



Module 2

Professional Practice Program APES 100 Code of Ethics



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Program completion

The IPA Professional Practice Program has been designed for IPA members in professional practice and for non-practitioners as a refresher Program.

With recognition comes responsibility. The IPA is recognised in legislation as one of the three professional accounting bodies within Australia. This means compliance with the ASIC Act and with regulations and standards set by ATO, TPB, ASIC, APESB, FRC, AASB, AUASB and IFAC.

The regulators, standard setters, government and the public all rely on the professional expertise, competence and ethics of IPA members. Therefore, the IPA has mandated that members moving into professional practice must demonstrate competence in these key areas.

It is compulsory to complete the IPA Professional Practice Program within 6 months of receiving an IPA PPC unless you have completed a Professional Practice Program with Chartered Accountants Australia + New Zealand or CPA Australia within the last 5 years.

The Program consists of self-paced study and a 2 day face-to-face workshop. You should complete the self-paced study before attending the workshop. This will take up to 80 hours, depending on your experience. To successfully complete the Program, you must:

- Attend all sessions of the Program,
- Successfully complete the assessment held at the end of the Program.

The assessment comprises of 30 multiple-choice questions and you are permitted 1 hour to complete the assessment. You may refer to your course materials, but you are not to consult any other person in or outside of the room. There is 1 mark per question and you need to obtain at least 50% to successfully complete the assessment.

If you do not successfully complete the assessment, you will be offered an opportunity to re-sit the assessment. If you are still unsuccessful, you will be required to repeat the 2 day face-to-face workshop and successfully pass the assessment. The IPA reserves the right to cancel a member's PPC in the event a member does not pass the assessment.

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2.1: Introduction – Professional and Ethical Standards

The IPA's Professional and Ethical Standards are promulgated either directly by the IPA Board of Directors or by the Accounting Professional and Ethical Standards Board (APESB).

The APESB is an independent board that was established in 2006 that sets the code of professional ethics and standards for the accounting profession. The APESB is funded jointly by the Institute of Public Accountants, CPA Australia and Chartered Accountants Australia + New Zealand (CAANZ). The APESB has an objective of developing professional and ethical standards in the public interest. The APESB also monitor the needs of the accounting profession and the public with a view to determining areas requiring new or updated professional and ethical standards or guidance notes.

The IPA requires all members to conduct themselves and their professional activities at the highest level. Members in their professional capacity represent not only themselves but the IPA and by reference, all other IPA members.

To help members better understand the professional and ethical standards required by the IPA, a number of pronouncements have been promulgated by the Board of Directors.

Where an APESB standard, guidance note or authoritative interpretation has been promulgated it may replace an existing IPA pronouncement, to the extent that the APESB standard covers the same issues. The IPA however have released Pronouncement 11 for members to use in preference to APES 230. Where an APESB standard, guidance note or authoritative interpretation does not exist, the Pronouncement issued by the IPA Board of Directors will remain in force. The Board of Directors retains the power to issue new and update existing Pronouncements.

Further information on the APESB can be found at: www.apesb.org.au.

The APESB Standards are divided into 4 series:

- Code of Ethics for Professional Accountants ('APES 100' series);
- Professional standards applicable to all members ('APES 200' series);
- Professional standards applicable to members in public practice ('APES 300' series);
- Professional standards applicable to members in business ('APES 400' series).

As at November 2017, the APESB have issued the following professional and ethical standards:

APES 100 series

APES 110: Code of Ethics for Professional Accountants

APES 200 series

APES 205: Conformity with Accounting Standards

APES 210: Conformity with Auditing and Assurance Standards

APES 215: Forensic Accounting Services

APES 220: Taxation Services

APES 225: Valuation Services

APES 230: Financial Planning Services – *Note: IPA Members to use IPA Pronouncement 11*

APES 300 series

APES 305: Terms of Engagement

APES 310: Dealing with Client Monies

APES 315: Compilation of Financial Information

APES 320: Quality Control of Firms

APES 325: Risk Management for Firms

APES 330: Insolvency Services

APES 345: Reporting on Prospective Financial Information Prepared in Connection with a Public Document

APES 350: Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document

As at November 2017, the APESB have issued the following guidance notes:

GN 20 series – all Members

GN 20: Scope and Extent of Work for Valuation Services

GN 21: Valuation Services for Financial Reporting

GN 30 series – Members in Public Practice

GN 30: Outsourced Services

GN 31: Professional and Ethical Considerations relating to Low Doc Offering Sign-offs

2.2: APES 110 Code of Ethics for Professional Accountants

The APESB issued a compiled version of APES 110 in September 2017 which integrates a number of amendments which have been made over time to the original standard which was issued in December 2010. Amending standards and their respective operative dates are as follows:

APES 110 Amending Standard	Issued	Operative date
Amendment to the Definition of Public Interest Entity in APES 110 <i>Code of Ethics for Professional Accountants</i>	December 2011	1 January 2013 with early adoption permitted
Amendments to the Definitions and Auditor Independence Requirements in APES 110 <i>Code of Ethics for Professional Accountants</i>	May 2013	1 July 2013
Amendments to APES 110 <i>Code of Ethics for Professional Accountants</i> due to revisions to IESBA's Code primarily in respect of conflicts of interest and breaches	November 2013	1 July 2014 with early adoption permitted
Amendments to APES 110 <i>Code of Ethics for Professional Accountants</i> due to revisions to IESBA's Code for NOCLAR and NAS	May 2017	1 January 2018 with early adoption permitted

2.3: Scope and application

APES 110 applies to all IPA members including those members who provide professional services in an honorary capacity. All IPA Members practising outside Australia shall comply with APES 110 to the extent to which they are not prevented from so doing by specific requirements of local laws and/or regulations.

APES 110 is not intended to detract from any responsibilities which may be imposed by law or regulation. The Australian Auditing and Assurance Standards Board (AUASB) has issued auditing standards as legislative instruments under the *Corporations Act 2001* (the Act). For audits and reviews under the Act, those standards have legal enforceability. To the extent that those auditing standards make reference to relevant ethical requirements, the requirements of APES 110 have legal enforceability due to Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

All references to Professional Standards, guidance notes and legislation are references to those provisions as amended from time to time.

In applying the requirements outlined in APES 110, Members shall be guided, not merely by the wording, but also by the spirit of APES 110.

2.4: Definitions

APES 110 provides definitions of the following expressions:

• AASB	• Acceptable Level
• Administration	• Advertising
• Assurance Client	• Assurance Engagement
• Assurance Team	• AuASB/AUASB
• Audit Client	• Audit Engagement
• Audit Team	• Auditing and Assurance Standards
• Australian Accounting Standards	• Close Family
• Contingent Fee	• Direct Financial Interest
• Director or Officer	• Engagement Partner
• Engagement Quality Control Review	• Engagement Team
• Existing Accountant	• External Expert
• Financial Interest	• Financial Statements
• Financial Statements on which the Firm will express an Opinion	• Firm
• Historical Financial Information	• Immediate Family
• Independence	• Indirect Financial Interest
• Key Audit Partner	• Listed Entity
• Member	• Member in Business
• Member in Public Practice	• Network
• Network Firm	• Office
• Professional Activity	• Professional Services
• Professional Bodies	• Public Interest Entity
• Related Entity	• Review Client
• Review Engagement	• Review Team
• Special Purpose Financial Statements	• Those Charged with Governance

Unless otherwise specified, words in the singular include the plural and vice versa, words of one gender include another gender, and words referring to persons include corporations or organisations, whether incorporated or not.

APES 110 is divided into 3 parts:

- Part A: General Application of the Code
- Part B: Members in Public Practice
- Part C: Members in Business

Part A establishes the fundamental principles of professional ethics for Members and provides a conceptual framework that Members shall apply to identify threats to compliance with the fundamental principles, evaluate the significance of the threats identified and apply safeguards to eliminate the threats or reduce them to an acceptable level.

Parts B and C describe how the conceptual framework applies in certain situations.

Let's examine at Parts A, B and C in more detail.

2.5: Part A – General Application

Section 100 Introduction and Fundamental Principles

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a Member's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a Member shall observe and comply with APES 110. If a Member is prohibited from complying with certain parts of APES 110 by law or regulation, the Member shall comply with all other parts of APES 110.

2.5.1: Fundamental Principles

APES 110 is structured around five fundamental principles that are intended to underpin both the professional conduct of members of the profession, and the performance of services to clients and employees. APES 110 requires a Member to comply with the following fundamental principles:

1. **Integrity** – to be straightforward and honest in all professional and business relationships.
2. **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
3. **Professional competence and due care** – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent Professional Activities based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
4. **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the Member or third parties.
5. **Professional behaviour** – to comply with relevant laws and regulations and avoid any conduct that discredits the profession.

These fundamental principles are discussed in more detail in Sections 110-150 of APES 110 (see further discussion below).

APES 110 provides a conceptual framework that Members to apply to identify threats to compliance with the fundamental principles. It is recognised that it is impossible to define every situation that creates threats to an IPA member's ability to comply with the five fundamental principles, and to specify acceptable mitigating actions.

A broad range of relationships and circumstances may threaten compliance with the fundamental principles. Many threats fall into the following categories:

- a. **Self-interest threat** — the threat that a financial or other interest will inappropriately influence the Member's judgement or behaviour;
- b. **Self-review threat** — the threat that a Member will not appropriately evaluate the results of a previous judgement made or service performed by the Member, or by another individual within the Member's Firm or employing organisation, on which the Member will rely when forming a judgement as part of providing a current service;
- c. **Advocacy threat** — the threat that a Member will promote a client's or employer's position to the point that the Member's objectivity is compromised;
- d. **Familiarity threat** — the threat that due to a long or close relationship with a client or employer, a Member will be too sympathetic to their interests or too accepting of their work; and
- e. **Intimidation threat** — the threat that a Member will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the Member.

Having identified these threats, the conceptual framework then discusses how safeguards may reduce threats to an acceptable level.

Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:

1. Safeguards created by the profession, legislation and regulation which include, but are not restricted to:
 - educational, training and experience requirements for entry into the profession;
 - continuing professional development requirements;
 - corporate governance regulations;
 - professional standards;
 - professional or regulatory monitoring and disciplinary procedures;
 - external review by a legally empowered third party of the reports, returns, communications or information produced by a Member; or
2. Safeguards in the work environment – which could be within a Public Practice environment or in a Business environment.

Conflicts of Interest overview

A Member may be faced with a conflict of interest when undertaking a Professional Activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The Member undertakes a Professional Activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- The interests of the Member with respect to a particular matter and the interests of a party for whom the Member undertakes a Professional Activity related to that matter are in conflict.

Parts B and C of APES 110 discuss conflicts of interest for Members in Public Practice and Members in Business, respectively.

Ethical Conflict Resolution overview

A Member may be required to resolve a conflict in complying with the fundamental principles. When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:

- (a) Relevant facts;
- (b) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) Alternative courses of action.

Having considered the relevant factors, a Member shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the Member may wish to consult with other appropriate persons within the Firm or employing organisation for help in obtaining resolution.

It may be in the best interests of the Member to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

If a significant conflict cannot be resolved, a Member may consider obtaining professional advice from the IPA or from legal advisors. The Member generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the IPA on an anonymous basis or with a legal advisor under the protection of legal privilege.

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a Member shall, unless prohibited by law, refuse to remain associated with the matter creating the conflict. The Member shall determine whether, in the circumstances, it is appropriate to withdraw from the Engagement Team or specific assignment, or to resign altogether from the engagement, the Firm or the employing organisation.

Communicating with Those Charged with Governance overview

When communicating with Those Charged with Governance in accordance with the provisions of this Code, the Member or Firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the Member or Firm communicates with a subgroup of Those Charged with Governance, for example, an audit committee or an individual, the Member or Firm shall determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

In some cases, all of Those Charged with Governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The Member or Firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the Member or Firm would otherwise communicate in their governance capacity.

2.5.2: Section 110 – Integrity

Section 110 requires IPA members to be straightforward, honest and sincere in professional and business relationships. Integrity also implies fair dealing and truthfulness. It also states that members should not be associated with reports, returns, communications or other information that contain a false or misleading statement, or statements of information furnished recklessly, or omit or obscure information.

2.5.3: Section 120 – Objectivity

Section 120 requires IPA members not to compromise their professional or business judgement because of bias, conflict of interest or undue influence of others. Relationships that may impair objectivity are to be avoided.

2.5.4: Section 130 – Professional Competence and Due Care

Section 130 requires IPA members to:

- a. maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
- b. act diligently in accordance with applicable technical and professional standards when providing professional services.

Professional competence and due care has a number of elements. IPA members are required to:

- attain professional competence;
- maintain professional competence, which incorporates a continuing awareness and an understanding of relevant technical, professional and business developments;
- be diligent and act responsibly in accordance with the requirements of an assignment;
- be careful, thorough and be able to deliver services on a timely basis;
- ensure that people working under the supervision of another member have the appropriate training and supervision; and
- where appropriate, make clients, employers or other users of the Member's Professional Activities aware of limitations inherent in the services being provided.
-

2.5.5: Section 140 – Confidentiality

Section 140 requires IPA members to refrain from:

- a. disclosing outside the Firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
- b. using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

IPA members should take care to maintain confidentiality in social environments, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a Close or Immediate Family member.

All information, including personal information, about clients obtained in the course of offering professional services is subject to confidentiality. Confidentiality is not the same as secrecy. Secrecy prevents the exchange of information. Confidentiality is intended to exclude people who have an interest in the information, and to place holders of the information under a strict obligation not to communicate that information to any third party. Confidential information may be shared with relevant colleagues for the benefit of the client.

Confidentiality applies to information disclosed by a prospective client or employer. The principle of confidentiality continues even after the end of relationships between an IPA member and a client or employer. When an IPA member changes employment or acquires a new client, they are entitled to use prior experience. However, they cannot disclose any confidential information either acquired or received as a result of a professional or business relationship.

As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the Member's client or employing organisation to the Member. Nevertheless, the following are circumstances where Members are or may be required to disclose confidential information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and is authorised by the client or the employer;
- b. Disclosure is required by law, for example:
 - i. Production of documents or other provision of evidence in the course of legal proceedings; or
 - ii. Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- c. There is a professional duty or right to disclose, when not prohibited by law:
 - i. To comply with the quality review of a member body or Professional Body;
 - ii. To respond to an inquiry or investigation by a member body or regulatory body;
 - iii. To protect the professional interests of a Member in legal proceedings; or
 - iv. To comply with technical and professional standards, including ethical requirements.

In any of the above circumstances, IPA members are strongly advised to first obtain legal advice.

In deciding whether to disclose confidential information, relevant factors to consider include:

- a. Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the Member;
- b. Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement shall be used in determining the type of disclosure to be made, if any;
- c. The type of communication that is expected and to whom it is addressed; and
- d. Whether the parties to whom the communication is addressed are appropriate recipients.

2.5.6: Section 150 – Professional Behaviour

Section 150 requires IPA members to comply with relevant laws and regulations and avoid any action or omission that the member knows or should know may discredit the profession. This includes actions or omissions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the member at that time, would be likely to conclude adversely affects the good reputation of the profession.

In marketing and promoting themselves and their work, Members shall not bring the profession into disrepute. Members shall be honest and truthful and not:

- a. Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
- b. Make disparaging references or unsubstantiated comparisons to the work of others.

2.6: Part B – Members in Public Practice

In addition to Part A, IPA Members in Public Practice also need to comply with Part B of APES 110, which deals with the professional and ethical conduct of members in public practice. Areas covered are:

- Section 200 – Introduction
- Section 210 – Professional Appointment
- Section 220 – Conflicts of Interest
- Section 225 – Responding to Non-Compliance with Laws and Regulation
- Section 230 – Second Opinions
- Section 240 – Fees and Other Types of Remuneration
- Section 250 – Marketing Professional Services
- Section 260 – Gifts and Hospitality
- Section 270 – Custody of Client Assets
- Section 280 – Objectivity: All Services
- Section 290 – Independence – Audit and Review Engagements
- Section 291 – Independence – Other Assurance Engagements.
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2.6.1: Section 200 – Introduction

Section 200 requires IPA Members to not knowingly engage in any business, occupation, or activity that impairs or might impair, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an Audit Client and whether the Audit Client is a Public Interest Entity, to an Assurance Client that is not an Audit Client, or to a non-assurance client.

Threats fall into one or more of the following five categories:

1. Self-interest;
2. Self-review;
3. Advocacy;
4. Familiarity; and
5. Intimidation.

Table 2.1: Examples of Threats

Table 2.1 outlines a non-exhaustive list of examples of threats identified in Sections 200.4 to 200.8:

Self-interest	Self-review	Advocacy	Familiarity	Intimidation
<ul style="list-style-type: none"> • A member of the Assurance Team having a Direct Financial Interest in the client • A Firm having undue dependence on total fees from a client • A member of the Assurance Team having a significant close business relationship with an Assurance Client • A Firm being concerned about the possibility of losing a significant client • A member of the Audit Team entering into employment negotiations with the Audit Client • A Firm entering into a Contingent Fee arrangement relating to an 	<ul style="list-style-type: none"> • A Firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems • A Firm having prepared the original data used to generate records that are the subject matter of the Assurance Engagement • A member of the Assurance Team, being, or having recently been, a Director of Officer of the client • A member of the Assurance Team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement • The Firm performing a service for an Assurance Client that directly affects the subject 	<ul style="list-style-type: none"> • The Firm promoting shares in an Audit Client • A Member acting as an advocate on behalf of an Audit Client in litigation or disputes with third parties 	<ul style="list-style-type: none"> • A member of the Engagement Team having a Close or Immediate Family member who is a Director or Officer of the client • A member of the Engagement Team having a Close or Immediate Family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement • A Director or Officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently served as the Engagement Partner • A Member accepting gifts or preferential treatment from 	<ul style="list-style-type: none"> • A Firm being threatened with dismissal from a client engagement • An Audit Client indicating that it will not award a planned non-assurance contract to a Firm if the Firm continues to disagree with the client's accounting treatment for a particular transaction • A Firm being threatened with litigation by the client • A Firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees

Self-interest	Self-review	Advocacy	Familiarity	Intimidation
Assurance Engagement <ul style="list-style-type: none"> A Member discovering a significant error when evaluating the results from a previous Professional Service performed by a member of the Member's Firm 	matter of the Assurance Engagement		a client, unless the value is trivial or inconsequential <ul style="list-style-type: none"> Senior personnel having a long association with the Assurance Client 	

As discussed in Part A, safeguards that may eliminate or reduce threats to an Acceptable Level fall into two broad categories:

- Safeguards created by the profession, legislation or regulation; and
- Safeguards in the work environment.

A Member in Public Practice shall exercise judgement to determine how best to deal with threats that are not at an Acceptable Level, whether by applying safeguards to eliminate the threat or reduce it to an Acceptable Level or by terminating or declining the relevant engagement.

In exercising this judgement, a Member in Public Practice shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at that time, would be likely to conclude that the threats would be eliminated or reduced to an Acceptable Level by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the Firm.

In the work environment, the relevant safeguards will vary depending on the circumstances. In general, these safeguards include:

- corporate oversight structures, strong internal controls, ethics and conduct programs and appropriate disciplinary processes;
- recruitment of high-calibre competent staff and leadership that stresses ethical behaviour; and
- effective well-publicised complaints systems that enable colleagues, employers and members of the public to draw attention to unprofessional and unethical behaviour.

Work environment safeguards comprise Firm-wide safeguards and engagement-specific safeguards.

Table 2.2: Examples of Firm-wide and Engagement-Specific Safeguards

Table 2.2 outlines a non-exhaustive list of safeguards identified in Sections 200.12 to 200.13:

Firm-Wide Safeguards	Engagement-Specific Safeguards
<ul style="list-style-type: none"> • Leadership of the Firm that stresses the importance of compliance with the fundamental principles. • Leadership of the Firm that establishes the expectation that members of an Assurance Team will act in the public interest. • Policies and procedures to implement and monitor quality control of engagements. • Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an Acceptable Level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement. • Documented internal policies and procedures requiring compliance with the fundamental principles. • Policies and procedures that will enable the identification of interests or relationships between the Firm or members of Engagement Teams and clients. • Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client. • Using different partners and Engagement Teams with separate reporting lines for the provision of non-assurance services to an Assurance Client. • Policies and procedures to prohibit individuals who are not members of an Engagement Team from inappropriately influencing the outcome of the engagement. • Timely communication of a Firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures. 	<ul style="list-style-type: none"> • Having a Member who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary. • Having a Member who was not a member of the Assurance Team review the assurance work performed or otherwise advise as necessary. • Consulting an independent third party, such as a committee of independent Directors, a professional regulatory body or another Member. • Discussing ethical issues with Those Charged with Governance of the client. • Disclosing to Those Charged with Governance of the client the nature of services provided and extent of fees charged. • Involving another Firm to perform or re-perform part of the engagement. • Rotating senior Assurance Team personnel.

Firm-Wide Safeguards	Engagement-Specific Safeguards
<ul style="list-style-type: none"> Designating a member of senior management to be responsible for overseeing the adequate functioning of the Firm's quality control system. Advising partners and professional staff of Assurance Clients and Related Entities from which Independence is required. A disciplinary mechanism to promote compliance with policies and procedures. Published policies and procedures to encourage and empower staff to communicate to senior levels within the Firm any issue relating to compliance with the fundamental principles that concerns them. 	

Depending on the nature of the engagement, a Member in Public Practice may also be able to rely on safeguards that the client has implemented. However, it is not possible to rely solely on such safeguards to reduce threats to an Acceptable Level.

Examples of safeguards within the client's systems and procedures include:

- The client requires persons other than management to ratify or approve the appointment of a Firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the Firm's services.
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2.6.2: Section 210 – Professional Appointment

IPA Members need to consider section 210 when accepting a new client, new engagement or when there are changes in professional appointments.

Client Acceptance and Continuance

Before accepting a new client relationship, Section 210 requires IPA members to determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, issues associated with the client (its owners, management or activities) that, if known, could threaten compliance with the fundamental principles.

These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, questionable financial reporting practices or other unethical behaviour.

IPA Members shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an Acceptable Level. Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

Where it is not possible to reduce the threats to an Acceptable Level, an IPA Member shall decline to enter into the client relationship.

Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the IPA Member to decline the engagement had that information been available earlier. A Member shall, therefore, periodically review whether to continue with a recurring client engagement.

For example, a threat to compliance with the fundamental principles may be created by a client's unethical behaviour such as improper earnings management or balance sheet valuations. If an IPA Member identifies a threat to compliance with the fundamental principles, the Member shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level.

Where it is not possible to reduce the threat to an Acceptable Level, the Member shall consider terminating the client relationship where termination is not prohibited by law or regulation.

Engagement Acceptance

The fundamental principle of professional competence and due care imposes an obligation on a Member in Public Practice to provide only those services that the Member is competent to perform. Before accepting a specific client engagement, an IPA Member shall determine whether acceptance would create any threats to compliance with the fundamental principles.

For example, a self-interest threat to professional competence and due care is created if the Engagement Team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

When a Member in Public Practice intends to rely on the advice or work of an expert, the Member shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in Professional Appointment

Clients have the right to change their professional practitioner. It is usual practice for the new professional practitioner to send an Ethical Clearance letter to the existing professional practitioner. This provides valuable information to the new professional practitioner enabling them to make an informed decision whether or not to accept the appointment. Part of this due diligence process is to ascertain if the proposed new appointment presents any risk to compliance with APES 110.

The IPA provide members with an ethical clearance letter template on the IPA website: www.publicaccountants.org.au.

Section 210.8 requires IPA Members who are asked to replace another Member in Public Practice, or who is considering tendering for an engagement currently held by another Member in Public Practice, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an Acceptable Level by the application of safeguards.

For example, there may be a threat to professional competence and due care if a Member in Public Practice accepts the engagement before knowing all the pertinent facts.

IPA Members shall evaluate the significance of any threats. Safeguards shall be applied when necessary to eliminate any threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the Existing or predecessor accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the predecessor accountant to provide known information on any facts or circumstances that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the predecessor accountant that may influence the decision to accept the appointment; or
- Obtaining necessary information from other sources.

When the threats cannot be eliminated or reduced to an Acceptable Level through the application of safeguards, IPA Members shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

IPA Members may be asked to undertake work that is complementary or additional to the work of the Existing Accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is notifying the Existing Accountant of the proposed work, which would give the Existing Accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

IPA Members will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an Existing or predecessor accountant. Once that permission is obtained, the Existing or predecessor accountant shall comply with relevant laws and regulations governing such requests. Where the Existing or predecessor accountant provides information, it shall be provided honestly and unambiguously.

If the proposed accountant is unable to communicate with the Existing or predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or Those Charged with Governance of the client.

In the case of an audit of Financial Statements, a Member in Public Practice shall request the predecessor accountant to provide known information regarding any facts or other information that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31:

- a. If the client consents to the predecessor accountant disclosing any such facts or other information, the predecessor accountant shall provide the information honestly and unambiguously; and
- b. If the client fails or refuses to grant the predecessor accountant permission to discuss the client's affairs with the proposed successor accountant, the predecessor accountant shall disclose this fact to the proposed successor accountant, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.

The requirements of section 210 also apply where a Member in Public Practice is replacing or being replaced by an accountant who is not a Member.

All reasonable efforts should be made to communicate with the outgoing professional practitioner and should not be limited to letters. If communication from the outgoing professional practitioner is not forthcoming in a reasonable time, the new professional practitioner should advise in writing of the intention to take up the appointment on the presumption that no professional reason exists for declining the appointment.

Outgoing professional practitioners should transfer all client documents and related material to the newly appointed professional practitioner. Any claim to hold documents subject to a lien must be communicated to the client and based on legal grounds. Some documents may not be held subject to a lien, such as the company records, certificates and minute books. There is no automatic legal right to withhold on the basis that invoices are outstanding.

The outgoing professional practitioner can retain their working papers and it is up to their discretion as to whether they should provide such documents to the new professional practitioner.

While the outgoing professional practitioner can raise the issue of non-payment of professional fees, this is not considered to be an ethical issue or a matter that would necessarily prevent the new professional practitioner from taking on the appointment.

2.6.3: Section 220 – Conflicts of Interest

A Member in Public Practice may be faced with a conflict of interest when performing a Professional Service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The Member provides a Professional Service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- The interests of the Member with respect to a particular matter and the interests of the client for whom the Member provides a Professional Service related to that matter are in conflict.

A Member shall not allow a conflict of interest to compromise professional or business judgement.

Section 220 provides examples of situations in which conflicts of interest may arise – see in particular section 220.2.

When the Professional Service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of Assurance Clients in accordance with Sections 290 or 291 (see further discussion below) as appropriate.

When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an Acceptable Level, a Member in Public Practice shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.

When addressing conflicts of interest, including making disclosures or sharing information within the Firm or Network and seeking guidance of third parties, the Member in Public Practice shall remain alert to the fundamental principle of confidentiality.

IPA members are generally required to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an Acceptable Level, to obtain their consent to the Member in Public Practice performing the Professional Services.

Disclosure and consent may take different forms, for example:

- General disclosure to clients of circumstances where the Member, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the Member's standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.
- In certain circumstances, consent may be implied by the client's conduct where the Member has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

An IPA Member shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the Member shall exercise professional judgement in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

IPA Members are referred to section 220 for further discussion on the identification of conflicts of interest threats, the application of safeguards and the disclosure to clients.

2.6.4: Section 225 – Responding to Non-Compliance with Laws and Regulations (NOCLAR)

Sections 225 and 360 of the Code outline a framework to assist a Member in what actions to take in the public interest when they become aware of non-compliance or suspected non-compliance with laws and regulations by either a client or their employer. Other consequential amendments to consider this framework are included in paragraphs 100.5, 100.23 – 100.26, 140.7, and 270.3, and also Sections 150 and 210. The NOCLAR standard and related amendments are effective from 1 January 2018. Early adoption of these provisions is permitted.

2.6.5: Section 230 – Second Opinions

When asked to provide a second opinion on a matter, section 230 requires IPA members to evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an Acceptable Level.

Examples of such safeguards include seeking client permission to contact the Existing Accountant, describing the limitations surrounding any opinion in communications with the client and providing the Existing Accountant with a copy of the opinion.

If the company or entity seeking the opinion will not permit communication with the Existing Accountant, a Member in Public Practice shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

Typical situations where a Member in Public Practice is asked to provide a second opinion include matters concerning the application of taxation laws, Australian Accounting Standards, Auditing and Assurance Standards, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may create threats to compliance with the fundamental principles.

2.6.6: Section 240 – Fees and Other Types of Remuneration

When entering into negotiations regarding services, IPA members may quote whatever fee is deemed appropriate. The fact that one Member in Public Practice may quote a fee lower than another is not in itself unethical.

Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

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:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
- Assigning appropriate time and qualified staff to the task.

Section 240 also recognises that contingent fees, referral fees and commissions are used for certain types of engagements. However, it notes that this creates a self-interest threat to the fundamental principle of objectivity. In these circumstances, members need to evaluate the significance of the threats and implement appropriate safeguards or, if appropriate safeguards are not available, decline the engagement. Refer sections 240.3 to 240.7 for further discussion.

IPA members who undertake an engagement in Australia and receive a referral fee or commission shall inform the client in writing of:

- the existence of such arrangement;
- the identity of the other party or parties; and
- the method of calculation of the referral fee, commission or other benefit accruing directly or indirectly to the Member.

The receipt of commissions or other similar benefits in connection with an Assurance Engagement creates a threat to Independence that no safeguards could reduce to an Acceptable Level. Accordingly, IPA Members shall not accept such a fee arrangement in respect of an Assurance Engagement.

2.6.7: Section 250 – Marketing Professional Services

Section 250 requires that when IPA members solicit new work through Advertising or other forms of marketing, there may be a threat to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

A Member in Public Practice shall not bring the profession into disrepute when marketing Professional Services. The Member in Public Practice shall be honest and truthful and not:

- a. Make exaggerated claims for services offered, qualifications possessed, or experience gained; or
- b. Make disparaging references or unsubstantiated comparisons to the work of another.

If IPA members are in doubt about whether a proposed form of Advertising or marketing is appropriate, they should consider consulting with the IPA.

2.6.8: Section 260 – Gifts and Hospitality

Section 260 requires IPA members to only accept gifts and hospitality which are clearly insignificant and do not create threats to compliance with the fundamental principles. It recognises that a self-interest threat to the fundamental principle of objectivity is created when gifts and hospitality is accepted.

Where acceptable safeguards are unable to reduce or eliminate the self-interest threat to an acceptable level, the gifts and hospitality should be declined.

2.6.9: Section 270 – Custody of Client Assets

Section 270 requires IPA members to not assume custody of client monies or other assets unless permitted by law, and if so, in compliance with any additional legal duties which may be imposed. Holding client assets creates threats to compliance with fundamental principles, such as self-interest threats to professional behaviour and objectivity. A Member in Public Practice entrusted with money (or other assets) belonging to others shall therefore:

- a. Keep such assets separately from personal or Firm assets;
- b. Use such assets only for the purpose for which they are intended;
- c. At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and
- d. Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

As part of client and engagement acceptance procedures for services that may involve the holding of client assets, IPA members shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the Members shall comply with the provisions of Section 225 as discussed above.

2.6.10: Section 280 – Objectivity: All Services

Section 280 requires IPA members to maintain objectivity across all services, in particular as it relates to interests in, or relationships with, clients, directors, officers or employees. The existence of threats to objectivity will depend on the particular circumstance of the engagement, and the nature of the work performed by the member.

Where there are threats, IPA members could apply the following safeguards to eliminate them or reduced them to an Acceptable Level:

- Withdrawing from the Engagement Team.
- Supervisory procedures.
- Terminating the financial or business relationship giving rise to the threat.
- Discussing the issue with higher levels of management within the Firm.
- Discussing the issue with Those Charged with Governance of the client.

If safeguards cannot eliminate or reduce the threat to an Acceptable Level, the Member shall decline or terminate the relevant engagement.

2.6.11: Section 290 and Section 291 - Independence

Introduction

Section 290 addresses independence requirements for Audit and Review Engagements, which are Assurance Engagements where a Member in Public Practice expresses a conclusion on Historical Financial Information.

Section 291 addresses independence requirements for Assurance Engagements that are not Audit or Review Engagements of Historical Financial Information, referred to as Other Assurance Engagements.

The concept of Independence is fundamental to compliance with the principles of integrity and objectivity. This Code adopts a conceptual framework that requires the identification and evaluation of threats to Independence so that any threats created are eliminated or reduced to an Acceptable Level by the application of safeguards.

This approach contrasts with the rules adopted in legislation, which are often prescriptive in nature. Accordingly, Members and other readers of this Code should be aware that adherence to this Code does not ensure adherence to legislation and they must refer to such legislation to determine their legal obligations.

While this difference in approach makes precise comparisons to specific legislation difficult, such as the *Corporations Act 2001*, the underlying principles of integrity and objectivity are consistent with objective and impartial judgement, when both approaches are tested in the context of all relevant facts by a reasonable person.

Where APESB is aware that there is a more stringent requirement in the *Corporations Act 2001* an appropriate footnote reference has been included for Members' and other readers' information.

However, please note that not all applicable *Corporations Act 2001* requirements have been addressed and thus Members are referred to the *Corporations Act 2001* to determine their independence obligations when performing Audit and Review Engagements in accordance with the Act.

The requirements of sections 290 and 291 are detailed and IPA members should refer to the full text of APES 110 when considering independence matters. The following provides an overview of the key requirements of these sections.

2.6.12: Section 290 – Independence: Audit and Review Engagements

2.6.12.1: Conceptual Framework Approach to Independence

In the case of Audit Engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of Audit Teams, Firms and, Network Firms shall be independent of Audit Clients.

Independence comprises:

- *Independence of Mind*

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity and exercise objectivity and professional scepticism.

- *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a Firm's, or a member of the Audit Team's, integrity, objectivity or professional scepticism has been compromised.

The conceptual framework approach shall be applied by Members to:

- a. Identify threats to Independence;
- b. Evaluate the significance of the threats identified; and
- c. Apply safeguards, when necessary, to eliminate the threats or reduce them to an Acceptable Level.

When the Member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an Acceptable Level, the Member shall eliminate the circumstance or relationship creating the threats or decline or terminate the Audit Engagement. A Member shall use professional judgement in applying this conceptual framework.

Networks and Network Firms

If a Firm is deemed to be a Network Firm, the Firm shall be independent of the Audit Clients of the other Firms within the Network (unless otherwise stated in this Code). The Independence requirements in this section that apply to a Network Firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a Network Firm irrespective of whether the entity itself meets the definition of a Firm.

Public Interest Entities

Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, a Public Interest Entity is:

- a. A Listed Entity (as defined in section 9 of the *Corporations Act 2001*); or
- b. Any entity (a) defined by regulation or legislation as a public interest entity; or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Firms shall determine whether to treat additional entities, or certain categories of entities, as Public Interest Entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies and pension funds;
- Size; and
- Number of employees.

Related Entities

In the case of an Audit Client that is a Listed Entity, references to an Audit Client in this section include Related Entities of the client (unless otherwise stated). For all other Audit Clients, references to an Audit Client in this section include Related Entities over which the client has direct or indirect control. When the Audit Team knows or has reason to believe that a relationship or circumstance involving another Related Entity of the client is relevant to the evaluation of the Firm's Independence from the client, the Audit Team shall include that Related Entity when identifying and evaluating threats to Independence and applying appropriate safeguards.

Those Charged with Governance

Even when not required by the Code, applicable Auditing and Assurance Standards, law or regulation, regular communication is encouraged between the Firm and Those Charged with Governance of the Audit Client regarding relationships and other matters that might, in the Firm's opinion, reasonably bear on Independence. Such communication enables Those Charged with Governance to:

- a. consider the Firm's judgements in identifying and evaluating threats to Independence;
- b. consider the appropriateness of safeguards applied to eliminate them or reduce them to an Acceptable Level; and
- c. take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

In complying with requirements in this section to communicate with Those Charged with Governance, the Firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate.

If the Firm communicates with a subgroup of Those Charged with Governance, for example, an audit committee or an individual, the Firm shall determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

Documentation

Documentation provides evidence of the Member's judgements in forming conclusions regarding compliance with Independence requirements. The absence of documentation is not a determinant of whether a Firm considered a particular matter nor whether it is independent.

The Member shall document conclusions regarding compliance with Independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

- a. When safeguards are required to reduce a threat to an Acceptable Level, the Member shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an Acceptable Level; and
- b. When a threat required significant analysis to determine whether safeguards were necessary and the Member concluded that they were not because the threat was already at an Acceptable Level, the Member shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

Independence from the Audit Client is required both during the engagement period and the period covered by the Financial Statements. The engagement period starts when the Audit Team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.

When an entity becomes an Audit Client during or after the period covered by the Financial Statements on which the Firm will express an Opinion, the Firm shall determine whether any threats to Independence are created by:

- Financial or business relationships with the Audit Client during or after the period covered by the Financial Statements but before accepting the Audit Engagement; or
- Previous services provided to the Audit Client.

If a non-assurance service was provided to the Audit Client during or after the period covered by the Financial Statements but before the Audit Team begins to perform audit services and the service would not be permitted during the period of the Audit Engagement, the Firm shall evaluate any threat to Independence created by the service. If a threat is not at an Acceptable Level, the Audit Engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- Not including personnel who provided the non-assurance service as members of the Audit Team;
- Having a Member review the audit and non-assurance work as appropriate; or
- Engaging another Firm to evaluate the results of the non-assurance service or having another Firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

Mergers and Acquisitions

Refer sections 290.33 to 290.38 for a discussion of these requirements.

2.6.12.2: Breach of a Provision of Section 290

A breach of a provision of this section may occur despite the Firm having policies and procedures designed to provide it with reasonable assurance that Independence is maintained. A consequence of a breach may be that termination of the Audit Engagement is necessary.

When the Firm concludes that a breach has occurred, the Firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

When a breach is identified, the Firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The Firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

When a breach is identified, the Firm shall, in accordance with its policies and procedures, promptly communicate the breach to the Engagement Partner, those with responsibility for the policies and procedures relating to Independence, other relevant personnel in the Firm, and, where appropriate, the Network, and those subject to the Independence requirements who need to take appropriate action. The Firm shall evaluate the significance of that breach and its impact on the Firm's objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:

- The nature and duration of the breach;
- The number and nature of any previous breaches with respect to the current Audit Engagement;
- Whether a member of the Audit Team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the Audit Team or another individual for whom there are Independence requirements;
- If the breach relates to a member of the Audit Team, the role of that individual;
- If the breach was caused by the provision of a Professional Service, the impact of that service, if any, on the accounting records or the amounts recorded in the Financial Statements on which the Firm will express an Opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

Refer sections 290.43 to 290.49 for further discussion.

2.6.12.3: Application of the Conceptual Framework Approach to Independence

Paragraphs 290.102 to 290.226 describe specific circumstances and relationships that create or may create threats to Independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an Acceptable Level and identify certain situations where no safeguards could reduce the threats to an Acceptable Level.

The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to Independence. The Firm and the members of the Audit Team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to Independence or reduce them to an Acceptable Level.

Paragraphs 290.102 to 290.125 contain references to the materiality of a Financial Interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

2.6.12.4: Fees

Fees – Relative Size

When the total fees from an Audit Client represent a large proportion of the total fees of the Firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the Firm;
- Whether the Firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the Firm.

The significance of the 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:

- Reducing the dependency on the client;
- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or a Member, on key audit judgements.

In certain circumstances another party or Firm may refer multiple Audit Clients to a Firm. In these circumstances, when the total fees in respect of multiple Audit Clients referred from one source represent a large proportion of the total fees of the Firm expressing the audit opinions, the dependence on that source and concern about losing those clients creates a self-interest or intimidation threat.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Paragraph 290.215 provides examples of factors that may affect the significance of the threat and potential safeguards.

A self-interest or intimidation threat is also created when the fees generated from an Audit Client represent a large proportion of the revenue from an individual partner's clients or a large proportion of

the revenue of an individual Office of the Firm. The significance of the threat will depend upon factors such as:

- The significance of the client qualitatively and/or quantitatively to the partner or Office; and
- The extent to which the remuneration of the partner, or the partners in the Office, is dependent upon the fees generated from the client.

The significance of the 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:

- Reducing the dependency on the Audit Client;
- Having a Member review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

Audit Clients that are Public Interest Entities

Where an Audit Client is a Public Interest Entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the Firm expressing the opinion on the Financial Statements of the client, the Firm shall disclose to Those Charged with Governance of the Audit Client the fact that the total of such fees represents more than 15% of the total fees received by the Firm, and discuss which of the safeguards below it will apply to reduce the threat to an Acceptable Level, and apply the selected safeguard:

- Prior to the issuance of the audit opinion on the second year's Financial Statements, a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, performs an Engagement Quality Control Review of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an Engagement Quality Control Review ("a pre-issuance review"); or
- After the audit opinion on the second year's Financial Statements has been issued, and before the issuance of the audit opinion on the third year's Financial Statements, a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, or a professional regulatory body performs a review of the second year's audit that is equivalent to an Engagement Quality Control Review ("a post-issuance review").

When the total fees significantly exceed 15%, the Firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an Acceptable Level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with Those Charged with Governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the Firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an Acceptable Level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Overdue Fees

A self-interest threat may be created if fees due from an Audit Client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the Firm is expected to require payment of such fees before such audit report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is having an additional Member who did not take part in the Audit Engagement provide advice or review the work performed. The Firm shall determine

whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the Firm to be re-appointed or continue the Audit Engagement.

Contingent Fees

Contingent Fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the Firm. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of an Audit Engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm shall not enter into any such fee arrangement.

A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of a non-assurance service provided to an Audit Client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level if:

- a. The fee is charged by the Firm expressing the opinion on the Financial Statements and the fee is material or expected to be material to that Firm;
- b. The fee is charged by a Network Firm that participates in a significant part of the audit and the fee is material or expected to be material to that Firm; or
- c. The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the Financial Statements.

Accordingly, such arrangements shall not be accepted.

For other Contingent Fee arrangements charged by a Firm for a non-assurance service to an Audit Client, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the Contingent Fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the Financial Statements.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- Having a Member review the relevant audit work or otherwise advise as necessary; or
- Using professionals who are not members of the Audit Team to perform the non-assurance service.

2.6.12.5: Compensation and Evaluation Policies

Compensation and Evaluation Policies

A self-interest threat is created when a member of the Audit Team is evaluated on or compensated for selling non-assurance services to that Audit Client. The significance of the threat will depend on:

- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;

- The role of the individual on the Audit Team; and
- Whether promotion decisions are influenced by the sale of such services.

The significance of the threat shall be evaluated and, if the threat is not at an Acceptable Level, the Firm shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an Acceptable Level.

Examples of such safeguards include:

- Removing such members from the Audit Team; or
- Having a Member review the work of the member of the Audit Team.

A Key Audit Partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's Audit Client. This is not intended to prohibit normal profit-sharing arrangements between partners of a Firm.

2.6.12.6: Gifts and Hospitality

Accepting gifts or hospitality from an Audit Client may create self-interest and familiarity threats. If a Firm or a member of the Audit Team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. Consequently, a Firm or a member of the Audit Team shall not accept such gifts or hospitality.

2.6.12.7: Actual or Threatened Litigation

When litigation takes place, or appears likely, between the Firm or a member of the Audit Team and the Audit Client, self-interest and intimidation threats are created. The relationship between client management and the members of the Audit Team must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the Firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior Audit Engagement.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- If the litigation involves a member of the Audit Team, removing that individual from the Audit Team; or
- Having a professional review the work performed.

If such safeguards do not reduce the threats to an Acceptable Level, the only appropriate action is to withdraw from, or decline, the Audit Engagement.

2.6.12.8: Reports that include a Restriction on Use and Distribution

The Independence requirements in Section 290 apply to all Audit Engagements. However, in certain circumstances involving Audit Engagements where the report includes a restriction on use and distribution, and provided the conditions described in 290.501 to 290.502 are met, the Independence requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These

paragraphs are only applicable to an Audit Engagement on Special Purpose Financial Statements (a) that is intended to provide a conclusion in positive or negative form that the Financial Statements are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the Financial Statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and (b) where the audit report includes a restriction on use and distribution. The modifications are not permitted in the case of an audit of Financial Statements required by law or regulation.

Further guidance is provided in relation to:

- Public Interest Entities (see section 290.505);
- Related Entities (see section 290.506);
- Networks and Network Firms (see section 290.507);
- Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships (see sections 290.508 to 290.512);
- Employment with an Audit Client (see section 290.513); and
- Provision of Non-Assurance Services (see section 290.514).
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2.6.13: Independence – Other Assurance Engagements

Section 291 addresses Independence requirements for Assurance Engagements that are not Audit Engagements or Review Engagements. If the Assurance Client is also an Audit Client or Review Client, the requirements in Section 290 also apply to the Firm, Network Firms and members of the Audit Team or Review Team.

Assurance Engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. *Framework for Assurance Engagements* issued by the AUASB describes the elements and objectives of an Assurance Engagement and identifies engagements to which Auditing and Assurance Standards apply. For a description of the elements and objectives of an Assurance Engagement, refer to the Assurance Framework.

Compliance with the fundamental principle of objectivity requires being independent of Assurance Clients. In the case of Assurance Engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of Assurance Teams and Firms be independent of Assurance Clients and that any threats that the Firm has reason to believe are created by a Network Firm's interests and relationships be evaluated. In addition, when the Assurance Team knows or has reason to believe that a relationship or circumstance involving a Related Entity of the Assurance Client is relevant to the evaluation of the Firm's Independence from the client, the Assurance Team shall include that Related Entity when identifying and evaluating threats to Independence and applying appropriate safeguards.

2.6.13.1: Conceptual Framework Approach to Independence

The requirements for section 291 largely mirror those of section 290. For brevity, IPA members are referred to sections 291.4 to 291.11 for an in-context discussion.

2.6.13.2: Assurance Engagements

As further explained in the Assurance Framework, in an Assurance Engagement the Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.

The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO18 or CoCo19 (criteria), to internal control, a process (subject matter).

Assurance Engagements may be assertion-based or direct reporting. In either case, they involve three separate parties: a Member in Public Practice, a responsible party and intended users.

In an assertion-based Assurance Engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In a direct reporting Assurance Engagement, the Member in Public Practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

The AUASB has issued *Framework for Assurance Engagements* which describes the nature of an Assurance Engagement. To obtain a full understanding of the objectives and elements of an Assurance Engagement it is necessary to refer to the full text of that document.

2.6.13.3: Assertion-based Assurance Engagements

In an assertion-based Assurance Engagement, the members of the Assurance Team and the Firm shall be independent of the Assurance Client (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such Independence requirements prohibit certain relationships between members of the Assurance Team and (a) Directors or, Officers, and (b) individuals at the client in a position to exert significant influence over the subject matter information. Also, a determination shall be made as to whether threats to Independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall be made of the significance of any threats that the Firm has reason to believe are created by Network Firm²⁰ interests and relationships.

In the majority of assertion-based Assurance Engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when a Member in Public Practice is engaged to perform an Assurance Engagement regarding a report that an environmental consultant has prepared about a company’s sustainability practices for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

In assertion-based Assurance Engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the Assurance Team and the Firm shall be independent of the party responsible for the subject matter information (the Assurance Client). In addition, an evaluation shall be made of any threats the Firm has reason to believe are created by interests and relationships between a member of the Assurance Team, the Firm, a Network Firm and the party responsible for the subject matter.

2.6.13.4: Direct Reporting Assurance Engagements

In a direct reporting Assurance Engagement, the members of the Assurance Team and the Firm shall be independent of the Assurance Client (the party responsible for the subject matter). An evaluation shall also be made of any threats the Firm has reason to believe are created by Network Firm interests and relationships.

2.6.13.5: Reports that include a Restriction on Use and Distribution

In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the Independence requirements in this section may be modified. The modifications to the requirements of Section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified Independence requirements. Knowledge as to the purpose, subject matter information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the Firm to communicate with intended users about Independence matters, including the circumstances that are relevant to the evaluation of the threats to Independence and the applicable safeguards necessary to eliminate the threats or reduce them to an Acceptable Level, and to obtain their agreement to the modified Independence requirements that are to be applied.

Further discussion is provided in sections 291.22 to 291.27.

2.6.13.6: Multiple Responsible Parties

In some Assurance Engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the Firm may take into account whether an interest or relationship between the Firm, or a member of the Assurance Team, and a particular responsible party would create a threat to Independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the Firm determines that the threat to Independence created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it may not be necessary to apply all of the provisions of this section to that responsible party.

The remaining parts of section 291 largely mirror those contained in section 290. For brevity, IPA members are referred to the following sections for an in-context discussion:

- Documentation – section 291.29;
- Engagement Period – sections 291.30 to 291.32;
- Breach of a Provision of this Section – sections 291.33 to 291.37;
- Application of the Conceptual Framework Approach to Independence – section 291.100 to 291.103;
- Financial Interests – section 291.104 to 291.111;

- Loans and Guarantees – section 291.112 to 291.117;
- Business Relationships – section 291.118 to 291.119;
- Family and Personal Relationships – section 291.120 to 291.125;
- Employment with Assurance Clients – section 291.126 to 291.129;
- Recent Service with an Assurance Client – section 291.130 to 291.132;
- Serving as a Director of an Assurance Client – section 291.133 to 291.136;
- Long Association of Senior Personnel with Assurance Clients – section 291.137;
- Provision of Non-assurance Services to an Assurance Client – section 291.138 to 147;
- Fees – section 291.148 to 291.154;
- Gifts and Hospitality – section 291.155; and
- Actual or Threatened Litigation – section 291.156.
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2.7: Part C - Members in Business

In addition to Part A, Members in Business also need to comply with Part C of APES 110, which deals with professional and ethical conduct of members in business. Areas covered are:

- Section 300 – Introduction
- Section 310 – Conflicts of Interest
- Section 320 – Preparation and Reporting of Information
- Section 330 – Acting with Sufficient Expertise
- Section 340 – Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making
- Section 350 – Inducements
- Section 360 – Responding to Non-Compliance with Laws and Regulations.

As Part C goes beyond the scope of the IPA Professional Practice Program, please refer to APES 110 which can be found at www.apesb.org.au.

2.7.1: Transitional Provisions

Amendments were made to APES 110 in May 2017. The following significant amendments have delayed effective dates with early adoption permitted:

2.7.1.1: Responding to Non-Compliance with Laws and Regulations (NOCLAR)

Sections 225 and 360 of the Code outline a framework to assist a Member in what actions to take in the public interest when they become aware of non-compliance or suspected non-compliance with laws and regulations by either a client or their employer. Other consequential amendments to consider this framework are included in paragraphs 100.5, 100.23 – 100.26, 140.7, and 270.3, and also Sections 150 and 210. The NOCLAR standard and related amendments are effective from 1 January 2018. Early adoption of these provisions is permitted.

2.7.1.2: Non-assurance services provisions for Audit and Assurance Clients

The non-assurance services provisions set out in paragraphs 290.159 – 290.186 and paragraphs 291.141 – 291.144 are effective from 1 January 2018. Early adoption of these provisions is permitted.