



Module 2_{v5.1}

Professional Practice Program

APES 100 Code of Ethics for Professional Accountants (including Independence Standards)



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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 and New Zealand or CPA Australia within the last 5 years.

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

- Attend all sessions of the course,
- Successfully complete the assessment held in two parts at the end of webinar 3 and at the end of webinar 6.

The assessment comprises two tests of 15 multiple-choice questions and you are permitted 30 minutes to complete each of the assessment tasks. You may refer to your course materials, but you are not to consult any other person. 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 six Online webinars and successfully 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 and New Zealand (CA ANZ). 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. 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 May 2023, the APESB have issued the following professional and ethical standards:

APES 100 series

APES 110: Code of Ethics for Professional Accountants (including Independence Standards)

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

APES 300 series

APES 305: Terms of Engagement
APES 310: Client Monies
APES 315: Compilation of Financial Information
APES 320: Quality Management for Firms that provide Non-Assurance Services
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 May 2023, 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

GN 40 series – Members in Business

GN 40: Ethical Conflicts in the Workplace – Considerations for Members in Business

GN 41: Management Representations

2.2: APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

The APESB issued a compiled APES 110 in December 2022. APES 110 was amended in February 2022, July 2022 and November 2022 with amendments effective from 1 January 2023. APESB 110 was further amended in December 2022 with amendments effective from 1 July 2023. APES 110 is based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board (IESBA) published by the International Federation of Accountants (IFAC).

APES 110 sets out fundamental principles of ethics for Members, reflecting the profession's recognition of its public interest responsibility. These principles establish the standard of behaviour expected of a Member. The fundamental principles are: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The Code provides a conceptual framework that Members are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help Members apply the conceptual framework to those topics.

In the case of Audits, Reviews and other assurance engagements, the Code sets out Independence Standards, established by the application of the conceptual framework to threats to Independence in relation to these engagements.

APES 110 Structure

APES 110 contains the following material:

Section	Application
Glossary	All Members – contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. For example, as noted in the Glossary, in Part 4A, the term “Audit Engagement” applies equally to both Audit and Review Engagements.
Part 1 (sections 100-199)	All Members – Complying with the Code, Fundamental Principles and Conceptual Framework, which includes the fundamental principles and the conceptual framework.
Part 2 (sections 200-299)	<p>Members in Business (including employment relationships of Members in Public Practice) – sets out additional material that applies to Members in Business when performing Professional Activities. Members in Business include Members employed, engaged or contracted in an executive or non-executive capacity in, for example:</p> <ul style="list-style-type: none"> • Commerce, industry or service. • The public sector. • Education. • The not-for-profit sector. • Regulatory or professional bodies. <p>Part 2 is also applicable to individuals who are Members in Public Practice when performing Professional Activities pursuant to their relationship with the Firm, whether as a contractor, employee or owner.</p>
Part 3 (sections 300-399)	Members in Public Practice – sets out additional material that applies to Members in Public Practice when providing Professional Services.
Independence Standards Part 4A (sections 400-899) Part 4B (sections 900-999)	<p>Members in Public Practice – sets out additional material that applies when providing assurance services, as follows:</p> <ul style="list-style-type: none"> • Part 4A – Independence for Audit and Review Engagements, which applies when performing Audit or Review Engagements. • Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, which applies when performing Assurance Engagements that are not Audit or Review Engagements.

2.3: APES 110 Glossary

Legend	Font used
Defined Terms	Bold-Type
Explanations of defined terms	Regular type (leading case)
Explanations of described terms which have a specific meaning or for additional explanations of defined terms	<i>Italics</i> (leading case)
Defined terms used within the text of the Code	Normal type (Title Case)

Definitions in the APES 110 Glossary are named in bold-type font with the explanations of defined terms shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code. Defined terms are shown in the body of the Code in title case.

APES 110 provides definitions of the following expressions:

• AASB	• Acceptable Level
• Administration	• Advertising
• <i>Appropriate reviewer</i>	• ASQM 1
• Assurance Client	• Assurance Engagement
• Assurance Team	• Attestation Engagement
• AUASB	• <i>Audit</i>
• Audit Client	• Audit Engagement
• <i>Audit report</i>	• Audit Team
• Auditing and Assurance Standards	• Australian Accounting Standards
• Close Family	• <i>Conceptual framework</i>
• Contingent Fee	• <i>Cooling-off period</i>
• Criteria	• Direct Engagement
• Direct Financial Interest	• Director or Officer
• <i>Eligible Audit Engagement</i>	• <i>Eligible Assurance Engagement</i>
• Engagement Partner	• Engagement Period (Audit and Review Engagements)
• Engagement Period (Assurance Engagements Other than Audit and Review Engagements)	• Engagement Quality Review
• Engagement Quality Reviewer	• Engagement Team
• Existing Accountant	• External Expert
• Financial Interest	• Financial Statements
• Financial Statements on which the Firm will express an Opinion	• Firm
• <i>Fundamental principles</i>	• Historical Financial Information
• Immediate Family	• Independence
• Indirect Financial Interest	• Inducement
• Key Audit Partner	• Listed Entity
• <i>May</i>	• Member
• Member in Business	• Member in Public Practice
• <i>Might</i>	• Network
• Network Firm	• Non-compliance with laws and regulations (Members in Business)
• Non-compliance with laws and regulations (Members in Public Practice)	• Office
• Predecessor Accountant	• Professional Activity
• Professional Bodies	• <i>Professional judgement</i>
• Professional Services	• Professional Standards
• Proposed Accountant	• Public Interest Entity
• <i>Reasonable and informed third party</i>	• <i>Reasonable and informed third party test</i>
• Related Entity	• Responsible Party
• Review Client	• Review Engagement
• Review Team	• <i>Safeguards</i>
• <i>Senior Member in Business</i>	• Special Purpose Financial Statements
• Subject Matter Information	• <i>Substantial harm</i>
• Those Charged with Governance	• <i>Threats</i>
• <i>Time-on period</i>	• Underlying Subject Matter

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 Requirements

APES 110 requirements are denoted with the letter “R” in paragraph numbering and are denoted in **bold-type** and, in most cases, include the word “shall”. The word “shall” in APES 110 imposes an obligation on a Member or Firm to comply with the specific provision in which “shall” has been used.

In some situations, APES 110 provides a specific exception to a requirement. In such a situation, the provision is designated with the letter “R” but uses “may” or conditional wording. When the word “may” is used, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote a possibility.

When the word “might” is used in the Code, it denotes the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.

APES 110 Application Material

In addition to requirements, APES 110 contains application material that provides context relevant to a proper understanding of APES 110. In particular, the application material is intended to help a Member to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with the letter “A”.

Where application material includes lists of examples, these lists are not intended to be exhaustive.

2.4: Scope and application

APES 100 is operative from 1 January 2020 and supersedes APES 110 *Code of Ethics for Professional Accountants* (issued in December 2010 and subsequently amended in December 2011, May 2013, May 2017 and April 2018).

[R1.2] All IPA members in Australia shall comply with APES 110 including when providing Professional Services in an honorary capacity.

[R1.3] 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.

[R1.4] In addition to IPA Members’ obligation to comply with APES 110, IPA Members shall comply with other applicable Professional Standards and be familiar with relevant guidance notes when providing Professional Activities.

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.

Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

2.5: Section 100 – Complying with the Code

Requirements and Application Material

[R100.6] All IPA Members shall comply with the Code.

[R100.7] If there are circumstances where laws or regulations preclude a Member from complying with certain parts of the Code, those laws and regulations prevail, and the Member shall comply with all other parts of the Code.

Breaches of the Code

[R100.8] Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of Independence Standards. A Member who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the Member's ability to comply with the fundamental principles. The Member shall also:

- a. Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and**
- b. Determine whether to report the breach to the relevant parties.**

Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

2.5.1: Section 110 – The Fundamental Principles

APES 110 is structured around **five fundamental principles** that establish the standard of behaviour expected of all IPA Members.

- a. Integrity** – to be straightforward and honest in all professional and business relationships.
- b. Objectivity** – to exercise professional or business judgement without being compromised by:
(i) bias; (ii) conflict of interest; or (iii) undue influence of, or undue reliance on, individuals, organisations, technology or other factors.
- c. Professional competence and due care** – to:
 - i. Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent Professional Activities, based on current technical and professional standards and relevant legislation; and
 - ii. Act diligently and in accordance with applicable technical and professional standards.
- d. Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships.
- e. Professional behaviour** – to: (i) comply with relevant laws and regulations; (ii) behave in a manner consistent with the profession's responsibility to act in the public interest in all Professional Activities and business relationships; avoid any conduct that the Member knows or should know might discredit the profession.

These fundamental principles are discussed in more detail in Subsections 111-115 of APES 110 (see discussion below).

[R110.2] All IPA Members shall comply with each of the fundamental principles.

An IPA Member might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the Member might consider consulting, on an anonymous basis if necessary, with:

- Others within the Firm or employing organisation.
- Those Charged with Governance.
- IPA.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve an IPA Member from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

IPA Members are encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

2.5.1.1: Subsection 111 – Integrity

[R111.1] All IPA Members shall comply with the principle of integrity, which requires a Member to be straightforward and honest in all professional and business relationships.

[111.1 A1] Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.

[111.1 A2] Acting appropriately involves:

- a. Standing one's ground when confronted by dilemmas and difficult situations; or
- b. Challenging others as and when circumstances warrant,

in a manner appropriate to the circumstances.

[R111.2] All IPA Members shall not knowingly be associated with reports, returns, communications or other information where the Member believes that the information:

- a. Contains a materially false or misleading statement;
- b. Contains statements or information provided recklessly; or
- c. Omits or obscures required information where such omission or obscurity would be misleading.

[111.2 A1] If a Member provides a modified report in respect of such a report, return, communication or other information, the Member is not in breach of paragraph R111.2.

[R111.3] When an IPA Member becomes aware of having been associated with information described in paragraph R111.2, the Member shall take steps to be disassociated from that information.

2.5.1.2: Subsection 112 – Objectivity

[R112.1] All IPA Members shall comply with the principle of objectivity, which requires a Member to exercise professional or business judgement without being compromised by:

- a. Bias;**
- b. Conflict of interest; or**
- c. Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.**

[R112.2] An IPA Member shall not undertake a Professional Activity if a circumstance or relationship unduly influences the Member's professional judgement regarding that activity.

2.5.1.3: Subsection 113 – Professional Competence and Due Care

[R113.1] An IPA Member shall comply with the principle of professional competence and due care, which requires a Member to:

- a. Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent Professional Activities, based on current technical and professional standards and relevant legislation; and**
- b. Act diligently and in accordance with applicable technical and professional standards.**

[113.1 A1] Serving clients and employing organisations with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking Professional Activities.

[113.1 A2] Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables a Member to develop and maintain the capabilities to perform competently within the professional environment.

[113.1 A3] Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

[R113.2] In complying with the principle of professional competence and due care, an IPA Member shall take reasonable steps to ensure that those working in a professional capacity under the Member's authority have appropriate training and supervision.

[R113.3] Where appropriate, an IPA Member shall make clients, the employing organisation, or other users of the Member's Professional Services or Activities, aware of the limitations inherent in the Professional Services or Activities.

2.5.1.4: Subsection 114 – Confidentiality

[R114.1] An IPA Member shall comply with the principle of confidentiality, which requires a Member to respect the confidentiality of information acquired as a result of professional and business relationships. A Member shall:

- a. Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an Immediate or a Close Family member;**
- b. Maintain confidentiality of information within the Firm or employing organisation;**
- c. Maintain confidentiality of information disclosed by a prospective client or employing organisation;**
- d. Not disclose confidential information acquired as a result of professional and business relationships outside the Firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;**

- e. **Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the Member or for the advantage of a third party;**
- f. **Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and**
- g. **Take reasonable steps to ensure that personnel under the Member's control, and individuals from whom advice and assistance are obtained, respect the Member's duty of confidentiality.**

[114.1 A1] Confidentiality serves the public interest because it facilitates the free flow of information from the Member's client or employing organisation to the Member in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where Members are or might be required to disclose confidential information or when such disclosure might be appropriate:

- a. 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;
- b. Disclosure is permitted by law and is authorised by the client or the employing organisation; 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 Professional Body;
 - ii To respond to an inquiry or investigation by a professional 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 ethics requirements.

[R114.2] An IPA Member shall continue to comply with the principle of confidentiality even after the end of the relationship between the Member and a client or employing organisation. When changing employment or acquiring a new client, the Member is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

2.5.1.5: Subsection 115 – Professional Behaviour

[R115.1] An IPA Member shall comply with the principle of professional behaviour, which requires a Member to:

- a. **Comply with relevant laws and regulations;**
- b. **Behave in a manner consistent with the profession's responsibility to act in the public interest in all Professional Activities and business relationships; and**
- c. **Avoid any conduct that the Member knows or should know might discredit the profession.**

A Member shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

[115.1 A1] Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

[R115.2] When undertaking marketing or promotional activities, an IPA Member shall not bring the profession into disrepute. An IPA Member shall be honest and truthful and shall not make:

- a. Exaggerated claims for the services offered by, or the qualifications or experience of, the Member; or**
- b. Disparaging references or unsubstantiated comparisons to the work of others.**

[115.2 A1] If an IPA Member is in doubt about whether a form of Advertising or marketing is appropriate, the Member is encouraged to consult with IPA.

2.6: Section 120 – The Conceptual Framework

[120.1] The circumstances in which IPA Members operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist IPA Members in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various Professional Activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter IPA Members from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

[120.2] The conceptual framework specifies an approach for an IPA Member to:

- a. Identify threats to compliance with the fundamental principles;
- b. Evaluate the threats identified; and
- c. Address the threats by eliminating or reducing them to an Acceptable Level.

Requirements and Application Material

2.6.1: General

[R120.3] An IPA Member shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

[120.3 A1] Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- a. Part 2 – Members in Business (including employment relationships of Members in Public Practice);
- b. Part 3 – Members in Public Practice; and
- c. Independence Standards, as follows:
 - i. Part 4A – Independence for Audit and Review Engagements; and
 - ii. Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.

[R120.4] When dealing with an ethics issue, an IPA Member shall consider the context in which the issue has arisen or might arise. Where an individual who is a Member in Public Practice is performing Professional Activities pursuant to the Member's relationship with the Firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

[R120.5] When applying the conceptual framework, an IPA Member shall:

- a. Have an inquiring mind;**
- b. Exercise professional judgement; and**
- c. Use the reasonable and informed third party test described in paragraph 120.5 A6.**

Having an Inquiring Mind

[120.5 A1] An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

- a. Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the [Professional Activity](#) being undertaken; and
- b. Being open and alert to a need for further investigation or other action.

[120.5 A2] When considering the source, relevance and sufficiency of information obtained, the [Member](#) might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the [Member](#).
- There is an inconsistency between the known facts and circumstances and the [Member's](#) expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

[120.5 A3] Paragraph R120.5 requires all [Members](#) to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all [Members](#) regardless of the [Professional Activity](#) undertaken. Under [Auditing and Assurance Standards](#), including those issued by the AUASB, Members are also required to exercise professional scepticism, which includes a critical assessment of evidence.

Exercise of Professional Judgement

[120.5 A4] Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular Professional Activities, and the interests and relationships involved.

[120.5 A5] Professional judgement is required when the [Member](#) applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the [Member](#) might consider matters such as whether:

- The [Member's](#) expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The [Member's](#) own preconception or bias might be affecting the [Member's](#) exercise of professional judgement.

Reasonable and Informed Third Party

[120.5 A6] The reasonable and informed third party test is a consideration by the Member about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the Member knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a Member, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the Member's conclusions in an impartial manner.

2.6.2: Identifying Threats

[R120.6] An IPA Member shall identify threats to compliance with the fundamental principles.

[120.6 A1] An understanding of the facts and circumstances, including any Professional Activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the Member's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the Firm, or the employing organisation that can enhance the Member acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

[120.6 A2] Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

[120.6 A3] Threats to compliance with the fundamental principles fall into one or more of the following categories:

- a. Self-interest threat – the threat that a financial or other interest will inappropriately influence a 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 an activity 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 performing a current activity;
- c. Advocacy threat – the threat that a Member will promote a client's or employing organisation'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 employing organisation, 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.

[120.6 A4] A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

2.6.3: Evaluating Threats

[R120.7] When an IPA Member identifies a threat to compliance with the fundamental principles, the Member shall evaluate whether such a threat is at an Acceptable Level.

Acceptable Level

[120.7 A1] An Acceptable Level is a level at which an IPA Member using the reasonable and informed third party test would likely conclude that the Member complies with the fundamental principles.

Factors Relevant in Evaluating the Levels of Threats

[120.8 A1] The consideration of qualitative as well as quantitative factors is relevant in the Member's evaluation of threats, as is the combined effect of multiple threats, if applicable.

[120.8 A2] The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the Member and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

[R120.9] If an IPA Member becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an Acceptable Level, the Member shall re-evaluate and address that threat accordingly.

[120.9 A1] Remaining alert throughout the Professional Activity assists the Member in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- a. Impact the level of a threat; or
- b. Affect the Member's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

[120.9 A2] If new information results in the identification of a new threat, an IPA Member is required to evaluate and, as appropriate, address this threat. (Refer: R120.7 and R120.10).

2.6.4: Addressing Threats

[R120.10] If an IPA Member determines that the identified threats to compliance with the fundamental principles are not at an Acceptable Level, the Member shall address the threats by eliminating them or reducing them to an Acceptable Level. The Member shall do so by:

- a. **Eliminating the circumstances, including interests or relationships, that are creating the threats;**
- b. **Applying safeguards, where available and capable of being applied, to reduce the threats to an Acceptable Level; or**
- c. **Declining or ending the specific Professional Activity.**

Actions to Eliminate Threats

[120.10 A1] Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific Professional Activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an Acceptable Level.

Safeguards

[120.10 A2] Safeguards are actions, individually or in combination, that an IPA Member takes that effectively reduce threats to compliance with the fundamental principles to an Acceptable Level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

[R120.11] An IPA Member shall form an overall conclusion about whether the actions that the Member takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an Acceptable Level. In forming the overall conclusion, the Member shall:

- a. Review any significant judgements made or conclusions reached; and**
- b. Use the reasonable and informed third party test.**

2.6.5: Other Considerations when Applying the Conceptual Framework

Bias

[120.12 A1] Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

[120.12 A2] Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

[120.12 A3] Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organisational Culture

[120.13 A1] The effective application of the conceptual framework by a Member is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the Member's organisation.

[120.13 A2] The promotion of an ethical culture within an organisation is most effective when:

- a. Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organisation;
- b. Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- c. Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistleblowers; and
- d. The organisation adheres to ethical values in its dealings with third parties.

[120.13 A3] Members are expected to encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority.

2.6.6: Considerations for Audits, Reviews and Other Assurance Engagements

Firm Culture

[120.14 A1] APES 320 *Quality Management for Firms that provide Non-Assurance Services* and ASQM 1 set out requirements and application material relating to Firm culture in the context of a Firm's responsibilities to design, implement and operate a system of quality management for non-assurance services engagements and audits or reviews of Financial Statements, or other assurance or related services engagements.

Independence

[120.15 A1] Members in Public Practice are required by Independence Standards to be independent when performing Audits, Reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- a. 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.
- b. 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 that a Firm's or an Audit or Assurance Team member's integrity, objectivity or professional scepticism has been compromised.

[120.15 A2] Independence Standards set out requirements and application material on how to apply the conceptual framework to maintain Independence when performing Audits, Reviews or other assurance engagements. The *Corporations Act 2001* contains independence obligations that Members in Public Practice must also comply with when Audit and Review Engagements are performed in accordance with the Act. Members and Firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with Independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with Independence requirements.

Professional Scepticism

[120.16 A1] Under auditing, review and other assurance standards, including those issued by the AUASB, Members in Public Practice are required to exercise professional scepticism when planning and performing Audits, Reviews and other assurance engagements. Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

[120.16 A2] In an audit of Financial Statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- **Integrity** requires the Member in Public Practice to be straightforward and honest. For example, the Member complies with the principle of integrity by:
 - Being straightforward and honest when raising concerns about a position taken by a client; and
 - Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
 - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences. Acting appropriately include:
 - a. Standing one's ground when confronted by dilemmas and difficult situations; or
 - b. Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

In doing so, the Member demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.

- **Objectivity** requires the Member in Public Practice to exercise professional or business judgement without being compromised by:
 - a. Bias;
 - b. Conflict of interest; or
 - c. Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

For example, the Member complies with the principle of objectivity by:

- a. Recognising circumstances or relationships such as familiarity with the client, that might compromise the Member's professional or business judgement; and
- b. Considering the impact of such circumstances and relationships on the Member's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's Financial Statements.

In doing so, the Member behaves in a manner that contributes to the exercise of professional scepticism.

- **Professional competence and due care** requires the Member in Public Practice to have professional knowledge and skill at the level required to ensure the provision of competent Professional Service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the Member complies with the principle of professional competence and due care by:
 - a. Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
 - b. Designing and performing appropriate audit procedures; and
 - c. Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the Member behaves in a manner that contributes to the exercise of professional scepticism.

Part 2 – Members in Business (including Employment Relationships of Members in Public Practice)

2.7: Section 200: Applying the Conceptual Framework – Members in Business

[200.1] This Part of the Code sets out requirements and application material for Members in Business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including Professional Activities, interests and relationships, that could be encountered by Members in Business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires Members in Business to be alert for such facts and circumstances.

[200.2] Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of Members in Business. Members in Business might be solely or jointly responsible for the preparation and reporting of financial and other information, on which both their employing organisations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

[200.3] A Member in Business might be an employee, contractor, partner, Director (executive or non-executive), owner-manager, or volunteer of an employing organisation. The legal form of the relationship of the Member with the employing organisation has no bearing on the ethical responsibilities placed on the Member.

[200.4] In this Part, the term “Member” refers to:

- a. A Member in Business; and
- b. An individual who is a Member in Public Practice when performing Professional Activities pursuant to the Member's relationship with the Member's Firm, whether as a contractor, employee or owner (emphasis added). More information on when Part 2 is applicable to Members in Public Practice is set out in paragraphs R120.4, R300.5 and 300.5 A1, viz.:

[R120.4] When dealing with an ethics issue, the Member shall consider the context in which the issue has arisen or might arise. Where an individual who is a Member in Public Practice is performing Professional Activities pursuant to the Member's relationship with the Firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

[R300.5] When dealing with an ethics issue, the Member in Public Practice shall consider the context in which the issue has arisen or might arise. Where an individual who is a Member in Public Practice is performing Professional Activities pursuant to the Member's relationship with the Firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

[300.5 A1] Examples of situations in which the provisions in Part 2 apply to a Member in Public Practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the Firm when an Immediate Family member of the Member might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the Member's client or Firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an Inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the Firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an Engagement Partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

The requirements in Part 2 of the Code are beyond the scope of the IPA Professional Practice Program. Where an individual IPA member who is a Member in Public Practice is performing Professional Activities pursuant to the Member's relationship with the Member's Firm, whether as a contractor, employee or owner, they should refer to the specific requirements of Part 2 of APES 110 which can be found at www.apesb.org.au.

Part 2 of the Code contains the following sections:

- Section 200 Applying the Conceptual Framework – Members in Business
- Section 210 – Conflicts of Interest
- Section 220 – Preparation and Presentation of Information
- Section 230 – Acting with Sufficient Expertise
- Section 240 – Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making
- Section 250 – Inducements, Including Gifts and Hospitality
- Section 260 – Responding to Non-Compliance with Laws and Regulations
- Section 270 – Pressure to Breach the Fundamental Principles.

Part 3 – Members in Public Practice

2.8: Section 300: Applying the Conceptual Framework – Members in Public Practice

[300.1] This Part of the Code sets out requirements and application material for Members in Public Practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including Professional Activities, interests and relationships, that could be encountered by Members in Public Practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires Members in Public Practice to be alert for such facts and circumstances.

[300.2] The requirements and application material that apply to Members in Public Practice are set out in:

- Part 3 – Members in Public Practice, Sections 300 to 399, which applies to all Members in Public Practice, whether they provide assurance services or not.
- Independence Standards as follows:
 - Part 4A – Independence for Audit and Review Engagements, Sections 400 to 899, which applies to Members in Public Practice when performing Audit and Review Engagements.
 - Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Sections 900 to 999, which applies to Members in Public Practice when performing Assurance Engagements other than Audit or Review Engagements.

[300.3] In this Part, the term “Member” refers to individual Members in Public Practice and their Firms.

Requirements and Application Material

2.8.1: General

[R300.4] An IPA Member in Public Practice shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

[R300.5] When dealing with an ethics issue, an IPA Member in Public Practice shall consider the context in which the issue has arisen or might arise. Where an individual who is a Member in Public Practice is performing Professional Activities pursuant to the Member’s relationship with the Firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

[300.5 A1] Examples of situations in which the provisions in Part 2 apply to a Member in Public Practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the Firm when an Immediate Family member of the Member might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial information for the Member’s client or Firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an Inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the Firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an Engagement Partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

2.8.2: Identifying Threats

[300.6 A1] Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a Member in Public Practice when undertaking a Professional Service:

a. Self-interest Threats:

- A Member having a Direct Financial Interest in a client.
- A Member quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the Professional Service in accordance with applicable technical and professional standards for that price.
- A Member having a close business relationship with a client.
- A Member having access to confidential information that might be used for personal gain.
- A Member discovering a significant error when evaluating the results of a previous Professional Service performed by a member of the Member's Firm.

b. Self-review Threats:

- A Member issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A Member having prepared the original data used to generate records that are the subject matter of the Assurance Engagement.

c. Advocacy Threats:

- A Member promoting the interests of, or shares in, a client.
- A Member acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A Member lobbying in favour of legislation on behalf of a client.

d. Familiarity Threats:

- A Member having a Close or Immediate Family member who is a Director or Officer of the client.
- 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.
- An Audit Team member having a long association with the Audit Client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

e. Intimidation Threats:

- A Member being threatened with dismissal from a client engagement or the Firm because of a disagreement about a professional matter.
- A Member feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
- A Member being informed that a planned promotion will not occur unless the Member agrees with an inappropriate accounting treatment.

- A Member having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

2.8.3: Evaluating Threats

[300.7 A1] The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an Acceptable Level. Such conditions, policies and procedures might relate to:

- a. The client and its operating environment; and
- b. The Firm and its operating environment.

[300.7 A2] The Member in Public Practice's evaluation of the level of a threat is also impacted by the nature and scope of the Professional Service.

The Client and its Operating Environment

[300.7 A3] The Member in Public Practice's evaluation of the level of a threat might be impacted by whether the client is:

- a. An Audit Client and whether the Audit Client is a Public Interest Entity;
- b. An Assurance Client that is not an Audit Client; or
- c. A non-assurance client.

For example, providing a non-assurance service to an Audit Client that is a Public Interest Entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

[300.7 A4] The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a Member in Public Practice's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals 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 facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the Firm's services.

The Firm and its Operating Environment

[300.7 A5] A Member in Public Practice's evaluation of the level of a threat might be impacted by the work environment within the Member's Firm and its operating environment. For example:

- Leadership of the Firm that promotes compliance with the fundamental principles and establishes the expectation that Assurance Team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.

- The Engagement Partner having authority within the Firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

Consideration of New Information or Changes in Facts and Circumstances

[300.7 A6] New information or changes in facts and circumstances might:

- a. Impact the level of a threat; or
- b. Affect the Member in Public Practice's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the Member re-evaluate and address the threats accordingly. (Refer: R120.9 and R120.10).

[300.7 A7] Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a Professional Service is expanded.
- When the client becomes a Listed Entity or acquires another business unit.
- When the Firm merges with another Firm.
- When the Member in Public Practice is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the Member in Public Practice's personal or Immediate Family relationships.

2.8.4: Addressing Threats

[300.8 A1] Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an Acceptable Level.

Examples of Safeguards

[300.8 A2] Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different partners and Engagement Teams with separate reporting lines for the provision of non-assurance services to an Assurance Client might address self-review, advocacy or familiarity threats.
- Involving another Firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.

- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

[300.8 A3] The remaining sections of Part 3 and Independence Standards describe certain threats that might arise during the course of performing Professional Services and include examples of actions that might address threats.

Appropriate Reviewer

[300.8 A4] An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a Member.

2.8.5: Communicating with Those Charged with Governance

[R300.9] When communicating with Those Charged with Governance in accordance with the Code, an IPA Member in Public Practice shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the Member communicates with a subgroup of Those Charged with Governance, the Member shall determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

[300.9 A1] In determining with whom to communicate, a Member in Public Practice might consider:

- a. The nature and importance of the circumstances; and
- b. The matter to be communicated.

[300.9 A2] Examples of a subgroup of Those Charged with Governance include an audit committee or an individual member of Those Charged with Governance.

[R300.10] If an IPA Member in Public Practice communicates with individuals who have management responsibilities as well as governance responsibilities, the Member shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the Member would otherwise communicate.

[300.10 A1] In some circumstances, 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 to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the Member in Public Practice has satisfied the requirement to communicate with Those Charged with Governance.

2.9: Section 310: Conflicts of Interest

[310.1] IPA Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[310.2] A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

- a. A Member in Public Practice 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
- b. The interests of a Member in Public Practice 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.

[310.3] This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When an IPA Member in Public Practice provides an audit, review or other assurance service, Independence is also required in accordance with Independence Standards.

Requirements and Application Material

2.9.1: General

[R310.4] An IPA Member in Public Practice shall not allow a conflict of interest to compromise professional or business judgement.

[310.4 A1] Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an Audit Client, where the Firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the Member in Public Practice has a Financial Interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the Firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

2.9.2: Conflict Identification

General

[R310.5] Before accepting a new client relationship, engagement, or business relationship, an IPA Member in Public Practice shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- a. The nature of the relevant interests and relationships between the parties involved; and**
- b. The service and its implication for relevant parties.**

[310.5 A1] An effective conflict identification process assists a Member in Public Practice when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the Member being able to address threats created by the conflict of interest.

[310.5 A2] An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the Professional Services provided.
- The size of the Firm.
- The size and nature of the client base.
- The structure of the Firm, for example, the number and geographic location of Offices.

[310.5 A3] More information on client acceptance is set out in Section 320, *Professional Appointments*.

Changes in Circumstances

[R310.6] An IPA Member in Public Practice shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

[310.6 A1] The nature of services, interests and relationships might change during the engagement. This is particularly true when a Member in Public Practice is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the Member initially might not be involved in a dispute.

Network Firms

[R310.7] If the Firm is a member of a Network, an IPA Member in Public Practice shall consider conflicts of interest that the Member has reason to believe might exist or arise due to interests and relationships of a Network Firm.

[310.7 A1] Factors to consider when identifying interests and relationships involving a Network Firm include:

- The nature of the Professional Services provided.
- The clients served by the Network.
- The geographic locations of all relevant parties.

2.9.3: Threats Created by Conflicts of Interest

[310.8 A1] In general, the more direct the connection between the Professional Service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an Acceptable Level.

[310.8 A2] Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised disclosure of confidential information when performing Professional Services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the Firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the Firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

[310.8 A3] Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate Engagement Teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate.

2.9.4: Disclosure and Consent

General

[R310.9] An IPA Member in Public Practice shall exercise professional judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

[310.9 A1] Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

[310.9 A2] Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the Member in Public Practice does not provide Professional Services exclusively to any one client (for example, in a particular Professional Service and market sector). This enables the client to provide general consent accordingly. For example, a Member might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the Member in Public Practice 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.

[310.9 A3] It is generally necessary:

- a. To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- b. To obtain consent of the affected clients to perform the Professional Services when safeguards are applied to address the threat.

[310.9 A4] If such disclosure or consent is not in writing, the Member in Public Practice is encouraged to document:

- a. The nature of the circumstances giving rise to the conflict of interest;
- b. The safeguards applied to address the threats when applicable; and
- c. The consent obtained.

When Explicit Consent is Refused

[R310.10] If an IPA Member in Public Practice has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the Member shall either:

- a. **End or decline to perform Professional Services that would result in the conflict of interest; or**
- b. **End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an Acceptable Level.**

2.9.5: Confidentiality

General

[R310.11] An IPA Member in Public Practice shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the Firm or Network and seeking guidance from third parties.

[310.11 A1] Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

[R310.12] When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the Firm shall only accept or continue an engagement if:

- a. **The Firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;**
- b. **Specific measures are in place to prevent disclosure of confidential information between the Engagement Teams serving the two clients; and**
- c. **The Firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the Firm to accept or continue the engagement because a restriction on the Firm's ability to provide the Professional Service would produce a disproportionate adverse outcome for the clients or other relevant third parties.**

[310.12 A1] A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a client in a hostile takeover of another client of the Firm.
- A forensic investigation for a client regarding a suspected fraud, where the Firm has confidential information from its work for another client who might be involved in the fraud.

2.9.6: Documentation

[R310.13] In the circumstances set out in paragraph R310.12, an IPA Member in Public Practice shall document:

- a. The nature of the circumstances, including the role that the Member is to undertake;**
- b. The specific measures in place to prevent disclosure of information between the Engagement Teams serving the two clients; and**
- c. Why it is appropriate to accept or continue the engagement.**

2.10: Section 320: Professional Appointments

[320.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[320.2] Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

[AUST 320.2.1] The requirements of Section 320 also apply where a Member in Public Practice is replacing or being replaced by an accountant who is not a Member.

Requirements and Application Material

2.10.1: Client and Engagement Acceptance

General

[320.3 A1] Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

[320.3 A2] Factors that are relevant in evaluating the level of such a threat include:

- Knowledge and understanding of the client, its owners, management and Those Charged with Governance and business activities.
- The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

[320.3 A3] A self-interest threat to compliance with the principle of professional competence and due care is created if the Engagement Team does not possess, or cannot acquire, the competencies to perform the Professional Services.

[320.3 A4] Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.

- Policies and procedures that the Firm has implemented, as part of a system of quality management in accordance with quality management standards such as APES 320 *Quality Management for Firms that provide Non-Assurance Services* or ASQM 1, that respond to quality risks relating to the Firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- The level of fees and the extent to which they have regard to the resources required, taking into account the Member's commercial and market priorities.

[320.3 A5] Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

2.10.2: Changes in a Professional Appointment

General

[R320.4] An IPA Member in Public Practice shall determine whether there are any reasons for not accepting an engagement when the Member:

- Is asked by a potential client to replace another accountant;**
- Considers tendering for an engagement held by another accountant; or**
- Considers undertaking work that is complementary or additional to that of another accountant.**

[320.4 A1] There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a Member in Public Practice accepts the engagement before knowing all the relevant facts.

[320.4 A2] If a Member in Public Practice is asked to undertake work that is complementary or additional to the work of an Existing or Predecessor Accountant, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

[320.4 A3] A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the Existing or Predecessor Accountant will be requested. This contact gives the Member in Public Practice the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

[320.4 A4] Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the Existing or Predecessor Accountant to provide any known information of which, in the Existing or Predecessor Accountant's opinion, the Member in Public Practice needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the Existing or Predecessor Accountant that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or Those Charged with Governance of the client.

Communicating with the Existing or Predecessor Accountant

[320.5 A1] A Member in Public Practice will usually need the client's permission, preferably in writing, to initiate discussions with the Existing or Predecessor Accountant.

[R320.6] If unable to communicate with the Existing or Predecessor Accountant, an IPA Member in Public Practice shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Accountant

[R320.7] When an IPA Member in Public Practice is asked to respond to a communication from a Proposed Accountant, the Member shall:

- a. Comply with relevant laws and regulations governing the request; and**
- b. Provide any information honestly and unambiguously.**

[320.7 A1] A Member in Public Practice is bound by confidentiality. Whether the Member is permitted or required to discuss the affairs of a client with a Proposed Accountant will depend on the nature of the engagement and:

- a. Whether the Member has permission from the client for the discussion; and
- b. The legal and ethics requirements relating to such communications and disclosure.

[320.7 A2] Circumstances where a Member in Public Practice is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A1 of the Code.

Changes in Audit or Review Appointments

[R320.8] In the case of an audit or review of Financial Statements, an IPA Member in Public Practice shall request the Existing or Predecessor Accountant to provide known information regarding any facts or other information of which, in the Existing or Predecessor Accountant's opinion, the Member needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving NOCLAR or NOCLAR suspected NOCLAR set out in paragraphs R360.21 and R360.22:

- a. If the client consents to the Existing or Predecessor Accountant disclosing any such facts or other information, the Existing or Predecessor Accountant shall provide the information honestly and unambiguously; and**
- b. If the client fails or refuses to grant the Existing or Predecessor Accountant permission to discuss the client's affairs with the Member in Public Practice, the Existing or Predecessor Accountant shall disclose this fact to the Member, who shall carefully consider such failure or refusal when determining whether to accept the appointment.**

2.10.3: Client and Engagement Continuance

[R320.9] For a recurring client engagement, an IPA Member in Public Practice shall periodically review whether to continue with the engagement.

[320.9 A1] Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the Member in Public Practice to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management or balance sheet valuations.

2.10.4: Using the Work of an Expert

[R320.10] When an IPA Member in Public Practice intends to use the work of an expert, the Member shall determine whether the use is warranted.

[320.10 A1] Factors to consider when a Member in Public Practice intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the professional and ethics standards applicable to the expert. This information might be gained from prior association with the expert or from consulting others.

2.11: Section 321: Second Opinions

[321.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[321.2] Providing a second opinion to an entity that is not an existing client might create a self-interest or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

2.11.1: General

[321.3 A1] A Member in Public Practice might be asked to provide a second opinion on the application of Australian Accounting Standards, Auditing and Assurance Standards, reporting or other standards or principles to (a) specific circumstances, or (b) transactions by, or on behalf of a company or an entity that is not an existing client. A threat, for example, a self-interest threat to compliance with the principle of professional competence and due care, might be created if the second opinion is not based on the same facts that the Existing or Predecessor Accountant had, or is based on inadequate evidence.

[321.3 A2] A factor that is relevant in evaluating the level of such a self-interest threat is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.

[321.3 A3] Examples of actions that might be safeguards to address such a self-interest threat include:

- With the client's permission, obtaining information from the Existing or Predecessor Accountant.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the Existing or Predecessor Accountant with a copy of the opinion.

When Permission to Communicate is Not Provided

[R321.4] If an entity seeking a second opinion from an IPA Member in Public Practice will not permit the Member to communicate with the Existing or Predecessor Accountant, the Member shall determine whether the Member may provide the second opinion sought.

2.12: Section 325: Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

[325.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[325.2] Appointing an Engagement Quality Reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.

[325.3] This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an Engagement Quality Reviewer.

[325.4] An Engagement Quality Reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where a Member appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

2.12.1: General

[325.5 A1] Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320) and ASQM 1 establish the Firm's responsibilities for its system of quality management and require the Firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing Engagement Quality Reviews in accordance with ASQM 2 *Engagement Quality Reviews* (ASQM 2).

[325.5 A2] An Engagement Quality Reviewer is a partner, other individual in the Firm, or an external individual, appointed by the Firm to perform the Engagement Quality Review.

2.12.2: Identifying Threats

[325.6 A1] The following are examples of circumstances where threats to the objectivity of a Member in Public Practice appointed as an Engagement Quality Reviewer might be created:

(a) Self-interest Threat:

- Two Engagement Partners each serving as an Engagement Quality Reviewer for the other's engagement.

(b) Self-review Threat:

- A Member serving as an Engagement Quality Reviewer on an Audit Engagement after previously serving as the Engagement Partner.

(c) Familiarity Threat:

- A Member serving as an Engagement Quality Reviewer has a close relationship with or is an Immediate Family member of another individual who is involved in the engagement.

(d) Intimidation Threat:

- A Member serving as an Engagement Quality Reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

2.12.3: Evaluating Threats

[325.7 A1] Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an Engagement Quality Reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as Engagement Quality Reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgement from the individual in any previous involvement in the engagement.

2.12.4: Addressing Threats

[325.8 A1] An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the Firm.

[325.8 A2] An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an Engagement Quality Reviewer.

Cooling-off Period

[325.8 A3] ASQM 2 requires the Firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the Engagement Partner can assume the role of Engagement Quality Reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.

2.13: Section 330: Fees and Other Types of Remuneration

[330.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[330.2] The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

2.13.1: Level of Fees

[330.3 A1] The level of fees might impact a Member in Public Practice's ability to perform Professional Services in accordance with technical and professional standards.

[330.3 A2] A Member in Public Practice might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

[330.3 A3] Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which Professional Services are covered.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

[330.3 A4] Examples of actions that might be safeguards to address such a self-interest threat include:

- Adjusting the level of fees or the scope of the engagement.
- Having an appropriate reviewer review the work performed.

2.13.2: Contingent Fees

[330.4 A1] Contingent Fees are used for certain types of non-assurance services. However, Contingent Fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

[330.4 A2] Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.

- The basis for determining the fee.
- Disclosure to intended users of the work performed by the Member in Public Practice and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

[330.4 A3] Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the Member in Public Practice.
- Obtaining an advance written agreement with the client on the basis of remuneration.

[AUST R330.4.1] A Member in Public Practice shall not enter into a Contingent Fee arrangement or receive a Contingent Fee in specific engagement circumstances as prohibited in:

- **APES 215 Forensic Accounting Services;**
- **APES 225 Valuation Services;**
- **APES 330 Insolvency Services;**
- **APES 345 Reporting on Prospective Financial Information Prepared in Connection with a Disclosure Document; and**
- **APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document.**

[330.4 A4] Requirements and application material related to Contingent Fees for services provided to Audit or Review Clients and other assurance clients are set out in Independence Standards.

2.13.3: Referral Fees or Commissions

[330.5 A1] A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a Member in Public Practice pays or receives a referral fee or receives a commission relating to a client. Such referral fees or commissions include, for example:

- A fee paid to another Member in Public Practice for the purposes of obtaining new client work when the client continues as a client of the Existing Accountant but requires specialist services not offered by that accountant.
- A fee received for referring a continuing client to another Member in Public Practice or other expert where the Existing Accountant does not provide the specific Professional Service required by the client.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client.

[330.5 A2] Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to clients any referral fees or commission arrangements paid to, or received from, another Member in Public Practice or third party for recommending services or products might address a self-interest threat.

[AUST R330.5.1] An IPA Member in Public Practice who is undertaking an engagement in Australia and receives 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.

[AUST R330.5.2] An IPA Member in Public Practice shall not receive commissions or other similar benefits in connection with an Assurance Engagement.

[AUST 330.5.2 A1] 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.

2.13.4: Purchase or Sale of a Firm

[330.6 A1] A Member in Public Practice may purchase all or part of another Firm on the basis that payments will be made to individuals formerly owning the Firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

2.14: Section 340: Inducements, Including Gifts and Hospitality

[340.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[340.2] Offering or accepting Inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.

[340.3] This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of Inducements when performing Professional Services that does not constitute non-compliance with laws and regulations (“NOCLAR”). This section also requires a Member in Public Practice to comply with relevant laws and regulations when offering or accepting Inducements.

Requirements and Application Material

2.14.1: General

[340.4 A1] An Inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between Members in Public Practice and existing or prospective clients to acts that result in noncompliance with laws and regulations ("NOCLAR"). An Inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

2.14.2: Inducements Prohibited by Laws and Regulations

[R340.5] In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of Inducements in certain circumstances. An IPA Member in Public Practice shall obtain an understanding of relevant laws and regulations and comply with them when the Member encounters such circumstances.

2.14.3: Inducements Not Prohibited by Laws and Regulations

[340.6 A1] The offering or accepting of Inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

[R340.7] An IPA Member in Public Practice shall not offer, or encourage others to offer, any Inducement that is made, or which the Member considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

[R340.8] An IPA Member in Public Practice shall not accept, or encourage others to accept, any Inducement that the Member concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

[340.9 A1] An Inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a Member in Public Practice in considering what constitutes unethical behaviour on the part of the Member and, if necessary by analogy, other individuals.

[340.9 A2] A breach of the fundamental principle of integrity arises when a Member in Public Practice offers or accepts, or encourages others to offer or accept, an Inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

[340.9 A3] The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgement. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the Inducement.
- Timing of when the Inducement is offered relative to any action or decision that it might influence.
- Whether the Inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the Inducement is an ancillary part of a Professional Service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the Inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the Firm, such as other suppliers to the client.
- The roles and positions of the individuals at the Firm or the client offering or being offered the Inducement.
- Whether the Member in Public Practice knows, or has reason to believe, that accepting the Inducement would breach the policies and procedures of the client.
- The degree of transparency with which the Inducement is offered.
- Whether the Inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

[340.10 A1] If the Member in Public Practice becomes aware of an Inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.

[340.10 A2] Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the Firm or Those Charged with Governance of the client regarding the offer.
- Amending or terminating the business relationship with the client. Inducements with No Intent to Improperly Influence Behaviour

[340.11 A1] The requirements and application material set out in the conceptual framework apply when a Member in Public Practice has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

[340.11 A2] If such an Inducement is trivial and inconsequential, any threats created will be at an Acceptable Level.

[340.11 A3] Examples of circumstances where offering or accepting such an Inducement might create threats even if the Member in Public Practice has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
 - A Member in Public Practice is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
 - A Member in Public Practice regularly takes an existing or prospective client to sporting events.
- Intimidation threats
 - A Member in Public Practice accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

[340.11 A4] Relevant factors in evaluating the level of such threats created by offering or accepting such an Inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

[340.11 A5] Examples of actions that might eliminate threats created by offering or accepting such an Inducement include:

- Declining or not offering the Inducement.
- Transferring responsibility for the provision of any Professional Services to the client to another individual who the Member in Public Practice has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

[340.11 A6] Examples of actions that might be safeguards to address such threats created by offering or accepting such an Inducement include:

- Being transparent with senior management of the Firm or of the client about offering or accepting an Inducement.
- Registering the Inducement in a log monitored by senior management of the Firm or another individual responsible for the Firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the Professional Service, review any work performed or decisions made by the Member in Public Practice with respect to the client from which the Member accepted the Inducement.
- Donating the Inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the Firm or the individual who offered the Inducement.
- Reimbursing the cost of the Inducement, such as hospitality, received.
- As soon as possible, returning the Inducement, such as a gift, after it was initially accepted.

2.14.4: Immediate or Close Family Members

[R340.12] An IPA Member in Public Practice shall remain alert to potential threats to the Member's compliance with the fundamental principles created by the offering of an Inducement:

- a. By an Immediate or Close Family member of the Member to an existing or prospective client of the Member.**
- b. To an Immediate or Close Family member of the Member by an existing or prospective client of the Member.**

[R340.13] Where an IPA Member in Public Practice becomes aware of an Inducement being offered to or made by an Immediate or Close Family member and concludes there is intent to improperly influence the behaviour of the Member or of an existing or prospective client of the Member, or considers a reasonable and informed third party would be likely to conclude such intent exists, the Member shall advise the Immediate or Close Family member not to offer or accept the Inducement.

[340.13 A1] The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the Member in Public Practice or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

- a. The Member and the Immediate or Close Family member;
- b. The Immediate or Close Family member and the existing or prospective client; and
- c. The Member and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the Member by a client for whom the Member is providing a business valuation for a prospective sale might indicate such intent.

[340.13 A2] The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the Member in Public Practice, or of the existing or prospective client even if the Immediate or Close Family member has followed the advice given pursuant to paragraph R340.13.

Application of the Conceptual Framework

[340.14 A1] Where the Member in Public Practice becomes aware of an Inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:

- a. The Immediate or Close Family member offers or accepts the Inducement contrary to the advice of the Member pursuant to paragraph R340.13; or
- b. The Member does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the Member or of the existing or prospective client exists.

[340.14 A2] The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

2.14.5: Other Considerations

[340.15 A1] If a Member in Public Practice encounters or is made aware of Inducements that might result in NOCLAR or suspected NOCLAR by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

[340.15 A2] If a Firm, Network Firm or an Audit Team member is being offered gifts or hospitality from an Audit Client, the requirement and application material set out in Section 420 apply.

[340.15 A3] If a Firm or an Assurance Team member is being offered gifts or hospitality from an Assurance Client, the requirement and application material set out in Section 906 apply.

2.15: Section 350: Custody of Client Assets

[350.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[350.2] Holding client assets creates a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances. APESB has issued APES 310 Client Monies which mandates requirements and provides guidance for Members in Public Practice when they deal with client monies.

Requirements and Application Material

2.15.1: Before Taking Custody

[R350.3] An IPA Member in Public Practice shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

[R350.4] As part of client and engagement acceptance procedures related to assuming custody of client money or assets, an IPA Member in Public Practice shall:

- a. Make inquiries about the source of the assets; and**
- b. Consider related legal and regulatory obligations.**

[350.4 A1] Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply.

2.15.2: After Taking Custody

[R350.5] An IPA Member in Public Practice entrusted with money or other assets belonging to others shall:

- a. Comply with the laws and regulations relevant to holding and accounting for the assets;**
- b. Keep the assets separately from personal or Firm assets;**
- c. Use the assets only for the purpose for which they are intended; and**
- d. Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.**

2.16: Section 360: Responding to Non-Compliance with Laws and Regulations

[360.1] Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

[360.2] A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a Member in Public Practice becomes aware of non-compliance or suspected non-compliance with laws and regulations (“NOCLAR”).

[360.3] A Member in Public Practice might encounter or be made aware of NOCLAR or suspected NOCLAR in the course of providing a Professional Service to a client. This section guides the Member in assessing the implications of the matter and the possible courses of action when responding to NOCLAR or suspected NOCLAR with:

- a. Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client’s Financial Statements; and**
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client’s Financial Statements, but compliance with which might be**

fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Member in Public Practice in Relation to NOCLAR

[360.4] A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to NOCLAR or suspected NOCLAR, the objectives of the Member in Public Practice are:

- a. To comply with the principles of integrity and professional behaviour;
- b. By alerting management or, where appropriate, Those Charged with Governance of the client, to seek to:
 - i. Enable them to rectify, remediate or mitigate the consequences of the identified or suspected NOCLAR; or
 - ii. Deter the commission of the NOCLAR where it has not yet occurred; and
- c. To take such further action as appropriate in the public interest.

Requirements and Application Material

2.16.1: General

[360.5 A1] NOCLAR comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- a. A client;
- b. Those Charged with Governance of a client;
- c. Management of a client; or
- d. Other individuals working for or under the direction of a client.

[360.5 A2] Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

[360.5 A3] NOCLAR might result in fines, litigation or other consequences for the client, potentially materially affecting its Financial Statements. Importantly, such NOCLAR might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

[R360.6] In some jurisdictions, there are legal or regulatory provisions governing how Members in Public Practice should address NOCLAR or suspected NOCLAR [For example, there are auditor reporting obligations in the *Corporations Act 2001* which an IPA Member in Public Practice must comply with. Further information on these requirements is set out in ASIC Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC*]. **These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such NOCLAR or suspected NOCLAR, an IPA Member shall obtain an understanding of those legal or regulatory provisions and comply with them, including:**

- a. Any requirement to report the matter to an appropriate authority; and**
- b. Any prohibition on alerting the client.**

[360.6 A1] A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

[360.7 A1] This section applies regardless of the nature of the client, including whether or not it is a Public Interest Entity.

[360.7 A2] A Member in Public Practice who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

[360.7 A3] This section does not address:

- a. Personal misconduct unrelated to the business activities of the client; and
- b. NOCLAR by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where a Member in Public Practice has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected NOCLAR has been committed by that third party.

The Member in Public Practice might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

2.16.2: Responsibilities of Management and Those Charged with Governance

[360.8 A1] Management, with the oversight of Those Charged with Governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and Those Charged with Governance are also responsible for identifying and addressing any NOCLAR by:

- a. The client;
- b. An individual charged with governance of the entity;
- c. A member of management; or
- d. Other individuals working for or under the direction of the client.

2.16.3: Responsibilities of All Members in Public Practice

[R360.9] Where an IPA Member in Public Practice becomes aware of a matter to which this section applies, the steps that the Member takes to comply with this section shall be taken on a timely basis. In taking timely steps, the Member shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

2.16.4: Audits of Financial Statements

Obtaining an Understanding of the Matter

[R360.10] If an IPA Member in Public Practice engaged to perform an audit of Financial Statements becomes aware of information concerning NOCLAR or suspected NOCLAR, the Member shall obtain an understanding of the matter. This understanding shall include the nature of the NOCLAR or suspected NOCLAR and the circumstances in which it has occurred or might occur.

[360.10 A1] The Member in Public Practice might become aware of the NOCLAR or suspected NOCLAR in the course of performing the engagement or through information provided by other parties.

[360.10 A2] The Member in Public Practice is expected to apply knowledge and expertise, and exercise professional judgement. However, the Member is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes NOCLAR is ultimately a matter to be determined by a court or other appropriate adjudicative body.

[360.10 A3] Depending on the nature and significance of the matter, the Member in Public Practice might consult on a confidential basis with others within the Firm, a Network Firm or a Professional Body, or with legal counsel.

[R360.11] If an IPA Member in Public Practice identifies or suspects that NOCLAR has occurred or might occur, the Member shall discuss the matter with the appropriate level of management and, where appropriate, Those Charged with Governance.

[360.11 A1] The purpose of the discussion is to clarify the Member in Public Practice's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or Those Charged with Governance to investigate the matter.

[360.11 A2] The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

[360.11 A3] The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

[360.11 A4] The Member in Public Practice might also consider discussing the matter with internal auditors, where applicable.

[R360.12] If an IPA Member in Public Practice believes that management is involved in the NOCLAR or suspected NOCLAR, the Member shall discuss the matter with Those Charged with Governance.

Addressing the Matter

[R360.13] In discussing the NOCLAR or suspected NOCLAR with management and, where appropriate, Those Charged with Governance, the Member in Public Practice shall advise them to take appropriate and timely actions, if they have not already done so, to:

- a. Rectify, remediate or mitigate the consequences of the NOCLAR;
- b. Deter the commission of the NOCLAR where it has not yet occurred; or
- c. Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

[R360.14] An IPA Member in Public Practice shall consider whether management and Those Charged with Governance understand their legal or regulatory responsibilities with respect to the NOCLAR or suspected NOCLAR.

[360.14 A1] If management and Those Charged with Governance do not understand their legal or regulatory responsibilities with respect to the matter, the Member in Public Practice might suggest appropriate sources of information or recommend that they obtain legal advice.

[R360.15] An IPA Member in Public Practice shall comply with applicable:

- a. **Laws and regulations, including legal or regulatory provisions governing the reporting of NOCLAR or suspected NOCLAR to an appropriate authority; and**
- b. **Requirements under Auditing and Assurance Standards, including those relating to:**
 - **Identifying and responding to NOCLAR, including fraud.**
 - **Communicating with Those Charged with Governance.**
 - **Considering the implications of the NOCLAR or suspected NOCLAR for the auditor's report.**

[360.15 A1] Some laws and regulations might stipulate a period within which reports of NOCLAR or suspected NOCLAR are to be made to an appropriate authority.

Communication with Respect to Groups

[R360.16] Where an IPA Member in Public Practice becomes aware of NOCLAR or suspected NOCLAR in relation to a component of a group in either of the following two situations, the Member shall communicate the matter to the group Engagement Partner unless prohibited from doing so by law or regulation:

- a. **The Member in Public Practice is, for purposes of an audit of the group Financial Statements, requested by the group Engagement Team to perform work on financial information related to the component; or**
- b. **The Member in Public Practice is engaged to perform an audit of the component's Financial Statements for purposes other than the group audit, for example, a statutory audit.**

The communication to the group Engagement Partner shall be in addition to responding to the matter in accordance with the provisions of this section.

[360.16 A1] The purpose of the communication is to enable the group Engagement Partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group Engagement Partner's Firm or Network is the same as or different from the Member in Public Practice's Firm or Network.

[R360.17] Where the group Engagement Partner becomes aware of NOCLAR or suspected NOCLAR in the course of an audit of group Financial Statements, the group Engagement Partner shall consider whether the matter might be relevant to one or more components:

- a. Whose financial information is subject to work for purposes of the audit of the group Financial Statements; or**
- b. Whose Financial Statements are subject to audit for purposes other than the group audit, for example, a statutory audit.**

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

[R360.18] If the NOCLAR or suspected NOCLAR might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group Engagement Partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group Engagement Partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor.

[360.18 A1] The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group Engagement Partner's Firm or Network is the same as or different from the Firms or Networks of those performing work at the components.

Determining Whether Further Action Is Needed

[R360.19] An IPA Member in Public Practice shall assess the appropriateness of the response of management and, where applicable, Those Charged with Governance.

[360.19 A1] Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, Those Charged with Governance include whether:

- The response is timely.
- The NOCLAR or suspected NOCLAR has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences. of any NOCLAR.
- Action has been, or is being, taken to deter the commission of any NOCLAR where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of recurrence, for example, additional controls or training.
- The NOCLAR or suspected NOCLAR has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

[R360.20] In light of the response of management and, where applicable, Those Charged with Governance, an IPA Member in Public Practice shall determine if further action is needed in the public interest.

[360.20 A1] The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the client.
- Whether the Member in Public Practice continues to have confidence in the integrity of management and, where applicable, Those Charged with Governance.
- Whether the NOCLAR or suspected NOCLAR is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

[360.20 A2] Examples of circumstances that might cause the Member in Public Practice no longer to have confidence in the integrity of management and, where applicable, Those Charged with Governance include situations where:

- The Member suspects or has evidence of their involvement or intended involvement in any NOCLAR.
- The Member is aware that they have knowledge of such NOCLAR and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

[R360.21] An IPA Member in Public Practice shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the Member shall take into account whether a reasonable and informed third party would be likely to conclude that the Member has acted appropriately in the public interest.

[360.21 A1] Further action that the Member in Public Practice might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. [In Australia, whistleblower protection is addressed in the *Corporations Act 2001* (for the private sector) and in other legislation in place federally and in states and territories (for the public sector). All public companies, large proprietary companies, and public companies that are trustees of registrable superannuation entities are required under legislation to have a whistleblower policy. Charities or not-for-profits structured as public companies limited by guarantee with annual (consolidated) revenue of \$1 million or more are also required to have a whistleblower policy.]
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

[360.21 A2] Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the Member in Public Practice's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the Member. In such circumstances, withdrawal might be the only available course of action.

[R360.22] Where an IPA Member in Public Practice has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the Member shall, on request by the Proposed Accountant pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected NOCLAR to the Proposed Accountant. The Member shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the Member permission to discuss the client's affairs with the Proposed Accountant, unless prohibited by law or regulation.

[360.22 A1] The facts and other information to be provided are those that, in the Member in Public Practice's opinion, the Proposed Accountant needs to be aware of before deciding whether to accept the audit appointment. Section 320 addresses communications from Proposed Accountants.

[R360.23] If the Proposed Accountant is unable to communicate with the Predecessor Accountant, the Proposed Accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

[360.23 A1] Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or Those Charged with Governance.

[360.24 A1] As assessment of the matter might involve complex analysis and judgements, the Member in Public Practice might consider:

- Consulting internally.
- Obtaining legal advice to understand the Member's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or Professional Body.

Determining Whether to Disclose the Matter to an Appropriate Authority

[360.25 A1] Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

[360.25 A2] The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the Member in Public Practice might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- It is likely that the entity would sell products that are harmful to public health or safety.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

[360.25 A3] The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistleblowing legislation or regulation. [In Australia, whistleblower protection is addressed in the *Corporations Act 2001* and the *Taxation*

Administration Act 1953 (for the private sector) and in other legislation in place federally and in states and territories (for the public sector). All public companies, large proprietary companies, and public companies and proprietary companies that are trustees of registrable superannuation entities are required under legislation to have whistleblower policy. Charities or not-for-profits structured as public companies limited by guarantee with annual (consolidated) revenue of \$1 million or more are also required to have a whistleblower policy.]

- Whether there are actual or potential threats to the physical safety of the Member in Public Practice or other individuals.

[R360.26] If an IPA Member in Public Practice determines that disclosure of the NOCLAR or suspected NOCLAR to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the Member shall act in good faith and exercise caution when making statements and assertions. The Member shall also consider whether it is appropriate to inform the client of the Member's intentions before disclosing the matter.

Imminent Breach

[R360.27] In exceptional circumstances, the Member in Public Practice might become aware of actual or intended conduct that the Member has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or Those Charged with Governance of the entity, the Member shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Documentation

[R360.28] In relation to NOCLAR or suspected NOCLAR that falls within the scope of this section, an IPA Member in Public Practice shall document:

- **How management and, where applicable, Those Charged with Governance have responded to the matter.**
- **The courses of action the Member considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party test.**
- **How the Member is satisfied that the Member has fulfilled the responsibility set out in paragraph R360.20.**

[360.28 A1] This documentation is in addition to complying with the documentation requirements under applicable auditing standards. Auditing and Assurance Standards, for example, require a Member in Public Practice performing an audit of Financial Statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions;
- Document discussions of significant matters with management, Those Charged with Governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected NOCLAR, and the results of discussion with management and, where applicable, Those Charged with Governance and other parties outside the entity.

2.16.5: Professional Services Other than Audits of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

[R360.29] If an IPA Member in Public Practice engaged to provide a Professional Service other than an audit of Financial Statements becomes aware of information concerning NOCLAR or suspected NOCLAR, the Member shall seek to obtain an understanding of the matter. This understanding shall include the nature of the NOCLAR or suspected NOCLAR and the circumstances in which it has occurred or might be about to occur.

[360.29 A1] The Member in Public Practice is expected to apply knowledge and expertise, and exercise professional judgement. However, the Member is not expected to have a level of understanding of laws and regulations beyond that which is required for the Professional Service for which the Member was engaged. Whether an act constitutes actual NOCLAR is ultimately a matter to be determined by a court or other appropriate adjudicative body.

[360.29 A2] Depending on the nature and significance of the matter, the Member in Public Practice might consult on a confidential basis with others within the Firm, a Network Firm or a professional body, or with legal counsel.

[R360.30] If an IPA Member in Public Practice identifies or suspects that NOCLAR has occurred or might occur, the Member shall discuss the matter with the appropriate level of management. If the Member has access to Those Charged with Governance, the Member shall also discuss the matter with them where appropriate.

[360.30 A1] The purpose of the discussion is to clarify the Member in Public Practice's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or Those Charged with Governance to investigate the matter.

[360.30 A2] The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor

[R360.31] If an IPA Member in Public Practice is performing a non-audit service for:

a. An Audit Client of the Firm; or

b. A component of an Audit Client of the Firm,

the Member shall communicate the NOCLAR or suspected NOCLAR within the Firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the Firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the Audit Engagement Partner.

[R360.32] If an IPA Member in Public Practice is performing a non-audit service for:

a. An Audit Client of a Network Firm; or

b. A component of an Audit Client of a Network Firm,

the Member shall consider whether to communicate the NOCLAR or suspected NOCLAR to the Network Firm. Where the communication is made, it shall be made in accordance with the Network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the Audit Engagement Partner.

[R360.33] If the Member in Public Practice is performing a non-audit service for a client that is not:

a. An Audit Client of the Firm or a Network Firm; or

b. A component of an Audit Client of the Firm or a Network Firm,

the Member shall consider whether to communicate the NOCLAR or suspected NOCLAR to the Firm that is the client's external auditor, if any.

Relevant Factors to Consider

[360.34 A1] Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the NOCLAR or suspected NOCLAR.
- Whether the purpose of the engagement is to investigate potential NOCLAR within the entity to enable it to take appropriate action.
- Whether management or Those Charged with Governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's Financial Statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group Financial Statements.

Purpose of Communication

[360.35 A1] In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the Audit Engagement Partner to be informed about the NOCLAR or suspected NOCLAR and to determine whether and, if so, how to address it in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

[R360.36] An IPA Member in Public Practice shall also consider whether further action is needed in the public interest. 360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- **The legal and regulatory framework.**
- **The appropriateness and timeliness of the response of management and, where applicable, Those Charged with Governance.**
- **The urgency of the situation.**
- The involvement of management or Those Charged with Governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

[360.36 A2] Further action by the Member in Public Practice might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

[360.36 A3] In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the NOCLAR or suspected NOCLAR.
- Whether the purpose of the engagement is to investigate potential NOCLAR within the entity to enable it to take appropriate action.

[R360.37] If an IPA Member in Public Practice determines that disclosure of the NOCLAR or suspected NOCLAR to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the Member shall act in good faith and exercise caution when making statements and assertions. The Member shall also consider whether it is appropriate to inform the client of the Member's intentions before disclosing the matter.

Imminent Breach

[R360.38] In exceptional circumstances, an IPA Member in Public Practice might become aware of actual or intended conduct that the Member has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or Those Charged with Governance of the entity, the Member shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.

Seeking Advice

[360.39 A1] The Member in Public Practice might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

[360.40 A1] In relation to NOCLAR or suspected NOCLAR that falls within the scope of this section, the Member in Public Practice is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, Those Charged with Governance and other parties.
- How management and, where applicable, Those Charged with Governance have responded to the matter.
- The courses of action the Member considered, the judgements made and the decisions that were taken.
- How the Member is satisfied that the Member has fulfilled the responsibility set out in paragraph R360.36.

Independence Standards (Parts 4A and 4B)

2.17: [AUST] Preface: Part 4A and Part 4B

Part 4A – Independence for Audit and Review Engagements

Part 4B – Independence for Assurance Engagements other than Audit and Review Engagements

Part 4A of this Code 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.

Part 4B of this Code addresses Independence requirements for Assurance Engagements that are not Audit or Review Engagements of Historical Financial Information.

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. However, there are some situations in which threats can only be addressed by declining or ending the specific Professional Activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an Acceptable Level.

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 statutory independence of Auditors-General is provided for in legislation by the Parliament of each Australian jurisdiction in a number of ways. This includes defining the scope of an Auditor-General's mandate, the appointment and removal of an Auditor-General and the performance of his or her responsibilities. The requirements within this Code apply to Auditors-General and their senior officers who are delegated or authorised to sign assurance reports and are Members, to the extent that they do not conflict with applicable legislation.

With regard to the use of the words "material" and "materiality" in Parts 4A and 4B, it is not possible to provide a definition that covers all circumstances where either word is used. In assessing materiality, a Member in Public Practice or a Firm shall consider both the qualitative and quantitative aspects of the matter under consideration which might have, or be seen to have, an adverse effect on the objectivity of the Member or Firm.

Part 4A – Independence for Audit and Review Engagements

2.18: Section 400: Applying the Conceptual Framework to Independence for Audit and Review Engagements

[400.1] It is in the public interest and required by the Code that Members in Public Practice be independent when performing Audit or Review Engagements.

[400.5] Independence is linked to the principles of objectivity and integrity. It comprises:

- a. 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.
- b. 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 that a Firm's, or an Audit Team member's, integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or Firm being “independent” mean that the individual or Firm has complied with the provisions of this Part.

[400.6] When performing Audit Engagements, the Code requires Firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain Independence when performing such engagements. The conceptual framework set out in Section 120 applies to Independence as it does to the fundamental principles set out in Section 110.

[400.7] This Part describes:

- a. Facts and circumstances, including Professional Activities, interests and relationships, that create or might create threats to Independence;
- b. Potential actions, including safeguards, that might be appropriate to address any such threats; and
- c. Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an Acceptable Level.

Public Interest Entities

[400.8] Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be Public Interest Entities.

[AUST R400.8.1] 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 might include financial institutions, such as banks and insurance companies, and pension funds.**
- **Size.**
- **Number of employees.**

[AUST 400.8.1 A1] The following entities in Australia will generally satisfy the conditions in paragraph AUST R400.8.1 as having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees:

- Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the Banking Act 1959;
- Authorised insurers and authorised NOHCs regulated by APRA under Section 122 of the Insurance Act 1973;
- Life insurance companies and registered NOHCs regulated by APRA under the Life Insurance Act 1995;
- Private health insurers regulated by APRA under the Private Health Insurance (Prudential Supervision) Act 2015;
- Disclosing entities as defined in Section 111AC of the Corporations Act 2001;
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the Superannuation Industry (Supervision) Act 1993; and
- Other issuers of debt and equity instruments to the public.

Reports that Include a Restriction on Use and Distribution

[400.9] An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the Independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements Other than Audit and Review Engagements

[400.10] Independence standards for Assurance Engagements that are not Audit or Review Engagements are set out in Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements.

Requirements and Application Material

Section 400 requirements are represented here. Please refer to section 400 of APES 110 for application material relating to these requirements.

General

[R400.11] A Firm performing an Audit Engagement shall be independent.

[R400.12] A Firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence in relation to an Audit Engagement.

[AUST R400.12.1] Where a Member in Public Practice identified multiple threats to Independence, which individually might not be significant, the Member shall evaluate the significance of those threats in aggregate and the safeguards applied or in place to eliminate some or all of the threats or reduce them to an Acceptable Level in aggregate.

Prohibition on Assuming Management Responsibilities

[R400.13] A Firm or Network Firm shall not assume a management responsibility for an Audit Client.

[R400.14] When performing a Professional Activity for an Audit Client, the Firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- a. Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
 - i. The objectives, nature and results of the activities; and
 - ii. The respective client and Firm or Network Firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- b. Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- c. Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Related Entities

[R400.20] As defined, an Audit Client that is a Listed Entity includes all of its Related Entities. For all other entities, references to an Audit Client in this Part 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 any other 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, evaluating and addressing threats to Independence.

Period During which Independence is Required

[R400.30] Independence, as required by this Part, shall be maintained during both:

- a. The Engagement Period; and
- b. The period covered by the Financial Statements.

[R400.31] If 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:

- a. 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
- b. Services provided to the Audit Client by the Firm or a Network Firm in prior Financial Statement periods.

Audit Clients that are Public Interest Entities

[R400.32] A Firm shall not accept an appointment as auditor of a Public Interest Entity to which the Firm or the Network Firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the Financial Statements on which the Firm will express an Opinion unless:

- a. The provision of such a service ceases before the commencement of the Audit Engagement Period;
- b. The Firm takes action to address any threats to its Independence; and
- c. The Firm determines that, in the view of a reasonable and informed third party, any threats to the Firm's Independence have been or will be eliminated or reduced to an Acceptable Level.

Communication with Those Charged with Governance

[400.40 A1] Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with Those Charged with Governance.

Network Firms

[R400.51] A Network Firm shall be independent of the Audit Clients of the other Firms within the Network as required by this Part.

[R400.52] When associated with a larger structure of other Firms and entities, a Firm shall:

- a. Exercise professional judgement to determine whether a Network is created by such a larger structure;**
- b. Consider whether a reasonable and informed third party would be likely to conclude that the other Firms and entities in the larger structure are associated in such a way that a Network exists; and**
- c. Apply such judgement consistently throughout such a larger structure.**

[R400.53] When determining whether a Network is created by a larger structure of Firms and other entities, a Firm shall conclude that a Network exists when such a larger structure is aimed at cooperation and:

- a. It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);**
- b. The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);**
- c. The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);**
- d. The entities within the structure share a common business strategy. (Ref: Para.400.53 A5);**
- e. The entities within the structure share the use of a common brand name. (Ref: Paras. 400.53 A6, 400.53 A7); or**
- f. The entities within the structure share a significant part of professional resources. (Ref: Paras. 400.53 A8, 400.53 A9).**

R400.54 If a Firm or a Network sells a component of its practice, and the component continues to use all or part of the Firm's or Network's name for a limited time, the relevant entities shall determine how to disclose that they are not Network Firms when presenting themselves to outside parties.

General Documentation of Independence for Audit and Review Engagements

[R400.60] A Firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- a. When safeguards are applied to address a threat, the Firm shall document the nature of the threat and the safeguards in place or applied; and**
- b. When a threat required significant analysis and the Firm concluded that the threat was already at an Acceptable Level, the Firm shall document the nature of the threat and the rationale for the conclusion.**

Mergers and Acquisitions

[R400.71] In the circumstances set out in paragraph 400.70 A1,

- a. The Firm shall identify and evaluate previous and current interests and relationships with the Related Entity that, taking into account any actions taken to address the threat, might affect its Independence and therefore its ability to continue the Audit Engagement after the effective date of the merger or acquisition; and**
- b. Subject to paragraph R400.72, the Firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.**

[R400.72] As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the Firm shall:

- a. Evaluate the threat that is created by the interest or relationship; and**
- b. Discuss with Those Charged with Governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.**

[R400.73] If, following the discussion set out in paragraph R400.72(b), Those Charged with Governance request the Firm to continue as the auditor, the Firm shall do so only if:

- a. The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;**
- b. Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the Engagement Team for the audit or the individual responsible for the Engagement Quality Review; and**
- c. Transitional measures will be applied, as necessary, and discussed with Those Charged with Governance.**

[R400.74] The Firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if Those Charged with Governance request the Firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1, the Firm shall only do so if it:

- a. Has evaluated the level of the threat and discussed the results with Those Charged with Governance;**
- b. Complies with the requirements of paragraph R400.73(a) to (c); and**
- c. Ceases to be the auditor no later than the date that the audit report is issued.**

If Objectivity Remains Compromised

[R400.75] Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the Firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the Firm shall cease to be the auditor.

Documentation

[R400.76] The Firm shall document:

- a. Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- b. The transitional measures applied;
- c. The results of the discussion with Those Charged with Governance; and
- d. The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

[R400.80] If a Firm concludes that a breach of a requirement in this Part has occurred, the Firm shall:

- a. End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- b. Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - i. Comply with those requirements; and
 - ii. Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- c. Promptly communicate the breach in accordance with its policies and procedures to:
 - i. The Engagement Partner;
 - ii. Those with responsibility for the policies and procedures relating to Independence;
 - iii. Other relevant personnel in the Firm and, where appropriate, the Network; and
 - iv. Those subject to the Independence requirements in Part 4A who need to take appropriate action;
- d. Evaluate the significance of the breach and its impact on the Firm's objectivity and ability to issue an audit report; and
- e. Depending on the significance of the breach, determine:
 - i. Whether to end the Audit Engagement; or
 - ii. Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the Firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the Firm's objectivity would be compromised, and therefore, the Firm would be unable to issue an audit report.

[R400.81] If the Firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the Firm shall inform Those Charged with Governance as soon as possible and take the steps necessary to end the Audit Engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the Firm shall comply with any reporting or disclosure requirements.

[R400.82] If the Firm determines that action can be taken to address the consequences of the breach satisfactorily, the Firm shall discuss with Those Charged with Governance:

- a. The significance of the breach, including its nature and duration;**
- b. How the breach occurred and how it was identified;**
- c. The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the Firm to issue an audit report;**
- d. The conclusion that, in the Firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and**
- e. Any steps proposed or taken by the Firm to reduce or avoid the risk of further breaches occurring. Such discussion shall take place as soon as possible unless an alternative timing is specified by Those Charged with Governance for reporting less significant breaches.**

Communication of Breaches to Those Charged with Governance

[R400.84] With respect to breaches, the Firm shall communicate in writing to Those Charged with Governance:

- a. All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of Those Charged with Governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and**
- b. A description of:**
 - i. The Firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that Independence is maintained; and**
 - ii. Any steps that the Firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.**

[R400.85] If Those Charged with Governance do not concur that the action proposed by the Firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the Firm shall take the steps necessary to end the Audit Engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit Was Issued

[R400.86] If the breach occurred prior to the issuance of the previous audit report, the Firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the Firm's objectivity and its ability to issue an audit report in the current period.

[R400.87] The Firm shall also:

- a. Consider the impact of the breach, if any, on the Firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and**
- b. Discuss the matter with Those Charged with Governance.**

Documentation

[R400.88] In complying with the requirements in paragraphs R400.80 to R400.87, the Firm shall document:

- a. The breach;**
- b. The actions taken;**
- c. The key decisions made;**

- d. All the matters discussed with Those Charged with Governance; and
- e. Any discussions with a professional or regulatory body or oversight authority.

[R400.89] If the Firm continues with the Audit Engagement, it shall document:

- a. The conclusion that, in the Firm's professional judgement, objectivity has not been compromised; and been compromised; and
- b. The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the Firm could issue an audit report consequences of the breach so that the Firm could issue an audit report.

2.19: Section 410: Fees

[410.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[410.2] Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to Audit Clients.

Requirements and Application Material

Section 410 requirements are represented here. Please refer to section 410 of APES 110 for application material relating to these requirements.

Impact of Other Services Provided to an Audit Client

[R410.6] Subject to paragraph R410.7, a Firm shall not allow the audit fee to be influenced by the provision of services other than audit to an Audit Client by the Firm or a Network Firm.

[R410.7] As an exception to paragraph R410.6, when determining the audit fee, the Firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an Audit Client.

Contingent Fees

[R410.9] A Firm shall not charge directly or indirectly a Contingent Fee for an Audit Engagement.

[R410.10] A Firm or Network Firm shall not charge directly or indirectly a Contingent Fee for a non-assurance service provided to an Audit Client, 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.

Total Fees – Overdue Fees

[R410.13] When a significant part of the fees due from an Audit Client remains unpaid for a long time, the Firm shall determine:

- a. Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 511 are applicable; and
- b. Whether it is appropriate for the Firm to be re-appointed or continue the Audit Engagement.

Total Fees – Fee Dependency

[AUST R410.14.2] When for each of five consecutive years, total fees in respect of multiple Audit Clients referred from one source represents more than 30% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions, the Firm shall determine whether, prior to the audit opinions being issued on the fifth year's engagements, having a Member perform a review on the fifth year's audit work might be a safeguard to reduce the threats created to an Acceptable Level, and if so, apply it.

The Member in Public Practice who performs a review when fee dependency is at the Firm level shall not be a Member of the Firm expressing the audit opinions. If the fee dependency is for an Engagement Partner or an Office of the Firm, the review shall be conducted by a Member who was not involved in the Audit Engagements and who is not a Member of the Office of the Firm expressing the audit opinions.

[AUST R410.14.3] If the total fees described in paragraph AUST R410.14.2 continue to exceed 30% after the fifth year, the Firm shall each year determine whether the action in paragraph AUST R410.14.2 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the Firm from the client, and if so, apply it.

Audit Clients that are Not Public Interest Entities

[R410.15] When for each of five consecutive years total fees from an Audit Client that is not a Public Interest Entity represent, or are likely to represent, more than 30% of the total fees received by the Firm, the Firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an Acceptable Level, and if so, apply it:

- a. Prior to the audit opinion being issued on the fifth year's Financial Statements, have a Member, who is not a Member of the Firm expressing the opinion on the Financial Statements, review the fifth year's audit work; or
- b. After the audit opinion on the fifth year's Financial Statements has been issued, and before the audit opinion is issued on the sixth year's Financial Statements, have a Member, who is not a Member of the Firm expressing the opinion on the Financial Statements, or a Professional Body review the fifth year's audit work.

[R410.16] If the total fees described in paragraph R410.15 continue to exceed 30%, the Firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by total fees received by the Firm from the client, and if so, apply it.

[R410.17] When two or more Firms are engaged to conduct an audit of the client's Financial Statements, the involvement of the other Firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

- a. The circumstances addressed by paragraph R410.15 apply to only one of the Firms expressing the audit opinion; and
- b. Each Firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

[R410.18] When for each of two consecutive years the total fees from an Audit Client that is a Public Interest Entity represent, or are likely to represent, more than 15% of the total fees received by the Firm, the Firm shall determine whether, prior to the audit opinion being issued on the second year's Financial Statements, a review, consistent with the objective of an Engagement Quality Review performed by a Member who is not a Member of the Firm expressing the opinion on the Financial Statements ("pre-issuance review") might be a safeguard to reduce the threats to an Acceptable Level, and if so, apply it.

[R410.19] When two or more Firms are engaged to conduct an audit of the client's Financial Statements, the involvement of the other Firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:

- a. The circumstances addressed by paragraph R410.18 apply to only one of the Firms expressing the audit opinion; and
- b. Each Firm performs sufficient work to take full individual responsibility for the audit opinion.

[R410.20] Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the Firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

[R410.21] As an exception to paragraph R410.20, the Firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

- a. The Firm consults with a regulatory or Professional Body in the relevant jurisdiction and it concurs that having the Firm continue as the auditor would be in the public interest; and
- b. Before the audit opinion on the sixth and any subsequent year's Financial Statements is issued, the Firm engages a Member, who is not a Member of the Firm expressing the opinion on the Financial Statements, to perform a pre-issuance review.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Fees for the Audit of the Financial Statements

[R410.23] Subject to paragraph R410.24, the Firm shall communicate in a timely manner with Those Charged with Governance of an Audit Client that is a Public Interest Entity:

- a. Fees paid or payable to the Firm or Network Firms for the audit of the Financial Statements on which the Firm will express an Opinion; and
- b. Whether the threats created by the level of those fees are at an Acceptable Level, and if not, any actions the Firm has taken or proposes to take to reduce such threats to an Acceptable Level.

[R410.24] As an exception to paragraph R410.23, the Firm may determine not to communicate the information set out in paragraph R410.23 to Those Charged with Governance of an entity that is (directly or indirectly) wholly-owned by another Public Interest Entity provided that:

- a. The entity is consolidated into group Financial Statements prepared by that other Public Interest Entity; and
- b. The Firm or a Network Firm expresses an opinion on those group Financial Statements.

Fees for Other Services

[R410.25] Subject to paragraph R410.27, the Firm shall communicate in a timely manner with Those Charged with Governance of an Audit Client that is a Public Interest Entity:

- a. The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the Firm or a Network Firm during the period covered by the Financial Statements on which the Firm will express an Opinion. For this purpose, such fees shall only include fees charged to the client and its Related Entities over which the client has direct or indirect control that are consolidated in the Financial Statements on which the Firm will express an Opinion; and
- b. As set out in paragraph 410.11 A1, where the Firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to Independence created by the proportion of fees for services other than audit relative to the audit fee:
 - (i) Whether such threats are at an Acceptable Level; and
 - (ii) If not, any actions that the Firm has taken or proposes to take to reduce such threats to an Acceptable Level.

[R410.26] The Firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other Related Entities over which the Audit Client has direct or indirect control for the provision of services by the Firm or a Network Firm, when the Firm knows, or has reason to believe, that such fees are relevant to the evaluation of the Firm's Independence.

[R410.27] As an exception to paragraph R410.25, the Firm may determine not to communicate the information set out in paragraph R410.25 to Those Charged with Governance of an entity that is (directly or indirectly) wholly-owned by another Public Interest Entity provided that:

- a. The entity is consolidated into group Financial Statements prepared by that other Public Interest Entity; and
- b. The Firm or a Network Firm expresses an opinion on those group Financial Statements.

Fee Dependency

[R410.28] Where the total fees from an Audit Client that is a Public Interest Entity represent, or are likely to represent, more than 15% of the total fees received by the Firm, the Firm shall communicate with Those Charged with Governance:

- a. That fact and whether this situation is likely to continue;
- b. The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- c. Any proposal to continue as the auditor under paragraph R410.21.

[R410.30] If laws and regulations do not require an Audit Client to disclose audit fees,¹⁷ fees for services other than audit paid or payable to the Firm and Network Firms and information about fee dependency, the Firm shall discuss with Those Charged with Governance of an Audit Client that is a Public Interest Entity:

- a. The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- b. The information that might enhance the users' understanding of the fees paid or payable and their impact on the Firm's Independence.

[R410.31] After the discussion with Those Charged with Governance as set out in paragraph R410.30, to the extent that the Audit Client that is a Public Interest Entity does not make the relevant disclosure, subject to paragraph R410.32, the Firm shall publicly disclose:

- a. Fees paid or payable to the Firm and Network Firms for the audit of the Financial Statements on which the Firm will express an Opinion;**
- b. Fees, other than those disclosed under (a), charged to the client for the provision of services by the Firm or a Network Firm during the period covered by the Financial Statements on which the Firm will express an Opinion. For this purpose, such fees shall only include fees charged to the client and its Related Entities over which the client has direct or indirect control that are consolidated in the Financial Statements on which the Firm will express an Opinion;**
- c. Any fees, other than those disclosed under (a) and (b), charged to any other Related Entities over which the Audit Client has direct or indirect control for the provision of services by the Firm or a Network Firm when the Firm knows, or has reason to believe, that such fees are relevant to the evaluation of the Firm's Independence; and**
- d. If applicable, the fact that the total fees received by the Firm from the Audit Client represent, or are likely to represent, more than 15% of the total fees received by the Firm for two consecutive years, and the year that this situation first arose.**

[R410.32] As an exception to paragraph R410.31, the Firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- a. A parent entity that also prepares group Financial Statements provided that the Firm or a Network Firm expresses an opinion on the group Financial Statements; or**
- b. An entity (directly or indirectly) wholly-owned by another Public Interest Entity provided that:**
 - (i) The entity is consolidated into group Financial Statements prepared by that other Public Interest Entity; and**
 - (ii) The Firm or a Network Firm expresses an opinion on those group Financial Statements.**

Considerations for Review Clients

[R410.33] This section sets out requirements for a Firm to communicate fee-related information of an Audit Client that is a Public Interest Entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the Firm may determine not to communicate or pursue disclosure of such information where a Review Client is not also an Audit Client.

2.20: Section 411: Compensation and Evaluation Procedures

[411.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[411.2] A Firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 411 requirements are represented here. Please refer to section 411 of APES 110 for application material relating to these requirements.

[R411.4] A Firm shall not evaluate or compensate a Key Audit Partner, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the Audit Clients of the Firm. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other service lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm's Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.

2.21: Section 420: Gifts and Hospitality

[420.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[420.2] Accepting gifts and hospitality from an Audit Client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 420 requirements are represented here. Please refer to section 420 of APES 110 for application material relating to these requirements.

[R420.3] A Firm, Network Firm or an Audit Team member shall not accept gifts and hospitality from an Audit Client, unless the value is trivial and inconsequential.

2.22: Section 430: Actual or Threatened Litigation

[430.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[430.2] When litigation with an Audit Client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Please refer to section 430 of APES 110 for application material relating to these requirements.

2.23: Section 510: Financial Interests

[510.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[510.2] Holding a Financial Interest in an Audit Client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 510 requirements are represented here. Please refer to section 510 of APES 110 for application material relating to these requirements.

Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

[R510.4] Subject to paragraph R510.5, a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client shall not be held by:

- a. The Firm or a Network Firm;**
- b. An Audit Team member, or any of that individual's Immediate Family;**
- c. Any other partner in the Office in which an Engagement Partner practices in connection with the Audit Engagement, or any of that other partner's Immediate Family; or**
- d. Any other partner or managerial employee who provides non-audit services to the Audit Client, except for any whose involvement is minimal, or any of that individual's Immediate Family.**

[R510.5] As an exception to paragraph R510.4, an Immediate Family member identified in subparagraphs R510.4(c) or (d) may hold a Direct or material Indirect Financial Interest in an Audit Client, provided that:

- a. The family member received the Financial Interest because of employment rights, for example through pension or share option plans, and, when necessary, the Firm addresses the threat created by the Financial Interest; and**
- b. The family member disposes of or forfeits the Financial Interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.**

Financial Interests in an Entity Controlling an Audit Client

[R510.6] When an entity has a controlling interest in an Audit Client and the client is material to the entity, neither the Firm, nor a Network Firm, nor an Audit Team member, nor any of that individual's Immediate Family shall hold a Direct or material Indirect Financial Interest in that entity.

Financial Interests Held as Trustee

[R510.7] Paragraph R510.4 shall also apply to a Financial Interest in an Audit Client held in a trust for which the Firm, Network Firm or individual acts as trustee, unless:

- a. None of the following is a beneficiary of the trust: the trustee, the Audit Team member or any of that individual's Immediate Family, the Firm or a Network Firm;**
- b. The interest in the Audit Client held by the trust is not material to the trust;**
- c. The trust is not able to exercise significant influence over the Audit Client; and**
- d. None of the following can significantly influence any investment decision involving a Financial Interest in the Audit Client: the trustee, the Audit Team member or any of that individual's Immediate Family, the Firm or a Network Firm.**

Financial Interests in Common with the Audit Client

[R510.8]

- a. A Firm, or a Network Firm, or an Audit Team member, or any of that individual's Immediate Family shall not hold a Financial Interest in an entity when an Audit Client also has a Financial Interest in that entity, unless:**
 - i. The Financial Interests are immaterial to the Firm, the Network Firm, the Audit Team member and that individual's Immediate Family member and the Audit Client, as applicable; or**

- ii. The Audit Client cannot exercise significant influence over the entity.
- b. Before an individual who has a Financial Interest described in paragraph R510.8(a) can become an Audit Team member, the individual or that individual's Immediate Family member shall either:
 - i. Dispose of the interest; or
 - ii. Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests Received Unintentionally

[R510.9] If a Firm, a Network Firm or a partner or employee of the Firm or a Network Firm, or any of that individual's Immediate Family, receives a Direct Financial Interest or a material Indirect Financial Interest in an Audit Client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- a. If the interest is received by the Firm or a Network Firm, or an Audit Team member or any of that individual's Immediate Family, the Financial Interest shall be disposed of immediately, or enough of an Indirect Financial Interest shall be disposed of so that the remaining interest is no longer material; or
- b. i. If the interest is received by an individual who is not an Audit Team member, or by any of that individual's Immediate Family, the Financial Interest shall be disposed of as soon as possible, or enough of an Indirect Financial Interest shall be disposed of so that the remaining interest is no longer material; and
 - ii. Pending the disposal of the Financial Interest, when necessary the Firm shall address the threat created.

Financial Interests – Other Circumstances

Section 510 of APES 110 provides application material relating to Immediate Family, Close Family, Other Individuals and Retirement Benefit Plan of a Firm or Network Firm.

2.24: Section 511: Loans and Guarantees

[511.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[511.2] A loan or a guarantee of a loan with an Audit Client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 511 requirements are represented here. Please refer to section 511 of APES 110 for application material relating to these requirements.

Loans and Guarantees with an Audit Client

[R511.4] A Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family shall not make or guarantee a loan to an Audit Client unless the loan or guarantee is immaterial to:

- a. The Firm, the Network Firm or the individual making the loan or guarantee, as applicable; and
- b. The client.

Loans and Guarantees with an Audit Client that is a Bank or Similar Institution

[R511.5] A Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family shall not accept a loan, or a guarantee of a loan, from an Audit Client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Deposits or Brokerage Accounts

[R511.6] A Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family shall not have deposits or a brokerage account with an Audit Client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Audit Client that is Not a Bank or Similar Institution

[R511.7] A Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family shall not accept a loan from, or have a borrowing guaranteed by, an Audit Client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- a. The Firm, the Network Firm, or the individual receiving the loan or guarantee, as applicable; and**
- b. The client.**

2.25: Section 520: Business Relationships

[520.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[520.2] A close business relationship with an Audit Client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 520 requirements are represented here. Please refer to section 520 of APES 110 for application material relating to these requirements.

Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships

[R520.4] A Firm, a Network Firm or an Audit Team member shall not have a close business relationship¹⁷ with an Audit Client or its management unless any Financial Interest is immaterial and the business relationship is insignificant to the client or its management and the Firm, the Network Firm or the Audit Team member, as applicable.

Common Interests in Closely-Held Entities

[R520.5] A Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family shall not have a business relationship¹⁸ involving the holding of an interest in a closely-held entity when an Audit Client or a Director or Officer of the client, or any group thereof, also holds an interest in that entity, unless:

- a. The business relationship is insignificant to the Firm, the Network Firm, or the individual as applicable, and the client;**
- b. The Financial Interest is immaterial to the investor or group of investors; and**
- c. The Financial Interest does not give the investor, or group of investors, the ability to control the closely-held entity.**

2.26: Section 521: Family and Personal Relationships

[521.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[521.2] Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 521 requirements are represented here. Please refer to section 521 of APES 110 for application material relating to these requirements.

Immediate Family of an Audit Team Member

[R521.5] An individual shall not participate as an Audit Team member when any of that individual's Immediate Family:

- a. Is a Director or Officer of the Audit Client;**
- b. Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion; or**
- c. Was in such position during any period covered by the engagement or the Financial Statements.**

Close Family of an Audit Team Member

Section 521 of APES 110 provides application material relating to Close Family of an Audit Team Member.

Other Close Relationships of an Audit Team Member

[R521.7] An Audit Team member shall consult in accordance with Firm policies and procedures if the Audit Team member has a close relationship with an individual who is not an Immediate or Close Family member, but who is:

- a. A Director or Officer of the Audit Client; or**
- b. An employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion.**

Relationships of Partners and Employees of the Firm

[R521.8] Partners and employees of the Firm shall consult in accordance with Firm policies and procedures if they are aware of a personal or family relationship between:

- a. A partner or employee of the Firm or Network Firm who is not an Audit Team member; and**
- b. A Director or Officer of the Audit Client or an employee of the Audit Client in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion.**

2.27: Section 522: Recent Service with an Audit Client

[522.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[522.2] If an Audit Team member has recently served as a Director or Officer, or employee of the Audit Client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 522 requirements are represented here. Please refer to section 522 of APES 110 for application material relating to these requirements.

Service During Period Covered by the Audit Report

[R522.3] The Audit Team shall not include an individual who, during the period covered by the audit report:

- a. **Had served as a Director or Officer of the Audit Client; or**
- b. **Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion.**

Service Prior to Period Covered by the Audit Report

Section 522 of APES 110 provides application material relating to service prior to period covered by the Audit Report.

2.28: Section 523: Serving as a Director or Officer of an Audit Client

[523.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[523.2] Serving as a Director or Officer of an Audit Client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 523 requirements are represented here. Please refer to section 523 of APES 110 for application material relating to these requirements.

Service as Director or Officer

[R523.3] A partner or employee of the Firm or a Network Firm shall not serve as a Director or Officer of an Audit Client of the Firm.

[AUST R523.3.1] A Firm shall refuse to perform, or shall withdraw from, the Audit Engagement if a partner or employee of the Firm were to serve as an Officer (including management of an Administration) or as a Director of an Audit Client, or as an employee in a position to exert direct and significant influence over the subject matter of the Audit Engagement.

Service as Company Secretary

[R523.4] A partner or employee of the Firm or a Network Firm shall not serve as company secretary for an Audit Client of the Firm, unless:

- a. This practice is specifically permitted under local law, professional rules or practice;**
- b. Management makes all relevant decisions; and**
- c. The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.**

[AUST R523.5] As the company secretary of a company incorporated in Australia is an Officer under the *Corporations Act 2001*, no partner or employee of a Firm shall act in the position of company secretary of an Audit Client. If an individual were to accept such a position the Firm shall comply with the requirements of AUST R523.3.1.

2.29: Section 524: Employment with an Audit Client

[524.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[524.2] Employment relationships with an Audit Client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 524 requirements are represented here. Please refer to section 524 of APES 110 for application material relating to these requirements.

All Audit Clients

Section 524 of APES 110 provides application material relating to all audit clients.

Former Partner or Audit Team Member Restrictions

[R524.4] The Firm shall ensure that no significant connection remains between the Firm or a Network Firm and:

- a. A former partner who has joined an Audit Client of the Firm; or**
- b. A former Audit Team member who has joined the Audit Client, if either has joined the Audit Client as:**
 - i. A Director or Officer; or**
 - ii. An employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion.**

A significant connection remains between the Firm or a Network Firm and the individual, unless:

- a. The individual is not entitled to any benefits or payments from the Firm or Network Firm that are not made in accordance with fixed pre-determined arrangements;**
- b. Any amount owed to the individual is not material to the Firm or the Network Firm; and**
- c. The individual does not continue to participate or appear to participate in the Firm's or the Network Firm's business or Professional Activities.**

Audit Team Members Entering Employment with a Client

[R524.5] A Firm or Network Firm shall have policies and procedures that require Audit Team members to notify the Firm or Network Firm when entering employment negotiations with an Audit Client.

Audit Clients that are Public Interest Entities

Key Audit Partners

[R524.6] Subject to paragraph R524.8, if an individual who was a Key Audit Partner with respect to an Audit Client that is a Public Interest Entity joins the client as:

- a. A Director or Officer; or**
- b. An employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion,**
Independence is compromised unless, subsequent to the individual ceasing to be a Key Audit Partner:
 - i. The Audit Client has issued audited Financial Statements covering a period of not less than twelve months; and**
 - ii. The individual was not an Audit Team member with respect to the audit of those Financial Statements.**

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

[R524.7] Subject to paragraph R524.8, if an individual who was the senior or managing partner (chief executive or equivalent) of the Firm joins an Audit Client that is a Public Interest Entity as:

- a. A Director or Officer; or**
- b. An employee in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion,**
Independence is compromised, unless twelve months have passed since the individual was the senior or managing partner (chief executive or equivalent) of the Firm.

Business Combinations

[R524.8] As an exception to paragraphs R524.6 and R524.7, Independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- a. The position was not taken in contemplation of the business combination;**
- b. Any benefits or payments due to the former partner from the Firm or a Network Firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the Firm or Network Firm as applicable;**
- c. The former partner does not continue to participate or appear to participate in the Firm's or Network Firm's business or Professional Activities; and**
- d. The Firm discusses the former partner's position held with the Audit Client with Those Charged with Governance.**

2.30: Section 525: Temporary Personnel Assignments

[525.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[525.2] The loan of personnel to an Audit Client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 525 requirements are represented here. Please refer to section 525 of APES 110 for application material relating to these requirements.

[R525.4] A Firm or Network Firm shall not loan personnel to an Audit Client unless the Firm or Network Firm is satisfied that:

- a. Such assistance is provided only for a short period of time;
- b. Such personnel will not assume management responsibilities and the Audit Client will be responsible for directing and supervising the activities of such personnel;
- c. Any threat to Independence of the Firm or Network Firm arising from the Professional Services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an Acceptable Level; and
- d. Such personnel will not undertake or be involved in Professional Services that the Firm or Network Firm is prohibited from performing by the Code.

2.31: Section 540: Long Association of Personnel (Including Partner Rotation) with an Audit Client

[540.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[540.2] When an individual is involved in an Audit Engagement over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 540 requirements are represented here. Please refer to section 540 of APES 110 for application material relating to these requirements.

All Audit Clients

[R540.4] If a Firm decides that the level of the threats created can only be addressed by rotating the individual off the Audit Team, the Firm shall determine an appropriate period during which the individual shall not:

- a. Be a member of the Engagement Team for the Audit Engagement;
- b. Provide quality control for the Audit Engagement; or
- c. Exert direct influence on the outcome of the Audit Engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a Public Interest Entity, paragraphs R540.5 to R540.21 also apply.

Audit Clients that are Public Interest Entities

[R540.5] Subject to paragraphs R540.7 to R540.9, in respect of an audit of a Public Interest Entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- a. The Engagement Partner;
- b. The individual appointed as responsible for performing the Engagement Quality Review; or
- c. Any other Key Audit Partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to AUST R540.20.1.

[R540.6] In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

[R540.7] As an exception to paragraph R540.5, Key Audit Partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the Firm’s control, and with the concurrence of Those Charged with Governance, be permitted to serve an additional year as a Key Audit Partner as long as the threat to Independence can be eliminated or reduced to an Acceptable Level.

[R540.8] If an Audit Client becomes a Public Interest Entity, a Firm shall take into account the length of time an individual has served the Audit Client as a Key Audit Partner before the client becomes a Public Interest Entity in determining the timing of the rotation. If the individual has served the Audit Client as a Key Audit Partner for a period of five cumulative years or less when the client becomes a Public Interest Entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the Audit Client as a Key Audit Partner for a period of six or more cumulative years when the client becomes a Public Interest Entity, the individual may continue to serve in that capacity with the concurrence of Those Charged with Governance for a maximum of two additional years before rotating off the engagement.

[R540.9] When a Firm has only a few people with the necessary knowledge and experience to serve as a Key Audit Partner on the audit of a Public Interest Entity, rotation of Key Audit Partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a Key Audit Partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the Key Audit Partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

[R540.10] In evaluating the threats created by an individual’s long association with an Audit Engagement, a Firm shall give particular consideration to the roles undertaken and the length of an individual’s association with the Audit Engagement prior to the individual becoming a Key Audit Partner.

Cooling-off Period

[R540.11] If the individual acted as the Engagement Partner for seven cumulative years, the cooling-off period shall be five consecutive years.

[R540.12] Where the individual has been appointed as responsible for the Engagement Quality Review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

[R540.13] If the individual has acted as a Key Audit Partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of Key Audit Partner roles

[R540.15] If the individual acted in a combination of Key Audit Partner roles and served as the Engagement Partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

[R540.16] Subject to paragraph R540.17(a), if the individual acted in a combination of Key Audit Partner roles and served as the Key Audit Partner responsible for the Engagement Quality Review for four or more cumulative years, the cooling-off period shall be three consecutive years.

[R540.17] If an individual has acted in a combination of Engagement Partner and Engagement Quality Review roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- a. As an exception to paragraph R540.16, be five consecutive years where the individual has been the Engagement Partner for three or more years; or
- b. Be three consecutive years in the case of any other combination.

[R540.18] If the individual acted in any combination of Key Audit Partner roles other than those addressed in paragraphs R540.15 to R540.17, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

[R540.19] In determining the number of years that an individual has been a Key Audit Partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a Key Audit Partner on that engagement at a prior Firm.

Shorter Cooling-off Period Established by Law or Regulation

[R540.20] Where a legislative or regulatory body (or organisation authorised or recognised by such legislative or regulatory body) has established a cooling-off period for an Engagement Partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.15 and R540.17(a) provided that the applicable time-on period does not exceed seven years.

[AUST R540.19.1] In Australia, where laws or regulations require a two year cooling-off period for Engagement Partners for audits of Public Interest Entities, the cooling-off period shall be three years for periods beginning prior to 31 December 2023 provided that the applicable time-on period does not exceed seven years.

Restrictions on Activities During the Cooling-off Period

[R540.21] For the duration of the relevant cooling-off period, the individual shall not:

- a. Be an Engagement Team member or provide quality control for the Audit Engagement;
- b. Consult with the Engagement Team or the client regarding technical or industry-specific issues, transactions or events affecting the Audit Engagement (other than discussions with the Engagement Team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);

- c. **Be responsible for leading or coordinating the Professional Services provided by the Firm or a Network Firm to the Audit Client, or overseeing the relationship of the Firm or a Network Firm with the Audit Client; or**
- d. **Undertake any other role or activity not referred to above with respect to the Audit Client, including the provision of non-assurance services that would result in the individual:**
 - i. **Having significant or frequent interaction with senior management or Those Charged with Governance; or**
 - ii. **Exerting direct influence on the outcome of the Audit Engagement.**

2.32: Section 600: Provision of Non-Assurance Services to an Audit Client

[600.1] Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[600.2] Firms and Network Firms might provide a range of non-assurance services to their Audit Clients, consistent with their skills and expertise. Providing non-assurance services to Audit Clients might create threats to compliance with the fundamental principles and threats to Independence.

[600.3] This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to Independence when providing non-assurance services to Audit Clients. The subsections that follow set out specific requirements and application material relevant when a Firm or Network Firm provides certain non-assurance services to Audit Clients and indicate the types of threats that might be created as a result.

[600.4] Some subsections include requirements that expressly prohibit a Firm or Network Firm from providing certain services to an Audit Client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an Acceptable Level.

[600.5] New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that Firms and Network Firms might provide to an Audit Client. The conceptual framework and the general provisions in this section apply when a Firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

Requirements and Application Material

Section 600 requirements are represented here. Please refer to section 600 of APES 110 for application material relating to these requirements.

General

Accepting an Engagement to Provide a Non-Assurance Service

[R600.8] Before a Firm or a Network Firm accepts an engagement to provide a non-assurance service to an Audit Client, the Firm shall apply the conceptual framework to identify, evaluate and address any threat to Independence that might be created by providing that service.

Multiple non-assurance services provided to the same audit client

[R600.12] When a Firm or a Network Firm provides multiple non-assurance services to an Audit Client, the Firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to Independence.

Self-review threats

[R600.14] Before providing a non-assurance service to an Audit Client, a Firm or a Network Firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- a. The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the Financial Statements on which the Firm will express an opinion; and
- b. In the course of the audit of those Financial Statements on which the Firm will express an opinion, the Audit Team will evaluate or rely on any judgements made or activities performed by the Firm or Network Firm when providing the service.

Audit Clients that are Public Interest Entities

Self-review threats

[R600.16] A Firm or a Network Firm shall not provide a non-assurance service to an Audit Client that is a Public Interest Entity if the provision of that service might create a self-review threat in relation to the audit of the Financial Statements on which the Firm will express an opinion. (Ref: Para. [600.13 A1] and [R600.14]).

Providing advice and recommendations

[R600.17] As an exception to paragraph [R600.16], a Firm or a Network Firm may provide advice and recommendations to an Audit Client that is a Public Interest Entity in relation to information or matters arising in the course of an audit provided that the Firm:

- a. Does not assume a management responsibility (Ref: Para. [R400.13] and [R400.14]); and
- b. Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to Independence that might be created by the provision of that advice.

[R600.21] Before a Firm that audits the Financial Statements of a Public Interest Entity, or a Network Firm accepts an engagement to provide a non-assurance service to:

- A. That Public Interest Entity;
- B. Any entity that controls, directly or indirectly, that Public Interest Entity; or
- C. Any entity that is controlled directly or indirectly by that Public Interest Entity,

the Firm shall, unless already addressed when establishing a process agreed with Those Charged with Governance:

- a. Inform Those Charged with Governance of the Public Interest Entity that the Firm has determined that the provision of the service:
 - i. Is not prohibited; and
 - ii. Will not create a threat to the Firm's Independence as auditor of the Public Interest Entity or that any identified threat is at an Acceptable Level or, if not, will be eliminated or reduced to an Acceptable Level; and
- b. Provide Those Charged with Governance of the Public Interest Entity with information to enable them to make an informed assessment about the impact of the provision of the service on the Firm's Independence.

[R600.22] A Firm or a Network Firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.21 unless Those Charged with Governance of the Public Interest Entity have concurred either under a process agreed with Those Charged with Governance or in relation to a specific service with:

- a. The Firm's conclusion that the provision of the service will not create a threat to the Firm's Independence as auditor of the Public Interest Entity, or that any identified threat is at an Acceptable Level or, if not, will be eliminated, or reduced to an Acceptable Level; and
- b. The provision of that service.

[R600.23] As an exception to paragraphs [R600.21] and [R600.22], where a Firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to Those Charged with Governance of the Public Interest Entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the Firm may provide the proposed service provided that:

- a. The Firm provides such information as it is able without breaching its legal or professional obligations;
- b. The Firm informs Those Charged with Governance of the Public Interest Entity that the provision of the service will not create a threat to the Firm's Independence from the Public Interest Entity, or that any identified threat is at an Acceptable Level or, if not, will be eliminated or reduced to an Acceptable Level; and
- c. Those Charged with Governance do not disagree with the Firm's conclusion in b.

[R600.24] The Firm or the Network Firm, having taken into account any matters raised by Those Charged with Governance of the Audit Client that is a Public Interest Entity or by the entity referred to in paragraph [R600.21] that is the recipient of the proposed service, shall decline the non-assurance service or the Firm shall end the Audit Engagement if:

- a. The Firm or the Network Firm is not permitted to provide any information to Those Charged with Governance of the Audit Client that is a Public Interest Entity, unless such a situation is addressed in a process agreed in advance with Those Charged with Governance; or
- b. Those Charged with Governance of an Audit Client that is a Public Interest Entity disagree with the Firm's conclusion that the provision of the service will not create a threat to the Firm's Independence from the client or that any identified threat is at an Acceptable Level or, if not, will be eliminated or reduced to an Acceptable Level.

Audit Client that Later Becomes a Public Interest Entity

[R600.25] A non-assurance service provided, either currently or previously, by a Firm or a Network Firm to an Audit Client compromises the Firm's Independence when the client becomes a Public Interest Entity unless:

- a. The previous non-assurance service complies with the provisions of this section that relate to Audit Clients that are not Public Interest Entities;
- b. Non-assurance services currently in progress that are not permitted under this section for Audit Clients that are Public Interest Entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a Public Interest Entity; and
- c. The Firm and Those Charged with Governance of the client that becomes a Public Interest Entity agree and take further actions to address any threats to Independence that are not at an Acceptable Level.

Considerations for Certain Related Entities

[R600.26] This section includes requirements that prohibit Firms and Network Firms from providing certain non-assurance services to Audit Clients. As an exception to those requirements and the requirement in paragraph [R400.13], a Firm or Network Firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following Related Entities of the client on whose Financial Statements the Firm will express an opinion:

- a. An entity that has direct or indirect control over the client;
- b. An entity with a Direct Financial Interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- c. An entity which is under common control with the client,

provided that all of the following conditions are met:

- i. The Firm or a Network Firm does not express an opinion on the Financial Statements of the Related Entity;
- ii. The Firm or a Network Firm does not assume a management responsibility, directly or indirectly, for the entity on whose Financial Statements the Firm will express an opinion;
- iii. The services do not create a self-review threat; and
- iv. The Firm addresses other threats created by providing such services that are not at an Acceptable Level.

2.32.1: Subsection 601: Accounting and Bookkeeping Services

[601.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an Audit Client.

Requirements and Application Material

Subsection 601 requirements are represented here. Please refer to subsection 601 of APES 110 for application material relating to these requirements.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

Audit Clients that are Not Public Interest Entities

[R601.5] A Firm or a Network Firm shall not provide to an Audit Client that is not a Public Interest Entity accounting and bookkeeping services including preparing Financial Statements on which the Firm will express an Opinion or financial information which forms the basis of such Financial Statements, unless:

- a. The services are of a routine or mechanical nature; and
- b. The Firm addresses any threats that are not at an Acceptable Level.

Audit Clients that are Public Interest Entities

[R601.6] A Firm or a Network Firm shall not provide accounting and bookkeeping services to an Audit Client that is a Public Interest Entity.

[R601.7] As an exception to paragraph [R601.6], a Firm or Network Firm may prepare statutory Financial Statements for a Related Entity of a Public Interest Entity Audit Client included in subparagraph (c) or (d) of the definition of Related Entity provided that:

- a. The audit report on the group Financial Statements if the Public Interest Entity has been issued.**
- b. The Firm or Network Firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to Independence;**
- c. The Firm or Network Firm does not prepare the accounting records underlying the statutory Financial Statements of the Related Entity and those Financial Statements are based on client approved information.**
- d. The statutory Financial Statements of the Related Entity will not form the basis of future group Financial Statements of that Public Interest Entity.**

2.32.2: Subsection 602: Administrative Services

[602.1] In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Please refer to subsection 602 of APES 110 for application material relating to administrative services.

2.32.3: Subsection 603: Valuation Services

[603.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing valuation services to an Audit Client.

Requirements and Application Material

Subsection 603 requirements are represented here. Please refer to subsection 603 of APES 110 for application material relating to these requirements.

Audit Clients that are Not Public Interest Entities

[R603.4] A Firm or a Network Firm shall not provide a valuation service to an Audit Client that is not a Public Interest Entity if:

- a. The valuation involves a significant degree of subjectivity; and**
- b. The valuation will have a material effect on the Financial Statements on which the Firm will express an Opinion.**

Audit Clients that are Public Interest Entities

Self-review Threats

[R603.5] A Firm or a Network Firm shall not provide a valuation service to an Audit Client that is a Public Interest Entity if the provision of such a valuation service might create a self-review threat. (Ref: Para. [R600.14] and [R600.16]).

2.32.4: Subsection 604: Tax Services

[604.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a tax service to an Audit Client.

Requirements and Application Material

Subsection 604 requirements are represented here. Please refer to subsection 604 of APES 110 for application material relating to these requirements.

Potential Threats Arising from the Provision of Tax Services

All Audit Clients

[R604.4] A Firm or a Network Firm shall not provide a tax service or recommend a transaction to an Audit Client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the Firm or Network Firm, unless the Firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

[AUST R604.4.1] The Firm shall document the factors considered and conclusions reached in determining that the tax treatment satisfies the conditions described in paragraph AUST R604.4.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Audit Clients that are Public Interest Entities

[R604.10] A Firm or a Network Firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an Audit Client that is a Public Interest Entity. (Ref: Para. [R600.14] and [R600.16]).

C. Tax Advisory and Tax Planning Services

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit Clients

[AUST R604.12.1] The Firm shall document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies one or more of the conditions described in paragraph [604.12 A2].

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

[R604.13] A Firm or a Network Firm shall not provide tax advisory and tax planning services to an Audit Client when:

- a. the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the Financial Statements; and
- b. The Audit Team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Public Interest Entities

Self-review Threats

[R604.15] A Firm or a Network Firm shall not provide tax advisory and tax planning services to an Audit Client that is a Public Interest Entity if the provision of such services might create a self-review threat. (Ref: Para. [R600.14], [R600.16], [604.12 A2]).

D. Tax Services Involving Valuations

Potential Threats Arising from the Provision of Tax Services involving Valuations

Audit Clients that are Public Interest Entities

Self-review Threats

[R604.19] A Firm or a Network Firm shall not perform a valuation for tax purposes for an Audit Client that is a Public Interest Entity if the provision of that service might create a self-review threat. (Ref: Para. [R600.14], [R600.16], [604.17 A3]).

Assistance in the Resolution of Tax Disputes

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

Audit Clients that are Public Interest Entities

[R604.24] A Firm or a Network Firm shall not provide assistance in the resolution of tax disputes to an Audit Client that is a Public Interest Entity if the provision of that assistance might create a self-review threat.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

[R604.25] A Firm or a Network Firm shall not provide tax services that involve assisting in the resolution of tax disputes to an Audit Client that is not a Public Interest Entity if:

- a. The services involve acting as an advocate for the Audit Client before a tribunal or court in the resolution of a tax matter; and
- b. The amounts involved are material to the Financial Statements on which the Firm will express an Opinion.

Audit Clients that are Public Interest Entities

[R604.26] A Firm or a Network Firm shall not provide tax services that involve assisting in the resolution of tax disputes to an Audit Client that is a Public Interest Entity if the services involve acting as an advocate for the Audit Client before a tribunal or court.

2.32.5: Subsection 605: Internal Audit Services

[605.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an internal audit service to an Audit Client.

Requirements and Application Material

Subsection 605 requirements are represented here. Please refer to subsection 605 of APES 110 for application material relating to these requirements.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

[R605.3] Paragraph [R400.13] precludes a Firm or a Network Firm from assuming a management responsibility. When providing an internal audit service to an Audit Client, the Firm shall be satisfied that:

- a. The client designates an appropriate and competent resource, who reports to Those Charged with Governance to:
 - i. Be responsible at all times for internal audit activities; and
 - ii. Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;

- b. The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- c. The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- d. The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- e. The client reports to Those Charged with Governance the significant findings and recommendations resulting from the internal audit services.

Audit Clients that are Public Interest Entities

[R605.6] A Firm or a Network Firm shall not provide internal audit services to an Audit Client that is a Public Interest Entity if the provision of such services might create a self-review threat. (Ref: Para. [R600.14] and [R600.16].

2.32.6: Subsection 606: Information Technology Systems Services

[606.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an IT systems service to an Audit Client.

Requirements and Application Material

Subsection 606 requirements are represented here. Please refer to subsection 606 of APES 110 for application material relating to these requirements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

[R606.3] Paragraph [R400.13] precludes a Firm or a Network Firm from assuming a management responsibility. When providing IT systems services to an Audit Client, the Firm or Network Firm shall be satisfied that:

- a. The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- b. The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- c. The client makes all management decisions with respect to the design and implementation process;
- d. The client evaluates the adequacy and results of the design and implementation of the system; and
- e. The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Audit Clients that are Public Interest Entities

[R606.6] A Firm or a Network Firm shall not provide IT systems services to an Audit Client that is a Public Interest Entity if the provision of such services might create a self-review threat. (Ref: Para R600.14 and R600.16].

2.32.7: Subsection 607: Litigation Support Services

[607.1] In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a litigation support service to an Audit Client.

Application Material

Subsection 607 requirements are represented here. Please refer to subsection 607 of APES 110 for application material relating to litigation support services.

Audit Clients that are Public Interest Entities

Self-review Threats

[R607.6] A Firm or a Network Firm shall not provide litigation support services to an Audit Client that is a Public Interest Entity if the provision of such services might create a self-review threat. (Ref: Para. [R600.14] and [R600.16]).

[R607.9] A Firm or a Network Firm, or an individual within a Firm or a Network Firm, shall not act for an Audit Client that is a Public Interest Entity as an expert witness in a matter unless the circumstances set out in paragraph [607.7 A3] apply.

2.32.8: Subsection 608: Legal Services

[608.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a legal service to an Audit Client.

Requirements and Application Material

Subsection 608 requirements are represented here. Please refer to subsection 608 of APES 110 for application material relating to these requirements.

A. Providing Legal Advice

Audit Clients that are Public Interest Entities

Self-review Threats

[R608.7] A Firm or a Network Firm shall not provide legal advice to an Audit Client that is a Public Interest Entity if the provision of such a service might create a self-review threat. (Ref: Para. [R600.14] and [R600.16]).

B. Acting as General Counsel

[R608.9] A partner or employee of the Firm or the Network Firm shall not serve as general counsel of an Audit Client.

C. Acting in an Advocacy Role

Audit Clients that are Not Public Interest Entities

[R608.10] A Firm or a Network Firm shall not act in an advocacy role for an Audit Client that is not a Public Interest Entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the Financial Statements on which the Firm will express an Opinion.

Audit Clients that are Public Interest Entities

[R608.11] A Firm or a Network Firm shall not act in an advocacy role for an Audit Client that is a Public Interest Entity in resolving a dispute or litigation before a tribunal or court.

2.32.9: Subsection 609: Recruiting Services

[609.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a recruiting service to an Audit Client.

Requirements and Application Material

Subsection 609 requirements are represented here. Please refer to subsection 609 of APES 110 for application material relating to these requirements.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

[R609.3] Paragraph [R400.13] precludes a Firm or Network Firm from assuming a management responsibility. When providing a recruiting service to an Audit Client, the Firm shall be satisfied that:

- a. The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- b. The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Recruiting Services that are Prohibited

[R609.5] When providing recruiting services to an Audit Client, the Firm or the Network Firm shall not act as a negotiator on the client's behalf.

[R609.6] A Firm or a Network Firm shall not provide a recruiting service to an Audit Client if the service relates to:

- a. Searching for or seeking out candidates;
- b. Undertaking reference checks of prospective candidates;
- c. Recommending the person to be appointed; or
- d. Advising on the terms of employment, remuneration or related benefits of a particular candidate,

with respect to the following positions:

- i. A Director or Officer of the entity; or
- ii. A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion.

2.32.10: Subsection 610: Corporate Financial Services

[610.1] In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an Audit Client.

Requirements and Application Material

Subsection 610 requirements are represented here. Please refer to subsection 610 of APES 110 for application material relating to these requirements.

Corporate Finance Services that are Prohibited

[R610.5] A Firm or a Network Firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting shares, debt or other financial instruments issued by the Audit Client or providing advice on investment in such shares, debt or other financial instruments.

[R610.6] A Firm or a Network Firm shall not provide advice in relation to corporate finance services to an Audit Client where:

- a. the effectiveness of such advice depends on a particular accounting treatment or presentation in the Financial Statements on which the Firm will express an Opinion; and**
- b. The Audit Team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.**

2.33 Section 800: Reports on Special Purpose Financial Statements that include a Restriction on Use and Distribution (Audit and Review Engagements)

[800.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[800.2] This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits of Special Purpose Financial Statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an “eligible Audit Engagement.”

Requirements and Application Material

Subsection 800 requirements are represented here. Please refer to subsection 800 of APES 110 for application material relating to these requirements.

General

[R800.3] When a Firm intends to issue a report on an audit of Special Purpose Financial Statements which includes a restriction on use and distribution, the Independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

- a. **The Firm communicates with the intended users of the report regarding the modified Independence requirements that are to be applied in providing the service; and**
- b. **The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.**

[R800.4] Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the Firm shall subsequently make such users aware of the modified Independence requirements agreed to by their representative.

[R800.5] When the Firm performs an eligible Audit Engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The Firm shall not apply these modifications when an audit of Financial Statements is required by law or regulation.

[R800.6] If the Firm also issues an audit report that does not include a restriction on use and distribution for the same client, the Firm shall apply Part 4A to that Audit Engagement.

Public Interest Entities

[R800.7] When the Firm performs an eligible Audit Engagement, the Firm does not need to apply the Independence requirements set out in Part 4A that apply only to Public Interest Entity Audit Engagements.

Related Entities

[R800.8] When the Firm performs an eligible Audit Engagement, references to “Audit Client” in Part 4A do not need to include its Related Entities. However, when the Audit Team knows or has reason to believe that a relationship or circumstance involving a Related Entity of the client is relevant to the evaluation of the Firm’s Independence of the client, the Audit Team shall include that Related Entity when identifying, evaluating and addressing threats to Independence.

Networks and Network Firms

[R800.9] When the Firm performs an eligible Audit Engagement, the specific requirements regarding Network Firms set out in Part 4A do not need to be applied. However, when the Firm knows or has reason to believe that threats to Independence are created by any interests and relationships of a Network Firm, the Firm shall evaluate and address any such threat.

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

[R800.10] When the Firm performs an eligible Audit Engagement:

- a. The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the Engagement Team, their Immediate Family members and, where applicable, Close Family members;
- b. The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the Audit Client and the following Audit Team members:
 - i. Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - ii. Those who provide quality control for the engagement, including those who perform the Engagement Quality Review; and
- c. The Firm shall evaluate and address any threats that the Engagement Team has reason to believe are created by interests and relationships between the Audit Client and others within the Firm who can directly influence the outcome of the Audit Engagement.

[R800.11] When the Firm performs an eligible Audit Engagement, the Firm shall evaluate and address any threats that the Engagement Team has reason to believe are created by Financial Interests in the Audit Client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7, 510.10 A5 and 510.10 A9.

[R800.12] When the Firm performs an eligible Audit Engagement, the Firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the Firm, shall not hold a material Direct or a material Indirect Financial Interest in the Audit Client.

Employment with an Audit Client

[R800.13] When the Firm performs an eligible Audit Engagement, the Firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

Providing Non-Assurance Services

[R800.14] If the Firm performs an eligible Audit Engagement and provides a non-assurance service to the Audit Client, the Firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

Part 4B – Independence for Audit and Review Engagements

2.34: Section 900: Applying the Conceptual Framework to Independence for Assurance Engagements other than Audit and Review Engagements

[900.1] This Part applies to Assurance Engagements other than Audit Engagements and Review Engagements. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance Criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's greenhouse gas statement.
- An audit of specific elements, accounts or items of a Financial Statement.

[900.3] ASQM 1 requires a Firm to design, implement and operate a system of quality management for assurance engagements performed by the Firm. As part of this system of quality management, ASQM 1 requires the Firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to Independence. Under ASQM 1, relevant ethical requirements are those related to the Firm, its personnel and, when applicable, others subject to the Independence requirements to which the Firm and the Firm's engagements are subject. In addition, Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the Firm for actions related to Independence, instead referring to "Firm" for ease of reference. A Firm assigns operational responsibility for compliance with Independence requirements to an individual(s) in accordance with ASQM 1. Additionally, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

[900.4] Independence is linked to the principles of objectivity and integrity. It comprises:

- a. 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.
- b. 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 that a Firm's or an Assurance Team member's integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or Firm being "independent" mean that the individual or Firm has complied with the provisions of this Part.

[900.5] When performing Assurance Engagements, the Code requires Firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain Independence when performing Assurance Engagements other than Audit Engagements or Review Engagements. The conceptual framework set out in Section 120 applies to Independence as it does to the fundamental principles set out in Section 110.

[900.6] This Part describes:

- a. Facts and circumstances, including Professional Activities, interests and relationships, that create or might create threats to Independence;
- b. Potential actions, including safeguards, that might be appropriate to address any such threats; and
- c. Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an Acceptable Level.

Description of Other Assurance Engagements

[900.7] In an Assurance Engagement, the Firm aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the Responsible Party about the Subject Matter Information. *Standard on Assurance Engagements (ASAE) 3000 (Revised)*, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* describes the elements and objectives of an Assurance Engagement conducted under that Standard, and the *Framework for Assurance Engagements* issued by the AUASB provides a general description of Assurance Engagements. An Assurance Engagement might be an Attestation Engagement or a Direct Engagement.

[900.8] In this Part, the term 'Assurance Engagement' refers to Assurance Engagements other than Audit Engagements and Review Engagements.

[AUST 900.8.1] 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.

Reports that Include a Restriction on Use and Distribution

[900.9] An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the Independence requirements in this Part may be modified as provided in Section 990.

Audit and Review Engagements

[900.10] Independence standards for Audit and Review Engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a Firm performs both an Assurance Engagement and an Audit or Review Engagement for the same client, the requirements in Part 4A continue to apply to the Firm, a Network Firm and the Audit or Review Team members.

Requirements and Application Material

Section 900 requirements are represented here. Please refer to section 900 of APES 110 for application material relating to these requirements.

General

[R900.11] A Firm performing an Assurance Engagement shall be independent of the Assurance Client.

[R900.12] A Firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence in relation to an Assurance Engagement.

[AUST R900.12.1] Where a Member in Public Practice identifies multiple threats to Independence, which individually might not be significant, the Member shall evaluate the significance of those threats in aggregate and the safeguards applied or in place to eliminate some or all of the threats or reduce them to an Acceptable Level in aggregate.

Prohibition on Assuming Management Responsibilities

[R900.13] A Firm shall not assume a management responsibility related to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of an Assurance Engagement provided by the Firm. If the Firm assumes a management responsibility as part of any other service provided to the Assurance Client, the Firm shall ensure that the responsibility is not related to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of the Assurance Engagement provided by the Firm.

[R900.14] When performing a Professional Activity for an Assurance Client that is related to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of the Assurance Engagement, the Firm shall be satisfied that client management makes all related judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- a. Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
 - i. The objectives, nature and results of the activities; and
 - ii. The respective client and Firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- b. Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and
- c. Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

[900.14 A1] In some Assurance Engagements, whether an Attestation Engagement or Direct Engagement, there might be several Responsible Parties or, in an Attestation Engagement, several parties taking responsibility for the Subject Matter Information. In determining whether it is necessary to apply the provisions in this Part to each individual Responsible Party or each individual party taking responsibility for the Subject Matter Information in such engagements, the Firm may take into account certain matters. These matters include whether an interest or relationship between the Firm, or an Assurance Team member, and a particular Responsible Party or party taking responsibility for the Subject Matter Information would create a threat to Independence that is not trivial and inconsequential in the context of the Subject Matter Information. This determination will take into account factors such as:

- a. The materiality of the Underlying Subject Matter or Subject Matter Information for which the particular party is responsible in the context of the overall Assurance Engagement.
- b. The degree of public interest associated with the Assurance Engagement.

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

Network Firms

[R900.15] When a Firm knows or has reason to believe that interests and relationships of a Network Firm create a threat to the Firm's Independence, the Firm shall evaluate and address any such threat.

Related Entities

[R900.16] 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, evaluating and addressing threats to Independence.

Period During which Independence is Required

[R900.30] Independence, as required by this Part, shall be maintained during both:

- a. The Engagement Period; and
- b. The period covered by the Subject Matter Information.

[R900.31] If an entity becomes an Assurance Client during or after the period covered by the Subject Matter Information on which the Firm will express a conclusion, the Firm shall determine whether any threats to Independence are created by:

- a. Financial or business relationships with the Assurance Client during or after the period covered by the Subject Matter Information but before accepting the Assurance Engagement; or
- b. Previous services provided to the Assurance Client.

[R900.32] Threats to Independence are created if a non-assurance service was provided to the Assurance Client during, or after the period covered by the Subject Matter Information, but before the Assurance Team begins to perform assurance services, and the service would not be permitted during the Engagement Period. In such circumstances, the Firm shall evaluate and address any threat to Independence created by the service. If the threats are not at an Acceptable Level, the Firm shall only accept the Assurance Engagement if the threats are reduced to an Acceptable Level.

[R900.33] If a non-assurance service that would not be permitted during the Engagement Period has not been completed and it is not practical to complete or end the service before the commencement of Professional Services in connection with the Assurance Engagement, the Firm shall only accept the Assurance Engagement if:

- a. The Firm is satisfied that:
 - i. The non-assurance service will be completed within a short period of time; or
 - ii. The client has arrangements in place to transition the service to another provider within a short period of time;
- b. The Firm applies safeguards when necessary during the service period; and
- c. The Firm discusses the matter with the party engaging the Firm or Those Charged with Governance of the Assurance Client.

General Documentation of Independence for Assurance Engagements

[R900.40] A Firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- a. When safeguards are applied to address a threat, the Firm shall document the nature of the threat and the safeguards in place or applied; and
- b. When a threat required significant analysis and the Firm concluded that the threat was already at an Acceptable Level, the Firm shall document the nature of the threat and the rationale for the conclusion.

Breach of an Independence Provision for Assurance Engagements

When a Firm Identifies a Breach

[R900.50] If a Firm concludes that a breach of a requirement in this Part has occurred, the Firm shall:

- a. End, suspend or eliminate the interest or relationship that created the breach;**
- b. Evaluate the significance of the breach and its impact on the Firm's objectivity and ability to issue an assurance report; and**
- c. Determine whether action can be taken that satisfactorily addresses the consequences of the breach.**

In making this determination, the Firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the Firm's objectivity would be compromised, and therefore, the Firm would be unable to issue an assurance report.

[900.51] If the Firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the Firm shall, as soon as possible, inform the party that engaged the Firm or Those Charged with Governance, as appropriate. The Firm shall also take the steps necessary to end the Assurance Engagement in compliance with any applicable legal or regulatory requirements relevant to ending the Assurance Engagement.

[900.52] If the Firm determines that action can be taken to address the consequences of the breach satisfactorily, the Firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the Firm or Those Charged with Governance, as appropriate. The Firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

[900.53] If the party that engaged the Firm does not, or Those Charged with Governance do not concur that the action proposed by the Firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the Firm shall take the steps necessary to end the Assurance Engagement in compliance with any applicable legal or regulatory requirements relevant to ending the Assurance Engagement.

Documentation

R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the Firm shall document:

- a. The breach;**
- b. The actions taken;**
- c. The key decisions made; and**
- d. All the matters discussed with the party that engaged the Firm or Those Charged with Governance.**

[R900.55] If the Firm continues with the Assurance Engagement, it shall document:

- a. The conclusion that, in the Firm's professional judgement, objectivity has not been compromised; and**
- b. The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the Firm could issue an assurance report.**

2.35: Section 905: Fees

[905.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[905.2] Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to Independence arising from fees charged to Assurance Clients.

Requirements and Application Material

Section 905 requirements are represented here. Please refer to section 905 of APES 110 for application material relating to these requirements.

Contingent Fees

[R905.6] A Firm shall not charge directly or indirectly a Contingent Fee for an Assurance Engagement.

[R905.7] A Firm shall not charge directly or indirectly a Contingent Fee for a non-assurance service provided to an Assurance Client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the Subject Matter Information of the Assurance Engagement.

Total Fees — Overdue Fees

[R905.9] When a significant part of fees due from an Assurance Client remains unpaid for a long time, the Firm shall determine:

- a. Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and**
- b. Whether it is appropriate for the Firm to be re-appointed or continue the Assurance Engagement.**

2.36: Section 906: Gifts and Hospitality

[906.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[906.2] Accepting gifts and hospitality from an Assurance Client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 906 requirements are represented here. Please refer to section 906 of APES 110 for application material relating to these requirements.

[R906.3] A Firm or an Assurance Team member shall not accept gifts and hospitality from an Assurance Client, unless the value is trivial and inconsequential.

2.37: Section 907: Actual or Threatened Litigation

[907.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[907.2] When litigation with an Assurance Client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

Please refer to section 907 of APES 110 for application material relating to actual or threatened litigation.

2.38: Section 910: Financial Interests

[910.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[910.2] Holding a Financial Interest in an Assurance Client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 910 requirements are represented here. Please refer to section 910 of APES 110 for application material relating to these requirements.

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

[R910.4] A Direct Financial Interest or a material Indirect Financial Interest in the Assurance Client shall not be held by:

- a. The Firm; or**
- b. An Assurance Team member or any of that individual's Immediate Family.**

Financial Interests in an Entity Controlling an Assurance Client

[R910.5] When an entity has a controlling interest in the Assurance Client and the client is material to the entity, neither the Firm, nor an Assurance Team member, nor any of that individual's Immediate Family shall hold a Direct or material Indirect Financial Interest in that entity.

Financial Interests Held as Trustee

[R910.6] Paragraph R910.4 shall also apply to a Financial Interest in an Assurance Client held in a trust for which the Firm or individual acts as trustee unless:

- a. None of the following is a beneficiary of the trust: the trustee, the Assurance Team member or any of that individual's Immediate Family, or the Firm;**
- b. The interest in the Assurance Client held by the trust is not material to the trust;**
- c. The trust is not able to exercise significant influence over the Assurance Client; and**
- d. None of the following can significantly influence any investment decision involving a Financial Interest in the Assurance Client: the trustee, the Assurance Team member or any of that individual's Immediate Family, or the Firm.**

Financial Interests Received Unintentionally

[R910.7] If a Firm, an Assurance Team member, or any of that individual's Immediate Family, receives a Direct Financial Interest or a material Indirect Financial Interest in an Assurance Client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

- a. If the interest is received by the Firm, the Financial Interest shall be disposed of immediately, or enough of an Indirect Financial Interest shall be disposed of so that the remaining interest is no longer material; or
- b. If the interest is received by an Assurance Team member, or by any of that individual's Immediate Family, the individual who received the Financial Interest shall immediately dispose of the Financial Interest, or dispose of enough of an Indirect Financial Interest so that the remaining interest is no longer material.

2.39: Section 911: Loans and Guarantees

[911.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[911.2] A loan or a guarantee of a loan with an Assurance Client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 911 requirements are represented here. Please refer to section 911 of APES 110 for application material relating to these requirements.

Loans and Guarantees with an Assurance Client

[R911.4] A Firm, an Assurance Team member, or any of that individual's Immediate Family shall not make or guarantee a loan to an Assurance Client unless the loan or guarantee is immaterial to both:

- a. The Firm or the individual making the loan or guarantee, as applicable; and
- b. The client.

Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

[R911.5] A Firm, an Assurance Team member, or any of that individual's Immediate Family shall not accept a loan, or a guarantee of a loan, from an Assurance Client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Deposit or Brokerage Accounts

[R911.6] A Firm, an Assurance Team member, or any of that individual's Immediate Family shall not have deposits or a brokerage account with an Assurance Client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution

[R911.7] A Firm or an Assurance Team member, or any of that individual's Immediate Family, shall not accept a loan from, or have a borrowing guaranteed by, an Assurance Client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- a. The Firm, or the individual receiving the loan or guarantee, as applicable; and**
- b. The client.**

2.40: Section 920: Business Relationships

[920.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[920.2] A close business relationship with an Assurance Client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 920 requirements are represented here. Please refer to section 920 of APES 110 for application material relating to these requirements.

Firm, Assurance Team Member or Immediate Family Business Relationships

[R920.4] A Firm or an Assurance Team member shall not have a close business relationship with an Assurance Client or its management unless any Financial Interest is immaterial and the business relationship is insignificant to the client or its management and the Firm or the Assurance Team member, as applicable.

2.41: Section 921: Family and Personal Relationships

[921.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[921.2] Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 921 requirements are represented here. Please refer to section 921 of APES 110 for application material relating to these requirements.

Immediate Family of an Assurance Team Member

[R921.5] An individual shall not participate as an Assurance Team member when any of that individual's Immediate Family:

- a. Is a Director or Officer of the Assurance Client;**
- b. In an Attestation Engagement, is an employee in a position to exert significant influence over the Subject Matter Information of the Assurance Engagement; or**
- c. Was in such a position during any period covered by the engagement or the Subject Matter Information.**

Other Close Relationships of an Assurance Team Member

[R921.7] An Assurance Team member shall consult in accordance with Firm policies and procedures if the Assurance Team member has a close relationship with an individual who is not an Immediate or Close Family member, but who is:

- a. A Director or Officer of the Assurance Client; or
- b. An employee in a position to exert significant influence over the Underlying Subject Matter or, in an Attestation Engagement, an employee in a position to exert significant influence over the Subject Matter Information of the Assurance Engagement.

2.42: Section 922: Recent Service with an Assurance Client

[922.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[922.2] If an Assurance Team member has recently served as a Director or Officer or employee of the Assurance Client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 922 requirements are represented here. Please refer to section 922 of APES 110 for application material relating to these requirements.

Service During the Period Covered by the Assurance Report

[R922.3] The Assurance Team shall not include an individual who, during the period covered by the assurance report:

- a. Had served as a Director or Officer of the Assurance Client; or
- b. Was an employee in a position to exert significant influence over the Underlying Subject Matter or, in an Attestation Engagement, an employee in a position to exert significant influence over the Subject Matter Information of the Assurance Engagement.

2.43: Section 923: Serving as a Director or Officer of an Assurance Client

[923.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[923.2] Serving as a Director or Officer of an Assurance Client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 923 requirements are represented here. Please refer to section 923 of APES 110 for application material relating to these requirements.

Service as Director or Officer

[R923.3] A partner or employee of the Firm shall not serve as a Director or Officer of an Assurance Client of the Firm.

Service as Company Secretary

[R923.4] A partner or employee of the Firm shall not serve as company secretary for an Assurance Client of the Firm unless:

- a. This practice is specifically permitted under local law, professional rules or practice;**
- b. Management makes all decisions; and**
- c. The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.**

2.44: Section 924: Employment with an Assurance Client

[924.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[924.2] Employment relationships with an Assurance Client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 924 requirements are represented here. Please refer to section 924 of APES 110 for application material relating to these requirements.

Former Partner or Assurance Team Member Restrictions

[R924.4] If a former partner has joined an Assurance Client of the Firm or a former Assurance Team member has joined the Assurance Client as:

- a. A Director or Officer; or**
- b. An employee in a position to exert significant influence over the Underlying Subject Matter or, in an Attestation Engagement, an employee in a position to exert significant influence over the Subject Matter Information of the Assurance Engagement,**

the individual shall not continue to participate in the Firm's business or Professional Activities.

Assurance Team Members Entering Employment Negotiations with a Client

[R924.5] A Firm shall have policies and procedures that require Assurance Team members to notify the Firm when entering employment negotiations with an Assurance Client.

2.45: Section 940: Long Association of Personnel an Assurance Client

[940.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[940.2] When an individual is involved in an Assurance Engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Section 940 requirements are represented here. Please refer to section 940 of APES 110 for application material relating to these requirements.

[R940.4] If a Firm decides that the level of the threats created can only be addressed by rotating the individual off the Assurance Team, the Firm shall determine an appropriate period during which the individual shall not:

- a. Be a member of the Engagement Team for the Assurance Engagement;
- b. Provide quality control for the Assurance Engagement; or
- c. Exert direct influence on the outcome of the Assurance Engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

2.46: Section 950: Provision of Non-Assurance Services to Assurance Clients other than Audit and Review Engagement Clients

[950.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[950.2] Firms might provide a range of non-assurance services to their Assurance Clients, consistent with their skills and expertise. Providing certain non-assurance services to Assurance Clients might create threats to compliance with the fundamental principles and threats to Independence.

Requirements and Application Material

Section 950 requirements are represented here. Please refer to section 950 of APES 110 for application material relating to these requirements.

General

Accepting an Engagement to Provide a Non-Assurance Service

[R950.6] Before a Firm accepts an engagement to provide a non-assurance service to an Assurance Client, the Firm shall apply the conceptual framework to identify, evaluate and address any threat to Independence that might be created by providing that service.

2.47: Section 990: Reports that include a Restriction on Use and Distribution (Assurance Engagements other than Audit and Review Engagements)

[990.1] Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence.

[990.2] This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving Assurance Engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an “eligible Assurance Engagement”.

Requirements and Application Material

Section 990 requirements are represented here. Please refer to section 990 of APES 110 for application material relating to these requirements.

General

[R990.3] When a Firm intends to issue a report on an Assurance Engagement which includes a restriction on use and distribution, the Independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:

- a. The Firm communicates with the intended users of the report regarding the modified Independence requirements that are to be applied in providing the service; and**
- b. The intended users of the report understand the purpose, Subject Matter Information and limitations of the report and explicitly agree to the application of the modifications.**

[R990.4] Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the Firm shall subsequently make such users aware of the modified Independence requirements agreed to by their representative.

[R990.5] When the Firm performs an eligible Assurance Engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

[R990.6] If the Firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the Firm shall apply Part 4B to that Assurance Engagement.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

[R990.7] When the Firm performs an eligible Assurance Engagement:

- a. The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the Engagement Team, and their Immediate and Close Family members;**
- b. The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the Assurance Client and the following Assurance Team members;**
 - i. Those who provide consultation regarding technical or industry specific issues, transactions or events; and**
 - ii. Those who provide quality control for the engagement, including those who perform the Engagement Quality Review; and**
- c. The Firm shall evaluate and address any threats that the Engagement Team has reason to believe are created by interests and relationships between the Assurance Client and others within the Firm who can directly influence the outcome of the Assurance Engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.**

[R990.8] When the Firm performs an eligible Assurance Engagement, the Firm shall not hold a material Direct or a material Indirect Financial Interest in the Assurance Client.

Transitional Provisions

The Code is subject to the following transitional provisions:

Long Association of Personnel with an Audit or Assurance Client

1. Paragraph R540.20 shall have effect only for audits of Financial Statements for periods beginning prior to 31 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for Engagement Partners where legislation or regulation has specified a cooling-off period of less than five consecutive years.

Revisions to Part 4B to reflect terms and concepts. Used in Auditing and Assurance Standards on Assurance Engagements

2. Part 4B relating to Independence for Assurance Engagements with respect to Underlying Subject Matter covering periods will be effective for periods beginning on or after 1 July 2021; otherwise, it is effective as of 1 July 2021. Early adoption will be permitted.

Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants

3. Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants will be effective as of 1 January 2022. Early adoption will be permitted.

Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

4. Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers will be effective for engagements beginning on or after 1 January 2023. Early adoption will be permitted.

Revisions to the Fee-related provisions of the Code

5. Revised Section 410 and other amendments to Part 4A will be effective for audits of Financial Statements for periods beginning on or after 1 January 2023. The amendments to revised Section 905 in relation to Assurance Engagements with respect to Underlying Subject Matters covering periods of time will be effective for periods beginning on or after 1 January 2023, otherwise, these amendments will be effective as of 1 January 2023. Amendments to other sections of the Code will be effective as of 1 January 2023. Early adoption will be permitted.

Quality Management-related Conforming Amendments to the Code

6. Quality Management-related Conforming Amendments to the [Code](#) will be effective as of 1 January 2023. Early adoption will be permitted.

Revisions to the Non-Assurance Services provisions of the Code.

7. Revised Section 600 and other amendments to Part 4A will be effective for audits and reviews of Financial Statements for periods beginning on or after 1 July 2023. The amendments to Sections 900 and 950 in relation to Assurance Engagements with respect to Underlying Subject Matters covering periods of time will be effective for periods beginning on or after 1 July 2023; otherwise, these amendments will be effective as of 1 July 2023.

Early adoption will be permitted.

For non-assurance services engagements a Firm or Network Firm has entered into with an Audit Client, or for non-assurance services engagements a Firm has entered into with an Assurance Client, before 1 July 2023 and for which work has already commenced, the Firm or Network Firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

Further Guidance – Independence Guide

In May 2020, the APESB in conjunction with IPA, CPA Australia and Chartered Accountants Australia and New Zealand issued an Independence Guide (5th edition) which provides guidance on how to apply the conceptual framework in APES 110 to independence for audits, reviews and other assurance engagements as set out in Parts 4A and 4B. of the Code. A copy of the Guide can be downloaded from IPA's website:

https://www.publicaccountants.org.au/media/2722775/APESB_Independence_Guide_May_2020.pdf.

On 1 October 2020, Mr Andrew Bryant from KPMG's Ethics and Independence Group provided IPA Members with a presentation "Strictly Prohibited What Auditors need to know from the 2020 Independence Guide". A recording of this informative presentation can accessed from IPA's website:

<https://www.publicaccountants.org.au/events/cpd-online/recorded-webinars/what-auditors-need-to-know-from-the-2020-independence-guide>.