

23 July 2018

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017 USA
By email: kensiong@ethicsboard.org

Dear Mr. Siong,

RE: IESBA's Proposed Strategy and Work Plan, 2019 – 2023

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to comment on the IESBA'S *Proposed Strategy and Work Plan, 2019-2023* (SWP).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (CPA Australia, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants* which includes the Australian auditor independence requirements, as well as a range of professional and ethical standards that address non-assurance services.

Overall comments

APESB congratulates the IESBA for the completion of the restructured Code. We are of the view that the restructured Code provides a robust foundation for all professional accountants with respect to their professional and ethical obligations.

APESB is supportive of the strategic themes of the IESBA's SWP, particularly the focus on projects that will enable the Code to remain relevant in a fast-changing world. We welcome the IESBA's plan to continue proactive engagement with its stakeholders including national standard setters.

APESB is concerned that the post-implementation review of Long Association is scheduled to commence in Q1 2022. Australian stakeholders have informed the APESB that the late changes to the Long Association provisions, which were not subject to public consultation, have created some challenges in the Australian environment.

We encourage the IESBA to include adequate time in the post-implementation review to obtain empirical evidence of the impact of the revised Long Association provisions on audit quality. Obtaining empirical evidence would provide the IESBA with a robust basis for any future decision making by the IESBA as a result of the post-implementation review.

We also believe the proposed timing of the review needs to factor in the lead time required by firms to implement any changes that may occur as a result of the review. Therefore, we are of the view that this review should commence by no later than 2020.

APESB has engaged with Australian universities to conduct research on the audit partner rotation requirements from an Australian perspective.

APESB will be pleased to provide the results of the Australian research and support and/or participate in any activities that the IESBA will undertake in respect of the Long Association post-implementation review.

Specific Comments

APESB's key recommendations for the IESBA's consideration are:

- undertake the Long Association post-implementation review in a timely manner, and obtain empirical evidence which supports the proposed provisions and the resulting impact on audit quality;
- amend the definition of *Professional Activities* to reflect new, and emerging services provided by professional accountants appropriately; and
- consider developing pronouncements on non-assurance services, particularly those relating to specialised professional services which are not addressed in the Code.

Details of our recommendations including our specific comments are included in Appendix A for the IESBA's consideration.

Concluding comments

We trust that you will find these comments useful in your final deliberations. Should you require any additional information, please contact APESB's Chief Executive Officer, Channa Wijesinghe at channa.wijesinghe@apesb.org.au.

Yours sincerely,



The Hon. Nicola Roxon

Chairman

Appendix A

Specific comments

APESB's responses to the specific matters raised by the IESBA in its *Proposed Strategy and Work Plan, 2019 – 2023* (SWP) are as follows:

1. Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

Yes. APESB believes that the proposed criteria underscore the fundamental responsibility of professional accountants to act in the public interest and the critical role that ethics play in enhancing public trust in the accounting profession.

2. Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.

APESB is supportive of the proposed actions and priorities identified in the IESBA SWP. In particular, we are supportive of the following workstreams:

- Materiality

Due to the lack of guidance on materiality in the IESBA Code, the APESB has incorporated guidance on materiality in relation to the Independence provisions in Sections 290 and 291 of the Australian Code. We are pleased to see the IESBA include materiality as a work stream in their strategy and work plan, and that the IESBA will work with the IAASB and the IASB in order to develop consistency with the existing literature on materiality.

- Tax Planning and Related Services

APESB is supportive of this work stream and the inclusion of the project on aggressive tax planning strategies. This was an issue that was considered by the APESB in its recent review of its pronouncement APES 220 *Taxation Services*.

- General Maintenance of the Code

APESB supports the IESBA working with the IAASB to ensure consistency of defined terms. Practitioners have raised with the APESB the issue of different definitions of an assurance engagement between the IESBA Code and the IAASB standards, and we are pleased to see that issues such as these will be addressed in this work stream.

- Emerging & Newer Models of service delivery (including Outsourced Services)

APESB supports the inclusion of outsourced services in the work stream of Emerging and Newer Models of Service Delivery.

The provision and the utilisation of outsourced services is a matter that is continuing to impact the way professional activities are performed by professional accountants in public practice as well as those in business.

APESB is currently undertaking a project to review its pronouncement on outsourced services ([APES GN 30 Outsourced Services](#)) to consider whether the guidance needs to be elevated to a standard.

APESB believes it would be beneficial for there to be international professional obligations on this topic.

While APESB is supportive of most work streams in the SWP, there are a few matters which we believe should be considered by the IESBA. The matters are as follows:

- *Technology and Professional Scepticism*

APESB is pleased to see the IESBA placing a high priority on Trends and Development in Technology. The SWP proposes to consider the concept of independence of mind and the fundamental principles of integrity, objectivity and professional behaviour when reliance is placed on machine anticipation, synthesis, and deduction.

APESB is of the view that the professional accountant's critical thinking and application of professional scepticism to the information he or she receives are going to be of great importance. The professional accountant will also need moral fortitude to challenge the information produced by machines and/or artificial intelligence.

In addition, where reliance on automation and artificial intelligence may occur this will impact the development of professional judgement of the accountant.

APESB believes that these matters should be considered by the IESBA as part of this work stream.

- *Definition of Professional Activities*

The definition of Professional Activities currently only incorporates the traditional roles and activities of professional accountants. APESB believes this definition should be re-examined by the IESBA to consider the breadth of roles played by accountants and the impact that evolving technology has on various roles performed by professional accountants.

3. Recognising that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular workstream(s)? If so, please explain why.

APESB commends the IESBA for its commitment to undertake a post-implementation review of the revised Long Association provisions. However, we are concerned with the proposed timing of this review. APESB is of the view the timing will not allow for empirical evidence to be obtained, adequate consultation with jurisdictions and appropriate lead time for firms to adapt to any changes from the review before the end of the transition period (December 2023).

Australian stakeholders have informed the APESB that the late changes to the long association provisions, will create challenges for Australian auditors and their clients in respect of these new requirements, particularly the transition of the cooling-off period from 3 years to 5 years after December 2023.

APESB believes that the transition to a 5-year cooling-off period could lead to an audit market being concentrated with the larger firms in Australia and reduced competitiveness in the provision of audit services. It is likely to lead to an audit market oligopoly, contrary to the view of the importance of preventing such an occurrence.

The new long association provisions do not cater for the significant differences between jurisdictions, such as population, geographic distribution and the type of entities that are subject to audit partner rotation, and do not consider whether a robust legal and regulatory framework for auditors already exists in that jurisdiction.

The IESBA needs to allow time in the post-implementation review for extensive consultation with jurisdictions on the challenges faced with a five-year cooling-off period.

The SWP indicates the approach to the review has not yet been considered. APESB encourages the IESBA to include in the review the gathering of empirical evidence on the impact of the revised Long Association provisions on audit quality. Gathering this evidence will take time, and the IESBA may need to seek assistance from key stakeholders, such as academics. However, we believe it will provide the IESBA with a robust basis for any future decision making that IESBA may undertake as a result of the review.

APESB has engaged with Australian universities to conduct research on the audit partner rotation requirements from an Australian perspective.

In addition, we believe the proposed timeframe does not allow for any lead time to enable firms to plan for partner rotations in an appropriate manner.

Based on these matters APESB is strongly of the view that the post-implementation review of the Long Association provisions must commence by no later than 2020.

APESB would be pleased to provide the results of the Australian research to the IESBA and also support and/or participate in any activities that the IESBA will undertake in respect of the Long Association post-implementation review.

4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

The IESBA Code is principles-based and has been developed to be applied to a range of services, but the majority of the content is focused on audits, reviews, and other assurance engagements. APESB believes it would be beneficial for the IESBA to consider developing specific professional pronouncements for non-assurance services, especially as firms are now deriving a significant portion of their revenue from the delivery of these services compared to audit services.¹

When you consider the range of professional activities undertaken by professional accountants in public practice and in business, there is a wide range of specialised

¹ It was [reported in the Australian media](#) in early February 2018 that the Big 4 firms are growing their non-assurance and consulting services and as a consequence audit as part of the total firm's revenue is shrinking and is around 15-20% of total revenue. Firms are also expanding into new service offerings such as legal and technological services.

services (e.g., valuation services, insolvency, forensic accounting, tax services, etc.) that are not specifically addressed in the IESBA Code.

In Australia, APESB has developed pronouncements to address this gap in the IESBA Code. The pronouncements issued to cover a range of services such as valuation, taxation, forensic accounting, financial planning, and insolvency. For your reference, these pronouncements are available on our [website](#).