

31 October 2012

Mr Ken Siong
Acting 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: kensiong@ifac.org

Dear Ken,

RE: Proposed Change to the Definition of “Those Charged with Governance”

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on IESBA’s Exposure Draft *Proposed Change to the Definition of “Those Charged with Governance”*.

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 major Australian professional accounting bodies (the Professional 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. APESB is funded by the Professional 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

APESB is generally supportive of the changes proposed in the Exposure Draft which aims to align the Code's definition of "those charged with governance" with the definition in International Auditing Standard ISA 260 *Communication with Those Charged with Governance* (ISA 260). APESB believes that the proposed changes will enhance clarity for auditors, financial report users, regulators and other stakeholders who refer to the Code and International Auditing Standards (or national equivalents).

Specific Comments

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

- 1. Do respondents agree with the proposed change to more closely align the definition of "those charged with governance" to the definition contained in ISA 260, *Communication with Those Charged with Governance*?**

APESB agrees with the proposed change to the definition in the Code to align with ISA 260. Consistent with the IESBA view, APESB agrees that the proposed change to the definition and the inclusion of additional text to the Code in paragraph 290.28 will promote clarity and enhance consistency with ISA 260 and strengthens the Code. This results in a single definition of the term and avoids misinterpretation in practice where users have to concurrently refer to the Code and the Auditing Standards.

- 2. Do respondents agree that in each case as noted in the Exposure Draft, communication to "those charged with governance or a subgroup thereof" would be appropriate?**

APESB agrees that in certain circumstances a subgroup of those charged with governance may have a responsibility to communicate with an auditor, and that an auditor may communicate with a subgroup of those charged with governance.

We note that ISA 260 provides guidance in this respect in paragraphs A1-A8 which is referred to in the last sentence of the definition in ISA 260. This sentence has understandably been deleted by IESBA. IESBA should consider whether to incorporate a cross reference in paragraph 290.28 of the Code to the application guidance (A1-A8) in ISA 260 or a general reference to ISA 260. The benefit of such a reference is that the application guidance in ISA 260 considers different governance structures, matters to be considered when communicating with a subgroup of those charged with governance and circumstances in which when all of those charged with governance are also managing the entity.

IESBA has provided similar guidance in respect of Network Firms and how to determine when a Network exists. In this instance IESBA is proposing to incorporate the definition of “those charged with governance” from IAASB in the Code but is silent on the application guidance. We believe that a cross reference to the existing application guidance in ISA 260 would be useful to stakeholders.

We hope you find these comments useful in your final deliberations and if you require any additional information, please do not hesitate to contact me at kspargo@bigpond.net.au or Channa Wijesinghe, Technical Director at channa.wijesinghe@apesb.org.au.

Yours sincerely

A handwritten signature in cursive script that reads "Kate Spargo".

Kate Spargo

Chairman