:

Structure of the Code

- Independence requirements for professional accountants not in public practice who perform assurance engagements
- Ethical guidance for professional accountants in public practice providing non-assurance services
Guidance on the meaning of public interest in the context of the Code
- Reasonable and informed third party test
- Application of the fundamental principle of objectivity when independence is not required
- Preparing accounting records and financial statements for an audit client

Please rank how important, in your view, these projects are in relation to one another for achieving the IESBA's objective of setting high-quality ethical standards for professional accountants.

2.1 Your Views on Possible Projects

In addition to the topics listed above, is there any other matter that should be addressed in the Code?

Please be as specific as possible.

We believe that the Code should be expanded to provide further requirements or guidance for Professional Accountants in Business (PAIBs). This member segment is a significant proportion of Professional Accountants; however, most of the Code addresses Professional Accountants in Public Practice.

The following suggestions were previously sent to the IESBA late last year in relation to PAIB- related projects in a National Standards Setters Survey.

Fair valuations of assets and liabilities in accordance with International Financial Reporting Standards (IFRS)

With a significant number of jurisdictions adopting International Financial Reporting Standards (IFRS), the requirement to fair value assets and liabilities has resulted in PAIBs having to make more subjective judgements than under a historical cost model of accounting for assets and liabilities.

When making critical judgments and assumptions PAIBs should apply a reasonable third party test and where the matter is not within the PAIB's expertise should consult with a third party who has the relevant expertise (e.g. when valuing complex financial instruments or share options).

The use of cash flow models to test for impairment of assets also includes the selection of assumptions and estimates. PAIBs may be under pressure to select certain assumptions and estimates (e.g. interest rates, WACC, commodity prices and FX rates) that deliver a favorable outcome to the entity but may not be in compliance with the IFRS standards.

We suggest that ethical considerations/conflicts in respect the fair valuation of assets and liabilities be considered as an additional project for the IESBA to consider.

The impact of remuneration structures such as bonuses, shares and share options on the behaviour of PAIBs

Where the financial results reported by a PAIB will have an impact on whether or not the PAIB will receive additional remuneration, this is likely to create a conflict and has the potential to drive inappropriate behaviour.

In the last few years the media, the governments of various countries and regulatory agencies have been quite critical of remuneration incentives that drive inappropriate behaviour by finance personnel and have been implicated in a number of public scandals.

In IESBA's consideration of issues in respect of PAIBs, we suggest that ethical considerations/conflicts in respect of remuneration incentives be included as an additional project for IESBA to consider.

Not previously communicated to IESBA

Outsourced Services

The trend of Outsourcing Professional Services has grown rapidly over the last decade with benefits such as staff utilisation on core activities, lower costs and access to specialised skills, all resulting in greater efficiencies in the performance of Professional Services. However, with these benefits risks also arise such as confidentiality of Client information, integrity of information transferred between the Professional Accountants in Public Practice and the Outsourced Service Provider and management, and control and supervision of the work performed.

Given the increasing use of Outsourced Services in the delivery of Professional Services it is important that the risks associated with conducting business in this manner are managed to minimise risks to the Professional Accountant, the Firm and the Client. APESB is nearing completion of a project 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 accounting profession as cross-border providers and utilisers of Outsourcing should be subject to the same guidance.

Senior Executive Leadership Roles - PAIBs

APESB is considering developing a pronouncement that provides guidance to PAIBs performing senior finance roles including roles on audit committees. The pronouncement will be based on the requirements of APES 110 *Code of Ethics for Professional Accountants*.

Development of a pronouncement at an international level will expand on the guidance provided to PAIBs in the Code and assist this segment in performance of their roles. This will be of benefit for PAIBs in senior and executive leadership positions.

Management Representation Letters - PAIB

APESB is considering developing a pronouncement that assists PAIBs in understanding the contents, implications and responsibilities associated with being signatories on management representation letters in a consolidated group scenario.

Development of a pronouncement at an international level will provide guidance to PAIBs who are required to sign these management representation letters.

The comments noted below were submitted to the IESBA as part of the feedback on PAIB-related projects as a National Standards Setter.

A structured approach to decision making

The APESB Guidance Note GN 40, issued in March 2012, adopts a structured decision making model (see Section 4 *Conceptual Framework Approach* of APES GN 40) that PAIBs can use when resolving ethical dilemmas in Australia.

A similar framework may be useful for IESBA to include in section C of the Code to provide PAIBs guidance to evaluate ethical conflicts or issues.

How important, relative to the other projects in the above listing, is this proposed other projects?

- ☐ Very important
- ☒ Important
- ☐ Neither important not unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.2 Structure of the Code

The IESBA has added a work stream (Structure of the Code) to its current strategy and work plan to determine how to increase the visibility of the requirements and prohibitions in the Code, and to clarify who is responsible for meeting them.

The IESBA agreed to set up a working group to explore possible approaches to, and timing of, this work.

How important, relative to the other projects in this listing, is this work stream on the structure of the Code?

- ☒ Very important
- ☐ Important
- ☐ Neither important nor unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.3 Independence Requirements for Professional Accountants Not in Public Practice Who Perform Assurance Engagements

Sections 290 and 291 of the Code address independence requirements for assurance engagements. The sections apply to professional accountants in public practice. The project would consider whether guidance is needed on how the independence requirements in Sections 290 and 291 of the Code should apply to professional accountants not in public practice who perform assurance engagements, for example, accountants in government and internal auditors.

How important, relative to the other projects in this listing, is this project on independence requirements for professional accountants not in public practice who perform assurance engagements?

In Australia the definition of Firm has an additional limb (d) which includes the Auditors General. Accordingly all the Auditors General who perform public sector audits are subject to sections 290 and 291.

As internal auditors are employed by the entity we do not believe that they can be independent of the entity and accordingly sections 290 and 291 are not sections to be considered by internal auditors. Potentially IESBA could consider a new section for PAIBs (say 370) that addresses ethical matters to be considered by internal auditors.

Accordingly, in the Australian context we have allocated a [low] priority to this project.

- ☐ Very important
- ☐ Important
- ☐ Neither important nor unimportant

☒ Unimportant

☐ Very unimportant

2.4 Ethical Guidance for Professional Accountants in Public Practice Providing Non-Assurance Services

Part B of the Code addresses all professional services provided by professional accountants in public practice. The project would address additional ethical guidance for professional accountants in public practice who provide non-assurance services such as financial advisory services, taxation services, and actuarial advisory services.

How important, relative to the other projects in this listing, is this project on possible ethical guidance for professional accountants in public practice providing non-assurance services?

In Australia APESB has issued an entire suite of standards relating to the provision of non-assurance services such as forensic accounting services, taxation services, valuation services, dealing with client monies, compilation of financial information and reporting on prospective information in connection with a disclosure document. These standards address issues specific to the particular non-assurance service being provided by the Professional Accountant. Whilst APESB has already developed ethical guidance for non-assurance services there is a benefit in IESBA developing this on a global basis with a view to ultimately achieving globally consistent practice.

- ☐ Very important
- ☒ Important
- ☐ Neither important nor unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.5 Guidance on the Meaning of Public Interest in the Context of the Code

The Code includes various references to the concept of public interest, such as:

- A statement that accepting responsibility to act in the public interest is a distinguishing mark of the accountancy profession; and
- A requirement for professional accountants to comply with the Code in order to serve the public interest.

In responding to the December 2011 Exposure Draft (ED) of proposed changes to the Code addressing conflicts of interest, the International Organization of Securities Commissions (IOSCO) suggested that the IESBA explicitly recognize the concept of "public interest" as a fundamental principle in paragraph 100.5 of the Code, and then detail it in further provisions in the Code.

This project would consider whether the Code should address the notion of "public interest" more explicitly in the Code, particularly whether that concept should be regarded as an additional fundamental ethical principle, and the related implications of doing so.

How important, relative to the other projects in this listing, is this project on possible guidance on the meaning of "public interest" in the context of the Code?

Whilst regulators and policy makers use the notion of public interest in determining regulations and public policy, the absence of a specific definition and a framework to refer to, has resulted in different interpretations of this term by different stakeholders. We are of the view that guidance on the meaning of "public interest" while challenging, is a worthwhile pursuit and a preferred alternative in the absence of a definition of the term.

- ☐ Very important
- ☒ Important

- ☐ Neither important not unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.6 Reasonable and Informed Third-Party Test

The “reasonable and informed third-party” test appears in several places in the Code. For example, paragraph 7 of Section 100, *Introduction and Fundamental Principles*, states the following:

When a professional accountant identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an acceptable level, the professional accountant shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. In making that determination, the professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.

Several respondents to the ED addressing conflicts of interest have questioned whether there is sufficient guidance in the Code with respect to the application of this test. This project would consider whether the Code should provide guidance to assist in the application of the test.

How important, relative to the other projects in this listing, is this project on possible guidance on the application of the reasonable and informed third party test?

- ☐ Very important
- ☒ Important
- ☐ Neither important not unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.7 Application of the Fundamental Principle of Objectivity When Independence Is Not Required

The Code defines the fundamental principle of objectivity as not allowing bias, conflict of interest, or undue influence of others to override professional or business judgments. In addition, the Code contains various provisions addressing objectivity, including Section 120, *Objectivity*, and Section 280, *Objectivity – All Services*.

Some European audit regulators have raised a question as to the meaning of objectivity when independence is not required, particularly in the context of external auditors’ use of internal auditors to provide direct assistance on the external audit. The issue has also arisen in the context of compilation engagements.

This project would consider whether the Code should provide guidance regarding the application of the fundamental principle of objectivity when independence is not required.

How important, relative to the other projects in this listing, is this project on possible guidance on the application of the fundamental principle of objectivity when independence is not required?

The Code addresses the requirement for objectivity when providing professional services in section 280. Whilst Auditor Independence is well covered in the Code, there is little material in the Code that addresses the requirement for objectivity in circumstances where independence is not required. We believe that there is benefit in expanding section 280 of the Code in this regard.

- ☐ Very important
- ☒ Important
- ☐ Neither important nor unimportant
- ☐ Unimportant
- ☐ Very unimportant

2.8 Preparing Accounting Records and Financial Statements for an Audit Client

Paragraphs 290.171 and 290.173 of the Code provide examples of circumstances in which the rendering of accounting and bookkeeping services to an audit client would be considered to be of a "routine or mechanical nature." This project would consider whether the Code should provide further guidance regarding the provision of these services, including how to determine whether the services are routine and mechanical in nature, the extent to which client management needs to understand the accounting entries and classifications, and related safeguards to address any self-review threat.

How important, relative to the other projects in this listing, is this project on possible further guidance on preparing accounting records and financial statements for an audit client?

The determination of what is "routine and mechanical" is generally well understood in Australia. There may be some benefit in developing additional guidance from a global perspective. Further, even in an emergency situation the preparation of accounting records for a Public Interest Entity by an Auditor is prohibited in Australia. Accordingly, from an Australian perspective, a lower priority has been attached to this project.

- ☐ Very important
- ☐ Important
- ☒ Neither important nor unimportant
- ☐ Unimportant
- ☐ Very unimportant

Part 3: Adoption and Implementation

The IESBA intends to continue the following ongoing activities in relation to adoption and implementation that are already on its current strategy and work plan:

- Liaise with IFAC Compliance Advisory Panel to gain understanding of the extent of compliance by IFAC member bodies and gain understanding of any barriers to convergence.
- Develop, as necessary, additional materials to support further the adoption and implementation of the Code.
- Monitor the work of the International Auditing and Assurance Standards Board (IAASB) to assess the effectiveness of the implementation of new standards with the aim of developing a process that can be applied with respect to the implementation of the Code.
- Research, with the assistance of representatives of small- and medium-sized practices (SMPs) and small- and medium-sized entities (SMEs), issues of relevance to SMPs and SMEs in complying with the Code.
- Consult, as necessary, with the IFAC Professional Accountancy Organization Development Committee on issues of relevance to developing nations.

Are there any other activities or initiatives you believe the IESBA should undertake in the area of adoption and implementation? Please be as specific as possible.

APESB is aware that due to the nature and size of SMEs and SMPs these entities often experience difficulties in relation to application of the requirements of the Code. The development of useful guidance material on application of the Code by IESBA at a global level would be of benefit to this sector.

Guidance could be in any number of forms including:

- Useful summaries of key provisions of the Code;
- Frequently asked questions for the SME/SMP sector;
- Case studies; and
- Decision-making flowcharts or models.

Part 4: Convergence

The IESBA intends to continue the following ongoing activities in relation to convergence that are already in its current strategy and work plan:

- Seeking input on the types of improvements to the Code that regulators and national standard setters (NSS) believe should be made for the Code to gain acceptance and recognition in their jurisdictions.
- Continuing to expand the IESBA's outreach activities to engage various regulators and NSS in dialogue to facilitate its convergence efforts.

In addition to the above, the IESBA has identified the following initiatives it could undertake in the area of convergence.

4.1 Disclosure of Compliance with Ethical Requirements in Auditors' Reports

In its June 2012 Invitation to Comment on its project on improving the auditor's report, the IAASB has suggested that auditors include in their reports a statement of compliance with relevant ethical requirements applicable to financial statement audits, including independence requirements. Given differences in independence requirements across jurisdictions, this initiative would consider the implications of including such a statement in the standard auditor's report. The initiative may require coordination with the IAASB.

How important, relative to the other initiatives in this section, is this initiative to consider the implications of disclosure of compliance with ethical requirements in auditors' reports?

In Australia, auditors are required to provide a written declaration that there have been no contraventions of the independence requirements of the *Corporations Act 2001* and of any applicable code of professional conduct. A similar statement is also included in the audit report. Given existing local requirements this project will have limited benefit in Australia.

- ☐ Very important
- ☐ Important
- ☐ Neither important nor unimportant
- ☒ Unimportant
- ☐ Very unimportant

4.2 Linkage between International Standards on Auditing (ISAs) and the Code

This initiative would consider the linkage between ISAs and the Code with respect to:

- Whether a statement of compliance with the ISAs can be made by auditors in their reports without the auditors having also complied with relevant ethical requirements (including those pertaining to independence) that are not less stringent than those stated in the Code; and
- If so, whether this linkage should be better clarified.

Note: Some have suggested a perceived ambiguity arising from the guidance in paragraph A14 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, which states: "The auditor is subject to relevant ethical requirements, [which] ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive."

How important, relative to the other initiatives in this section, is this initiative to consider the linkage between ISAs and the Code?

Australian Auditing Standard ASA 102, *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, mandates that the auditor comply with the requirements of the Code where an audit is performed under the Corporations Act. The auditing standards refer the Professional Accountant to ASA 102 which in effect provides legislative backing for the Australian Code.

Given the authoritative nature of the Code in the local environment, there is little benefit in Australia of this proposed project.

- ☐ Very important
- ☐ Important
- ☐ Neither important not unimportant
- ☒ Unimportant
- ☐ Very unimportant

4.3 Any Other Initiatives

Is there any other initiative you believe the IESBA should undertake in the area of convergence?
Please be as specific as possible.

The Australian Code uses the IESBA Code as the base and then adds Australian specific requirements or guidance as AUST paragraphs. The Australian Code is converged with the IESBA Code except for these AUST paragraphs (i.e. approximately 95% of the Code is the same as IESBA's Code). Accordingly from an Australian perspective there are no substantial activities that IESBA needs to undertake to achieve convergence in Australia.

How important, relative to the other initiatives in this section, is this proposed other initiative?

Very important

- ☐ Important
- ☐ Neither important not unimportant
- ☐ Unimportant
- ☐ Very unimportant

Part 5: Any Other Matters

Are there any other issues you feel the IESBA should consider as it develops its strategy and work program for 2014-2016? Please be as specific as possible.

No additional issues identified.

Additional comments relating to item 2.4

APESB's primary objective is to develop and issue, in the public interest, appropriate professional and ethical standards. Consistent with this objective APESB has issued a suite of standards and is currently developing a number of guidance notes that address various professional services that are provided by the professional accountant. APESB pronouncements issued to date address a number of practices areas and non-assurance services such as terms of engagement, conformity with accounting and assurance standards, taxation services, forensic accounting services, valuation services, compilation of financial information, quality control, risk management, insolvency services, reporting on prospective financial information, due diligence committees and guidance on ethical conflicts for professional accountants in business in the workplace. All of the standards and guidance notes issued by APESB are based on the fundamental principles of the Code and therefore remain consistent with the Code's requirements. By developing and issuing such pronouncements APESB is able to address specific issues that face the professional accountant when providing such services.

[Submit button]

Thank you for taking our survey. Your response is very important to us.