

7 October 2009

The Chairman
Auditing and Assurance Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Via email to: edcomments@auasb.gov.au

Dear Ms Kelsall

Exposure Draft 21/09: Proposed Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

Thank you for the opportunity to comment on this AUASB Exposure Draft (ED). CPA Australia, the Institute of Chartered Accountants and the National Institute of Accountants (the Joint Accounting Bodies) have considered the ED and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

Specific Questions

We offer the following comments on the questions posed in the ED.

Is the reference to *relevant ethical requirements* in the requirements section of proposed ASA 102 appropriate for the purposes of referencing in other AUASB Standards?

The manner in which this standard is structured is suitable for purposes of referencing in other AUASB standards, in terms of requiring that practitioners comply with relevant ethical requirements. However, in the absence of a clearly stated definition of “relevant ethical requirements” (as appears in International Auditing Standards (ISAs)) it is unclear that the Australian auditing standards which make reference to ISA 102 conform to the equivalent ISAs (refer General Comments below).

Is it appropriate for ASA 102 to state in the application and other explanatory material that the auditor, assurance practitioner, and firm are to have regard to the applicable requirements of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (February 2008) in determining whether the requirements of ASA 102 have been met?

It is inappropriate to include reference to the requirements of APES 110 in the application and other explanatory material. The reference should be included in a requirement of the standard. The inclusion of a definition of “relevant ethical requirements” in ASA 102 (refer General Comments below) could be considered as an alternative.

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in Australia

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Furthermore, the Board should reconsider use of the term “have regard to”, and whether the wording “shall comply with” is more suitable. We understand that key concerns relating to the referencing of APES 110 in a requirement paragraph centre on the “time locking” aspect of the reference and the undesirability of the Board giving legal effect to extraneous material in an AUASB standard. If the sole concern is the former, we are of the view that the wording we have proposed is appropriate. When any changes are made to APES 110, the Board can determine whether it agrees with the changes being made, and then re-issue ASA 102 accordingly. However, if giving legal effect to extraneous material is problematic, then the Board may consider using the wording “should apply”.

The location of the reference to APES 110 – i.e., either as a requirement paragraph or as application and other explanatory material – could potentially affect conformance to ISAs. That is, in the absence of a clearly stated definition of “relevant ethical requirements” (as appears in ISAs) it is unclear that the Australian auditing standards which make reference to ASA 102 conform to the equivalent ISAs (refer General Comments below).

Have applicable laws and regulations been appropriately addressed and included in the proposed standard?

It is not clear that the proposed structure of the standard results in the Board achieving its desired outcome (i.e., to impose a specific obligation to comply with relevant ethical requirements as outlined in APES 110), without explicitly spelling out in a requirement of the standard, what it is that comprise the relevant ethical requirements.

Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

It is difficult to anticipate additional significant costs associated with compliance with the requirements of this standard. However, it is possible that the standard as currently drafted, absent a clear definition of “relevant ethical requirements”, creates uncertainty about the obligations imposed on assurance practitioners using the AUASB standards (refer General Comments below).

Are there any other significant public interest matters that constituents may wish to raise?

The AUASB is adopting an approach which differs from that of the IAASB by issuing this standard. We recognise that this has been necessary to accommodate the legislative environment within Australia. However, we believe that any uncertainty about whether the approach taken by the AUASB results in standards which conform to equivalent ISAs may not be in the public interest. It could also lead to confusion amongst overseas stakeholders assessing our standards for compliance with international best practice.

General Comments

In ISAs that make reference to “relevant ethical requirements” in the requirements paragraphs of the standard, it is usual for the IAASB to define the term. For example, ISA 220, paragraph 7(n) notes that:

Relevant ethical requirements – Ethical requirements to which engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.

In an earlier exposure draft of ASA 220 (ED 10/09 (April 2009)), paragraph 7(n) noted that:

Relevant ethical requirements means ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board (APESB), related to an audit of a financial report and an audit of other historical financial information.

With the issue of ASA 102, we note that it is the Board's intention to change this definition to make reference to ASA 102, rather than to Parts A and B of APES 110. ASA 102 does not define the term "relevant ethical requirements", and therefore it is unclear that the standard is prescribing compliance with requirements that would ordinarily be found in Parts A and B of APES 110. Instead, practitioners applying the standards would seek guidance in the application and other explanatory material, which does not impose mandatory requirements, and which note that the practitioner need "have regard to the applicable requirements of APES 110". It is possible that this could be interpreted as imposing a less stringent obligation, than if the term was defined in respect of being "ordinarily Parts A and B of APES 110".

We recognise that members of the professional accounting bodies have a professional obligation to comply with the requirements of APES 110, and therefore as a matter of course will be complying with relevant ethical requirements when conducting audits utilising the Australian auditing standards. However, we believe it would be possible for practitioners who are not members of a professional accounting body to argue that they are not compelled to comply with the requirements included in Parts A and B of APES 110. Instead, these practitioners are directed towards the non-mandatory application and other explanatory material which suggest that they should "have regard to" applicable requirements of APES in determining whether they have met the relevant ethical requirements. As noted above, we believe the manner in which ASA 102 has been structured may be imposing a lesser obligation on these practitioners than the IAASB imposes in issuing its ISAs.

We suggest that the Board consider either:

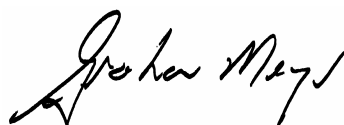
- including a definition of relevant ethical requirements in ASA 102, similar to that which it had previously included in exposure drafts for ASAs (i.e., "*Relevant ethical requirements means ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board (APESB), related to an audit of a financial report and an audit of other historical financial information.*"); or
- elevating paragraph A1 to the requirements section of the standard, as paragraph 6, and change the wording "have regard to", to either "shall comply with" or "should apply".

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



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