

15 June 2010

Ms Jan Munro
Deputy Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

By email: edcomments@ifac.org

Dear Jan,

**RE: International Ethics Standards Board for Accountants Exposure Draft
*Strategy and Work Plan, 2010–2012***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft *Strategy and Work Plan, 2010 - 2012*.

APESB's role

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, appropriate professional and ethical standards. These standards apply to the membership of the three Australian professional accounting bodies. A secondary objective of the APESB is to provide the opportunity or forum for the discussion and consideration of issues relating to professional standards for accountants. The APESB is funded by the three major accounting bodies, but has complete independence in its standard-setting activities.

Our essential function is the setting of standards, and in doing this we endeavour to incorporate a strong emphasis on professionalism and the role of sound judgement in those accountants who are obliged to follow our standards. We believe that setting high quality standards with demanding criteria contributes to the professional standing and behaviour of members of the accounting profession.

General Comments

We are generally supportive of the proposals contained in the IESBA Exposure Draft *Strategy and Work Plan, 2010-2012*. In particular we are supportive of the IESBA's desire to achieve greater alignment between the activities of the IESBA and IFAC member bodies.

Specific Comments

APESB's responses to the specific issues raised by the IESBA are as follows:

1. Are the IESBA's priorities for the years 2010–2012 appropriate? If not, why not and how should the priorities be amended?

A key consideration for the IESBA is the extent to which it considers its remit to develop professional standards. We note that the Exposure Draft appears unclear in this regard compared with the IESBA's mission statement. On the one hand the IESBA's mission as set out in its constitution is "to serve the public interest, ... by establishing and promoting adherence to high quality **professional standards** ..." (emphasis added). On the other hand the Exposure Draft comments that the IESBA "**develops ethical standards** and guidance for use by all professional accountants ..." (emphasis added). The discussion in the exposure draft in respect of development of standards seems to imply that future developments will tend to focus on improvements to the Code only.

If the IESBA remit is beyond the development of ethical standards as represented by the Code, we believe that in the first instance consideration should be given to the development of a conceptual framework for the development of ethical and associated professional standards. The Code of Ethics should be viewed to be an integral component of such a framework. However, there is likely to be scope for the IESBA to also develop a broader range of professional standards in addition to the Code. The development of a framework for professional and ethical standards is consistent with the approaches taken by other international standard-setters such as the International Accounting Standards Board and IFAC's IAASB.

In the Australian context, we have developed a framework that depicts the elements, attributes and activities that underpin the development, review and application of our pronouncements as depicted below:

Element	Framework attribute	APESB activity
a	Fundamental professional and ethical responsibility	Code of Ethics – public interest
b	Applicable values and principles	Code of Ethics - fundamental principles
c	Criteria for application of values and principles	Code of Ethics - threats/safeguards
d	Practices requiring the application of values and principles	APESB standards
e	Guidance notes for the application of values and principles to practice	APESB guidance notes
f	Promotion of professional responsibility and application of values and principles	Education

Source: APESB *Due Process and Working Procedures* (May 2010), Figure 1, p2.

A copy of our *Due Process and Working Procedures* document is attached for your information.

In terms of the development of professional standards, the IESBA could develop a research paper as a starting point by considering professional standards that have already been developed by national standard-setters.

2. Are the standard setting projects that will be undertaken for the years 2010–2012 appropriate? If not, why not and which projects should be added or deleted and why?

We note IESBA's intention to provide two years of stability where no changes will be made to the Code to allow member bodies to implement the new Code. Given this context and the IESBA's desire to work on projects to strengthen the Code, APESB considers the standard setting projects highlighted in the Exposure Draft for the years 2010–2012 as appropriate.

However, if the IESBA considers that its remit extends to professional standards then IESBA may consider other projects that have universal application. Whilst we acknowledge that developing professional standards across jurisdictions and national boundaries can be challenging, there are some professional requirements that do have universal application. The following issued Australian professional standards could be considered as examples of where international equivalents might be appropriate:

- APES 205 *Conformity with Accounting Standards* (December 2007);
- APES 210 *Conformity with Auditing and Assurance Standards* (June 2006);
- APES 225 *Valuation Services* (July 2008); and
- APES 305 *Terms of Engagement* (December 2007).

Copies of these pronouncements can be accessed via our website www.apesb.org.au.

3. Are there any specific initiatives that the IESBA should undertake to promote or assist in adoption and implementation of the Code? If so, please be as specific as possible.

APESB is supportive of and commends the IESBA on its current range of activities to promote the adoption and implementation of the Code. We believe that in the future IESBA could pursue a clarity project to refine the Code even further which will assist in the adoption and implementation of the Code. Matters that could be addressed include:

- More consistent use of defined terms internally within the Code and externally with terminology used in the pronouncements of other international standard-setters such as the IAASB and the IASB. For example, the IASB defines “publicly accountable entity” whilst the IESBA has defined “public interest entity”;
- ‘Shall’ obligations – requirements of the Code should clearly express on whom an obligation is imposed. For example:
“240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any threat **shall be evaluated** and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include ... “ (emphasis added)

Redrafting may address these instances to provide clarity.

- Style and expression – professional accountants in public practice who provide assurance services are required to apply both the independence provisions of the Code and IFAC's IAASB pronouncements. We would therefore encourage

the IESBA to adopt a similar style and expression to clearly articulate the mandatory requirements on professional accountants and to remove any ambiguity as noted in the example above.

4. Are there any specific initiatives that the IESBA should undertake in relation to the needs of professional accountants in SMP and SME environments and those in developing nations? If so, please be as specific as possible.

We note that the IESBA has committed to ongoing consultation with the Small and Medium Practices Committee and the IFAC Developing Nations Committee on issues of relevance to associated entities and nations. APESB supports this approach and encourages IESBA's ongoing consultations with professional accountants in these environments.

If you would like to discuss further or require any additional information, please do not hesitate to contact me at kspargo@bigpond.net.au or Mr. Channa Wijesinghe, Technical Director at channa.wijesinghe@apesb.org.au.

Yours sincerely



Kate Spargo
Chairperson

Encl. *APESB Due Process and Working Procedures for the development and review of APESB pronouncements (May 2010)*