

1 December 2022

Chief Executive Officer
Accounting Professional and Ethical Standards Board Limited (APESB)
Level 11
99 William Street
Melbourne Victoria 3000
Australia

By email: sub@apesb.org.au

Dear Channa,

Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) – Exposure Draft 05/22

CPA Australia represents the diverse interests of more than 170,000 members working in over a 100 jurisdictions and regions. We make this submission on behalf of our members and in the broader public interest.

Overall, CPA Australia supports the APESB's proposed amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the "Code") outlined in the Exposure Draft (ED) 05/22, issued in July 2022.

CPA Australia [responded](#) to the International Ethics Standards Board for Accountants (IESBA) consultation on this topic in May 2021. In that submission we noted:

Broadening the definition and defining a larger group of entities as PIEs in the Code of Ethics may potentially significantly increase the costs of doing business for those entities that are subsequently drawn into a new definition. For some entities, particularly smaller entities which may be included in a broader definition, there are issues to be considered beyond independence requirements for the external auditors. The entities themselves may be faced with higher audit costs, and may need to change auditors, as certain jurisdictions have different regulatory requirements for auditors that audit PIEs and those that audit non-PIEs.

[Paragraph 400.15 A1 of the proposed IESBA revisions [para 400.18 A1 in AEPsB's proposed revisions]] ... arguably provides local bodies with a means to address concerns about a new broader definition bringing in a larger number of entities as PIEs, particularly in jurisdictions where the current definition has worked well, it does so at the expense of the fundamental integrity of the Code of Ethics. That is, allowing exclusions to be made from the Code of Ethics when adopting it locally raises potential concerns about compliance. Our view is that such exclusions should not be permitted, and that the IESBA should consider developing a definition that provides for clarification and additions only, and not for exclusions to be made.

It is unfortunate that different definitions are being used by the International Auditing and Assurance Standards Board (IAASB) and IESBA. ... It is argued by some that clear definitions (if indeed the definitions are clear) will assist preparers, auditors and users in understanding reporting and auditing requirements. However, the use of a range of different definitions adds complexity and complications. [I]t is critical that international standard setters – i.e., the IASB, IAASB and IESBA in particular – work more closely together to ensure that there is greater consistency in definitions and requirements that impact the manner in which the standards for reporting, auditing and auditor independence are implemented and used.

These observations remain valid for this ED issued by the APESB.

We make the following general observations and comments for consideration by the APESB.

1. Paragraphs R400.17 – AUST 400.18A3 - Revision of the definition of PIE

Our membership is generally supportive of the proposed revised definition of a PIE as set out in proposed Para R400.17 including the new term 'Publicly Traded Entity'. We note the proposed definition at Para. R400.17 is a prescriptive list of three categories (below) while the fourth category provides local bodies with a means to refine and expand upon these categories: being,

(a) A Publicly Traded Entity;

(b) An entity one of whose main functions is to take deposits from the public; and

(c) An entity one of whose main functions is to provide insurance to the public.

CPA Australia is concerned the broader definition established at Para. R400.17(d) and the substantial licence at Para. 400.18A2 given to local bodies may result in the inadvertent inclusion of entities which were not intended to fall within the definition and were intended to remain unaffected by the additional prohibitions on firms providing services to audit clients. Such entities, smaller entities in particular, may be faced with higher audit costs, and may need to change auditors more frequently than otherwise required.

Arguably this concern may in part be ameliorated by the proposed licence of local bodies at Para, 400.18A1 to allow for exclusions and/or exemptions from the broadened definition at Para R400.17. However, CPA Australia is concerned that this licence may be at the expense of compliance with the Code and the fundamental integrity of the Code of Ethics is compromised.

CPA Australia supports a broadened definition of PIEs but questions the efficacy of substantially empowering local bodies to contract or expand the definition, and the group of entities it whom it will apply.

Recommendations:

CPA Australia recommends that Paras. 400.18A1 and 400.18A2 be further refined to maintain the integrity of significant public interest purpose set out at Paras 400.8 and 400.10 and the Code as a whole.

2. Paragraph AUST R400.19 requires firms to determine whether to treat additional entities or certain categories of entities as PIEs.

Our membership is concerned with the broadened responsibility on Firms to determine whether to treat additional entities as PIEs. We have two specific concerns:

1. that the broadened responsibility is redundant if the definition of a PIE is broadened, as proposed above, and significant licence is granted to local bodies to expand the definition; and
2. that the entity that is most appropriately placed to contribute to the determination of whether they are a PIE, is the client themselves. However, consultation with them is not part of the determination process proposed.

On the basis the broadened PIE definition provides for local bodies to expand and contract the categories of PIE, the responsibility on Firms may be rendered redundant.

There is a self-interest risk that the Firm would advise their client that they are not a PIE so as to continue to provide Non-assurance Services (NAS) or to avoid being prohibited from providing such services while the entity remains an audit client. The most appropriate parties to decide whether to treat additional entities as PIEs is both the Firm, acknowledging their inherent bias, and those charged with governance within the client entity, in particular, the entity's audit and risk committee. The process of making such a mutual determination would need to be documented, including a discussion of materiality.

If the Firm is required to make such a determination, in particular if they were required to do so unilaterally, then CPA Australia recommends that a declaration be made in the financial report that the Firm is following auditor independence requirements for a PIE. Such a declaration would be in addition to the auditor's declarations required pursuant to Div. 5 of the Corporations Act 2001.

Recommendations:

CPA Australia recommends that the determination of whether an audit client is a PIE pursuant to AUST R400.19 requires mutual agreement between the Firm and those charged with governance within the client entity and that such decision-making process of the determination is documented and declared.

3. Paragraph R400.20 requires a Firm publicly disclose their application of the Independence requirements for Public Interest Entities

Our membership requests clarity in the standard regarding where the required disclosure must be made. We consider this clarity could be provided by way of amending R400.20.

Recommendations:

CPA Australia recommends that the location of the disclosure required in R400.20 be clarified.

Responses to specific questions asked in the ED are included in the **Attachment** to this letter.

If you have any queries about this submission, please don't hesitate to contact Ms. Melissa Read, Senior Manager, Professional Standards, Professional Standards and Business Support on melissa.read@cpaaustralia.com.au or +61 (0) 481 476 275 or me on gary.pflugrath@cpaaustralia.com.au or +613 9606 9941.

Yours sincerely,

Dr Gary Pflugrath
Executive General Manager
Policy and Advocacy

Requests for Specific Comments

The responses below should be read in conjunction with, and should consider, the observations made in the covering letter. However, these responses are restricted to the specific questions being asked.

Request for Specific Comment - whether there are categories of entities not captured by the extant AUST application material that should be included in proposed paragraph AUST 400.18 A3 as these entities are generally considered to be a Public Interest Entity in Australia.

CPA Australia does not consider there are additional categories of entities not captured by the present Para. AUST 400.8.1.A1 that should be included in proposed Para. AUST 400.18.A3. The broadening of the definition of PIEs, combined with the license provided to local bodies at Para. 400.18A1 and Para 400.17 provides sufficient discretion and flexibility for the purpose of Para 400.10 to be met.