

Feb 2008

Option 2A



# Compiled APES 110

## Code of Ethics for Professional Accountants

*This compiled Standard is effective from 15 February 2008 to 30 June 2008 (refer compilation details).  
The Standard incorporates relevant amendments effective from 15 February 2008.*

*Prepared by the Technical Staff of the Accounting Professional and Ethical Standards Board.*

## COMPILATION DETAILS

### **APES 110 Code of Ethics for Professional Accountants as amended**

This compiled Standard is effective from 15 February 2008. It takes into account effective amendments up to and including 15 February 2008 and was prepared by the Technical Staff of the Accounting Professional and Ethical Standards Board (APESB).

This compilation is not a separate Standard made by the APESB. Instead, it is a representation of APES 110 (June 2006) as amended by other APESB Standards, which are listed in the Table below.

**Table of Standards**

<b>Standard</b>	<b>Month issued</b>	<b>Operative date</b>
APES 110	June 2006	1 July 2006
Amendments to Auditor Independence Requirements in Section 290	February 2008	15 February 2008

**Table of Amendments**

<b>Paragraph affected</b>	<b>How affected</b>	<b>Amending Standard</b>
290.117–290.120	amended	Auditor Independence
290.144–Aust290.145.1	amended	Auditor Independence
Conformity with International Pronouncements	added	Refer Technical Staff comments.

## Application of Framework to Specific Situations

...

### Financial Interests

...

### Provisions Applicable to Audit Clients

...

290.116 If the superannuation fund of a Firm, or Network Firm, has a Financial Interest in an Audit Client a self-interest threat may be created. Accordingly, the significance of any such threat created should be evaluated and, if the threat is other than Clearly Insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

290.117 If other Partners, including Partners who do not perform Assurance Engagements, or their Immediate Family, in the Office in which the Engagement Partner practices in connection with the audit, hold a Direct Financial Interest, or a material Indirect Financial Interest, in that Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level,

Accordingly, such Partners or their Immediate Family, should not hold any such Financial Interests in such an Audit Client.

290.118 The Office in which the Engagement Partner practices in connection with the audit is not necessarily the Office to which that Partner is assigned. Accordingly, when the Engagement Partner is located in a different Office from that of the other members of the Assurance Team, judgment should be used to determine in which Office the Partner practices in connection with that audit.

290.119 If other Partners and Managerial Employees who provide non-assurance services to the Audit Client, except those whose involvement is Clearly Insignificant, or their Immediate Family, hold a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their Immediate Family should not hold any such financial interests in such an Audit Client.

290.120 A Financial Interest in an Audit Client that is held by (a) an Immediate Family member of a Partner located in the Office in which the Lead Engagement Partner practises in connection with the audit, or (b) an Immediate Family member of a Partner or Managerial Employee who provides non-assurance services to the Audit Client, is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g. superannuation plan rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to Independence to an acceptable level.

**Deleted:** any Partner of the Firm holds a Direct Financial Interest, or a material Indirect Financial Interest, in an Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the Financial Interest would be the only action appropriate to permit the Firm to perform the Engagement.

**Deleted:** . If the Immediate Family of Partners, including Partners who do not perform Assurance Engagements, in the Office in which the Lead Engagement Partner practises in connection with the audit, hold a Direct Financial Interest or a material Indirect Financial Interest in that Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the Immediate Family of such Partners should not hold any such Financial Interests in such an Audit Client.¶

290.121 A self-interest threat may be created if the Firm, or the Network Firm, or a member of the Assurance Team has an interest in an entity and an Audit Client, or a Director, Officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the Audit Client if the respective interests of the Firm, the Network Firm, or member of the Assurance Team, and the Audit Client, or Director, Officer or controlling owner thereof are both immaterial and the Audit Client cannot exercise significant influence over the entity. If an interest is material, to either the Firm, the Network Firm or the Audit Client, and the Audit Client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the Firm, or the Network Firm, should either dispose of the interest or decline the Audit Engagement. Any member of the Assurance Team with such a material interest should either:

- (a) Dispose of the interest;
- (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or
- (c) Withdraw from the audit.

### **Provisions Applicable to Non-Audit Assurance Clients**

290.122 If a Firm has a Direct Financial Interest in an Assurance Client that is not an Audit Client the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest would be the only action appropriate to permit the Firm to perform the Engagement.

290.123 If a Firm has a material Indirect Financial Interest in an Assurance Client that is not an Audit Client a self-interest threat is also created. The only action appropriate to permit the firm to perform the Engagement would be for the Firm to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.124 If a Firm has a material Financial Interest in an entity that has a controlling interest in an Assurance Client that is not an Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the Firm to perform the Engagement would be for the Firm either to dispose of the Financial Interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.125 When a restricted use report for an Assurance Engagement that is not an Audit Engagement is issued, exceptions to the provisions in paragraphs 290.106 through 290.110 and 290.122 through 290.124 are set out in 290.19 of the Code.

### **Loans and Guarantees**

290.126 A loan, or a guarantee of a loan, to the Firm from an Assurance Client, that is a financial institution, would not create a threat to Independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements and the loan is immaterial to both the Firm and the Assurance Client. If the loan is material to the Assurance Client or the Firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the Firm, or Network Firm, to review the work performed.

290.127 A loan, or a guarantee of a loan, from an Assurance Client that is a financial institution, to a member of the Assurance Team or their Immediate Family would not create a threat to Independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

290.128 Similarly, deposits made by, or brokerage accounts of, a Firm or a member of the Assurance Team with an Assurance Client that is a financial institution would not create a threat to Independence provided the deposit or account is held under normal commercial terms.

290.129 If the Firm, or a member of the Assurance Team, makes a loan to an Assurance Client, that is not a financial institution, or guarantees such an Assurance Client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the Firm or the member of the Assurance Team and the Assurance Client.

290.130 Similarly, if the Firm or a member of the Assurance Team accepts a loan from, or has borrowing guaranteed by, an Assurance Client that is not a financial institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the Firm or the member of the Assurance Team and the Assurance Client.

### **Provisions Applicable to Audit Clients**

290.131 The examples in paragraphs 290.126 through 290.130 relate to loans and guarantees between the Firm and an Assurance Client. In the case of a Financial Statement Audit Engagement, the provisions should be applied to the Firm, all Network Firms and the Audit Client.

### **Close Business Relationships With Assurance Clients**

290.132 A close business relationship between a Firm or a member of the Assurance Team and the Assurance Client or its management, or between the Firm, a Network Firm and an Audit Client, will involve a commercial or common Financial Interest and may create self-interest and intimidation threats. The following are examples of such relationships:

- Having a material Financial Interest in a joint venture with the Assurance Client or a controlling owner, Director, Officer or other individual who performs senior managerial functions for that Client.
- Arrangements to combine one or more services or products of the Firm with one or more services or products of the Assurance Client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the Firm acts as a distributor or marketer of the Assurance Client's products or services, or the Assurance Client acts as the distributor or marketer of the products or services of the Firm.

In the case of an Audit Client, unless the Financial Interest is immaterial and the relationship is Clearly Insignificant to the Firm, the Network Firm and the Audit Client, no safeguards could reduce the threat to an acceptable level. In the case of an Assurance Client that is not an Audit Client, unless the Financial Interest is immaterial and the relationship is Clearly Insignificant to the Firm and the Assurance Client, no safeguards could reduce the threat to an acceptable level. Consequently, in both these circumstances the only possible courses of action are to:

- (a) Terminate the business relationship;
- (b) Reduce the magnitude of the relationship so that the Financial Interest is immaterial and the relationship is Clearly Insignificant; or
- (c) Refuse to perform the Assurance Engagement.

Unless any such Financial Interest is immaterial and the relationship is Clearly Insignificant to the member of the Assurance Team, the only appropriate safeguard would be to remove the individual from the Assurance Team.

290.133 In the case of an Audit Client, business relationships involving an interest held by the Firm, a Network Firm or a member of the Assurance Team or their Immediate Family in a closely held entity when the Audit Client or a Director or Officer of the Audit Client, or any group thereof, also has an interest in that entity, do not create threats to independence provided:

- (a) The relationship is Clearly Insignificant to the Firm, the Network Firm and the Audit Client;
- (b) The interest held is immaterial to the investor, or group of investors; and
- (c) The interest does not give the investor, or group of investors, the ability to control the closely held entity

290.134 The purchase of goods and services from an Assurance Client by the Firm (or from an Audit Client by a Network Firm) or a member of the Assurance Team would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than Clearly Insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction;
- Removing the individual from the Assurance Team; or
- Discussing the issue with those charged with governance, such as the audit committee.

#### **AUST290.134.1**

In the case of a corporate Audit Client, that is not a small proprietary company for the relevant financial year, where the Firm or a Partner appoints as a consultant for reward:

- (a) a Director of the Audit Client; or
- (b) an Officer of the Audit Client; or
- (c) an employee of the Audit Client in a position to exert direct and significant influence over the subject matter of the Audit Engagement, or the conduct or efficacy of the audit;

the threat created would be so significant, no safeguards could reduce the threat to an acceptable level.

Consequently, in the case of a corporate Audit Client, that is not a small proprietary company for the relevant financial year, the only possible courses of action are to:

- Terminate the consultancy arrangement; or
- Refuse to perform the Audit Engagement.

#### **Family and Personal Relationships**

290.135 Family and personal relationships between a member of the Assurance Team and a Director, an Officer or certain employees, depending on their role, of the Assurance Client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the Assurance Engagement, the closeness of the relationship and the role of the family member or other individual within the Assurance Client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

##### *Immediate Family member influences subject matter information*

290.136 When an Immediate Family member of a member of the Assurance Team is a Director, an Officer or an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter information of the Assurance Engagement, or was in such a position during any period covered by the Engagement, the threats to Independence can only be reduced to an acceptable level by removing the individual from the Assurance Team. The closeness of the relationship is such that no other safeguard could reduce the threat to Independence to an acceptable

level. If application of this safeguard is not used, the only course of action is to withdraw from the Assurance Engagement. For example, in the case of an audit of Financial Statements, if the spouse of a member of the Assurance Team is an employee in a position to exert direct and significant influence over the preparation of the Audit Client's accounting records or Financial Statements, the threat to Independence could only be reduced to an acceptable level by removing the individual from the Assurance Team.

*Immediate Family member influences subject matter*

290.137 When an Immediate Family member of a member of the Assurance Team is an employee in a position to exert direct and significant influence over the subject matter of the Engagement, threats to Independence may be created. The significance of the threats will depend on factors such as:

- The position the Immediate Family member holds with the Client; and
- The role of the professional on the Assurance Team.

The significance of the threat should be evaluated and, if the threat is other than Clearly Insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the Assurance Team;
- Where possible, structuring the responsibilities of the Assurance Team so that the professional does not deal with matters that are within the responsibility of the Immediate Family member; or
- Policies and procedures to empower staff to communicate to senior levels within the Firm any issue of Independence and objectivity that concerns them.

290.138 When a Close Family member of a member of the Assurance Team is a Director, an Officer, or an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter information of the Assurance Engagement, threats to Independence may be created. The significance of the threats will depend on factors such as:

- The position the Close Family member holds with the Client; and
- The role of the professional on the Assurance Team.

The significance of the threat should be evaluated and, if the threat is other than Clearly Insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the Assurance Team;
- Where possible, structuring the responsibilities of the Assurance Team so that the professional does not deal with matters that are within the responsibility of the Close Family member; or
- Policies and procedures to empower staff to communicate to senior levels within the Firm any issue of Independence and objectivity that concerns them.

290.139 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an Immediate or Close Family member of a member of the Assurance Team has a close relationship with the member of the Assurance Team and is a Director, an Officer or an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter information of the Assurance Engagement. Therefore, members of the Assurance Team are responsible for identifying any such persons and for consulting in accordance with Firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the Assurance Client.

290.140 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a Partner or employee of the Firm who is not a member of the Assurance Team and a Director, an Officer or an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter information of the Assurance Engagement. Therefore Partners and employees of the Firm are responsible for identifying any such relationships and for consulting in accordance with Firm procedures. The evaluation of the significance

of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the Firm professional with the Assurance Team, the position held within the Firm, and the role of the individual within the Assurance Client.

290.141 An inadvertent violation of this section as it relates to family and personal relationships would not impair the Independence of a Firm or a member of the Assurance Team when:

- (a) The Firm has established policies and procedures that require all professionals to report promptly to the Firm any breaches resulting from changes in the employment status of their Immediate or Close Family members or other personal relationships that create threats to Independence;
- (b) Either the responsibilities of the Assurance Team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the Firm promptly removes the professional from the Assurance Engagement; and
- (c) Additional care is given to reviewing the work of the professional.

290.142 When an inadvertent violation of this section relating to family and personal relationships has occurred, the Firm should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant who did not take part in the Assurance Engagement to review the work done by the member of the Assurance Team; or
- Excluding the individual from any substantive decision-making concerning the Assurance Engagement.

#### **Employment with Assurance Clients**

290.143 A Firm or a member of the Assurance Team's Independence may be threatened if a Director, an Officer or an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter information of the Assurance Engagement has been a member of the Assurance Team or Partner of the Firm. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former Firm. Similarly, a member of the Assurance Team's Independence may be threatened when an individual participates in the Assurance Engagement knowing, or having reason to believe, that he or she is to, or may, join the Assurance Client some time in the future.

290.144 If a member of the Assurance Team, Partner or former Partner of the Firm has joined the Assurance Client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) The position the individual has taken at the Assurance Client;
- (b) The amount of any involvement the individual will have with the Assurance Team;
- (c) The length of time that has passed since the individual was a member of the Assurance Team or Firm; and
- (d) The former position of the individual within the Assurance Team or Firm.

The significance of the threat should be evaluated and, if the threat is other than Clearly Insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the Assurance Engagement;
- Assigning an Assurance Team to the subsequent Assurance Engagement that is of sufficient experience in relation to the individual who has joined the Assurance Client;
- Involving an additional professional accountant who was not a member of the Assurance Team to review the work done or otherwise advise as necessary; or
- Quality control review of the Assurance Engagement.

In all cases all of the following safeguards are necessary to reduce the threat to an acceptable level:



- the individual concerned does not influence the operations or financial policies of the accounting and audit practice conducted by the Firm; and
- the individual does not participate, or appear to participate, in the business or professional activities of the accounting and audit practice conducted by the Firm; and
- the individual does not have any rights against the Firm, or the members of the Firm, in relation to the accounting and audit practice conducted by the Firm in relation to the termination of, or the value of, the individual's former partnership interest in the Firm; and
- the individual has no financial arrangements with the Firm in relation to the accounting and audit practice conducted by the Firm, other than:
  - an arrangement providing for regular payments of a fixed pre-determined dollar amount which is not dependent, directly or indirectly, on the revenues, profits or earnings of the Firm; or
  - an arrangement providing for regular payments of a dollar amount where the method of calculating the dollar amount is fixed and is not dependent, directly or indirectly, on the revenues, profits or earnings of the Firm; and
- without limiting the above, the individual has no financial arrangement with the Firm to receive a commission or similar payment in relation to business generated by the individual; for the accounting and audit practice conducted by the Firm; and
- where a former Partner of the Firm, who was directly involved in the audit, has become an Officer or Director of an Audit Client, at least two years has elapsed since the date of the last annual or half-year audit report in respect of which the individual was a member of the Audit Team.

290.145 A self-interest threat is created when a member of the Assurance Team participates in the Assurance Engagement while knowing, or having reason to believe, that he or she is to, or may, join the Assurance Client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) Policies and procedures to require the individual to notify the Firm when entering serious employment negotiations with the Assurance Client.
- (b) Removal of the individual from the Assurance Engagement.

In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the Engagement.

#### **AUST290.145.1**

If a former Partner of the Firm:

- (a) becomes an Officer or Director of a corporate Audit Client, that is not a small proprietary company, within a period of five years after the individual ceased (or last ceased) to be a Partner of the Firm; and
- (b) at the same time another former Partner of the Firm, who was a Partner of the Firm at the time when the Firm undertook an audit of the corporate Audit Client, is an Officer or Director of the corporate Audit Client;

the threat created would be so significant no safeguard could reduce the threat to an acceptable level.

This provision applies to a former Partner only if the former Partner was at 1 July 2004, or became after that date a Partner of the audit Firm and becomes an Officer or Director of the corporate Audit Client concerned on or after 1 July 2004.

## **OPERATIVE DATE**

This Code is operative from 1 July 2006, or as otherwise provided within this Code.

Note: For operative dates of paragraphs changed or added by an amending Standard, see Compilation Details.

## **CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS**

### *Technical Staff comments*

This compiled version of APES 110 is materially consistent with the IFAC *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) in June 2005 except for:

- The Australian preface;
- Paragraphs prefixed as Aus;
- Paragraphs noted as deleted;

[to be completed]