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

Compiled as at Januaryune 20254

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COMPILATION DETAILS

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

This compilation is not a separate Standard issued by Accounting Professional & Ethical Standards Board Limited (APESB). Instead, it is a compilation of APES 110 (November 2018) as amended or added to by subsequent APESB Amending Standards, which are listed in the table below.

APES 110 (November 2018) is effective from 1 January 2020 and supersedes the previous APES 110 issued in December 2010 (amended December 2011, May 2013, November 2013, May 2017 and April 2018). The amendments listed in the Tables below and reflected in this compiled Standard are effective from 1 July 2021, 1 January 2022, 1 January 2023, 1 July 2023, 1 January 2024 and 1 January 2025 with early adoption permitted. The compiled Standard takes into account amendments up to and including January~~une~~ 2025~~4~~ and was prepared by the Technical Staff of APESB. The table also includes editorial amendments approved at the September 2024 Board Meeting (BM editorials – September 2024) and editorials made by the International Ethics Standards Board for Accountants (IESBA) in the IESBA Handbook for 2024.

Table of Amending Standards

APES 110 Amending Standard	Issued	Operative date*
Amendments to Part 4B of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards* [Part 4B]	September 2020	1 July 2021 with early adoption permitted
Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* to Promote the Role and Mindset Expected of Professional Accountants [Role and Mindset]	March 2021	1 January 2022 with early adoption permitted
Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers [EQR]	February 2022	1 January 2023 with early adoption permitted
Amendments to the Fee-related provisions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* [Fees]	July 2022	1 January 2023 with early adoption permitted
Quality Management-related Conforming Amendments to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* [QM]	November 2022	1 January 2023 with early adoption permitted
Amendments to the Non-Assurance Services provisions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* [NAS]	December 2022	1 July 2023 with early adoption permitted
Revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* Relating to the Definition of Engagement Team and Group Audits [ET-GA]	June 2023	1 January 2024 with early adoption permitted

APES 110 Amending Standard	Issued	Operative date*
Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* [PIE]	November 2023	1 January 2025 with early adoption permitted
Technology-related revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* [Technology]	June 2024	1 January 2025 with early adoption permitted
Revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* Addressing Tax Planning and Related Services [Tax Planning]	January 2025	1 July 2025 with early adoption permitted

** Refer to the transitional provisions on page 302~~282~~302 with respect to these amending standards.*

Table of Amendments

Paragraph	How affected	APES 110 Amending Standard issued
GUIDE TO THE CODE		
6	amended	QM, November 2022
SCOPE AND APPLICATION		
1.1	amended amended amended amended amended amended amended amended amended amended	Part 4B, September 2020 Role and Mindset, March 2021 EQR, February 2022 Fees, July 2022 QM, November 2022 NAS, December 2022 ET-GA, June 2023 PIE, November 2023 Technology, June 2024 Tax Planning, January 2025
GLOSSARY		
[AUST] Administration	amended	Role and Mindset, March 2021
[AUST] ASQM 1	added	QM, November 2022
Assurance Client	amended	Part 4B, September 2020
Assurance Engagement	amended	Part 4B, September 2020
Assurance Team	amended amended	EQR, February 2022 ET-GA, June 2023
Attestation Engagement	added	Part 4B, September 2020
Audit Client	amended amended	ET-GA, June 2023 PIE, November 2023
Audit Team	amended amended	EQR, February 2022 ET-GA, June 2023
[AUST] Auditing and Assurance Standards	amended	Tax Planning, January 2025
[AUST] Australian Accounting Standards	amended	Tax Planning, January 2025
Cooling-off period	amended	EQR, February 2022
Component	added	ET-GA, June 2023
Component Audit Client	added	ET-GA, June 2023

Paragraph	How affected	APES 110 Amending Standard issued
Component Auditor Firm	added	ET-GA, June 2023
Confidential Information	added	Technology, June 2024
Criteria	added	Part 4B, September 2020
Direct Engagement	added	Part 4B, September 2020
Engagement Quality Review	renamed (previously Engagement Quality Control Review) and amended	EQR, February 2022
Engagement Quality Reviewer	added	EQR, February 2022
Engagement Team	amended amended	ET-GA, June 2023 Tax Planning, January 2025
Footnote 1, definition of Engagement Team	amended amended	ET-GA, June 2023 BM editorial – September 2024
Financial Statements	amended	Part 4B, September 2020
Financial Statements on which the Firm will express an Opinion	amended	ET-GA (consequential amendment), June 2023
Firm	amended	Role and Mindset, March 2021
Fundamental principles	amended	Technology, June 2024
Group	added	ET-GA, June 2023
Group Audit	added	ET-GA, June 2023
Group Audit Client	added amended	ET-GA, June 2023 PIE, November 2023
Group Auditor Firm	added	ET-GA, June 2023
Group Audit Team	added	ET-GA, June 2023
Group Engagement Partner	added	ET-GA, June 2023
Group Financial Statements	added	ET-GA, June 2023
Independence	amended	Role and Mindset, March 2021
Key Audit Partner	amended amended	EQR, February 2022 ET-GA, June 2023
Listed Entity (extant)	deleted	PIE, November 2023
Network	amended	QM, November 2022

Paragraph	How affected	APES 110 Amending Standard issued
Professional judgement	added	Role and Mindset, March 2021
[AUST] Professional Standards	amended	Role and Mindset, March 2021
Public Interest Entity	amended amended	ET-GA (editorial), June 2023 PIE, November 2023
Publicly Traded Entity	added	PIE, November 2023
Reasonable and informed third party *Reasonable and informed third party test*	amended amended	Role and Mindset, March 2021 Technology, June 2024
Responsible Party	added	Part 4B, September 2020
Review Team	amended amended	EQR, February 2022 ET-GA, June 2023
Subject Matter Information	added	Part 4B, September 2020
Underlying Subject Matter	added	Part 4B, September 2020
PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK		
100.1	renumbered (previously 100.1 A1) and amended	Role and Mindset, March 2021
100.2 – 100.4	added	Role and Mindset, March 2021
100.5 A1	renumbered (previously 100.2 A1) and amended	Role and Mindset, March 2021
100.5 A2	renumbered (previously 100.2 A2)	Role and Mindset, March 2021
R100.6	renumbered (previously 100.3) and amended	Role and Mindset, March 2021
100.6 A1 – 100.6 A2	added	Role and Mindset, March 2021
100.6 A3	renumbered (previously 100.3 A2 with additional content incorporated)	Role and Mindset, March 2021
R100.7	renumbered (previously R100.3) and amended	Role and Mindset, March 2021
100.7 A1	renumbered (previously 100.3 A1)	Role and Mindset, March 2021
R100.8 - 100.8 A1	renumbered (previously R100.4 - 100.4 A1)	Role and Mindset, March 2021

Paragraph	How affected	APES 110 Amending Standard issued
110.1 A1	amended	Role and Mindset, March 2021
110.2 A1	amended	Role and Mindset, March 2021
111.1 A1	amended	Role and Mindset, March 2021
111.1 A2	added	Role and Mindset, March 2021
R112.1	amended	Role and Mindset, March 2021
R113.1	amended	Technology, June 2024
113.1 A1	amended	Technology, June 2024
113.1 A2	added	Technology, June 2024
113.1 A3	amended renumbered (previously 113.1 A2) and amended	Role and Mindset, March 2021 Technology, June 2024
113.1 A4	renumbered (previously 113.1 A3)	Technology, June 2024
R113.3	amended	Technology, June 2024
R114.1	amended (part relocated to R114.2)	Technology, June 2024
114.1 A1	added	Technology, June 2024
R114.2	renumbered (previously part of R114.1) and amended amended	Technology, June 2024 IESBA Handbook 2024 editorial
AUST R114.3	renumbered (previously part of 114.3 A1) and amended	Technology, June 2024
114.3 A1	renumbered (previously 114.1 A1) and amended (part relocated to AUST R114.3)	Technology, June 2024
AUST 114.3 A1.1 - 114.3 A2	renumbered (previously AUST 114.1 A1.1 – 114.1 A2) and amended	Technology, June 2024
114.3 A3	added	Technology, June 2024
R114.4	renumbered (previously R114.2) and amended	Technology, June 2024
R115.1	amended	Role and Mindset, March 2021
R120.5	amended amended	Role and Mindset, March 2021 Technology, June 2024
120.5 A1 – 120.5 A3	added	Role and Mindset, March 2021
120.5 A2 (extant)	deleted	Role and Mindset, March 2021
120.5 A4	renumbered (previously 120.5 A1) and amended	Role and Mindset, March 2021

Paragraph	How affected	APES 110 Amending Standard issued
120.5 A5	renumbered (previously 120.5 A3) and amended	Role and Mindset, March 2021
120.5 A6 - 120.5 A8	added	Technology, June 2024
120.5 A9	renumbered (previously 120.5 A4) renumbered (previously 120.5 A6)	Role and Mindset, March 2021 Technology, June 2024
120.6 A3	amended	Role and Mindset, March 2021
120.8 A2	amended	Role and Mindset, March 2021
120.12 A1 – 120.13 A2	added	Role and Mindset, March 2021
120.13 A3	added amended	Role and Mindset, March 2021 Technology, June 2024
120.14 A1	added amended	Role and Mindset, March 2021 QM, November 2022
120.15 A1 to 120.15 A2	renumbered (previously 120.12 A1 to 120.13 A1)	Role and Mindset, March 2021
120.15 A3	added amended	Fees, July 2022 QM, November 2022
120.16 A1	renumbered (previously 120.12 A2)	Role and Mindset, March 2021
120.16 A2	renumbered (previously 120.13 A2) and amended	Role and Mindset, March 2021
PART 2 – MEMBERS IN BUSINESS (INCLUDING EMPLOYMENT RELATIONSHIPS OF MEMBERS IN PUBLIC PRACTICE)		
200.5 A3	amended amended	Role and Mindset, March 2021 Technology, June 2024
Footnote 3, paragraph 200.5 A3	amended	Role and Mindset, March 2021
200.6 A1	amended amended	QM, November 2022 Technology, June 2024
200.6 A2	added	Technology, June 2024
200.7 A4	added	Technology, June 2024
200.7 A5	renumbered (previously 200.7.A4)	Technology, June 2024
210.4 A1	amended	Technology, June 2024
R220.4	amended	Role and Mindset, March 2021
Sub-heading for R220.7	amended	Technology, June 2024
R220.7	amended amended	Role and Mindset, March 2021 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
220.7 A1	amended	Technology, June 2024
Sub-heading for R220.8	added	Technology, June 2024
R220.8 – 220.8 A1	added	Technology, June 2024
R220.9 – 220.12 A3	renumbered (previously R220.8 – 220.11 A3)	Technology, June 2024
220.12 A4	added	Technology, June 2024
R240.3	amended	Technology, June 2024
Footnote 4, paragraph 260.9 A1	amended	Role and Mindset, March 2021
R260.21 - R260.22	amended	Technology, June 2024
R260.26	amended	Technology, June 2024
270.3 A2	amended	Fees, July 2022
Section 280 Tax Planning Activities	added	Tax Planning, January 2025
280.1 – 280.23 A2	added	Tax Planning, January 2025
PART 3 – MEMBERS IN PUBLIC PRACTICE		
300.5 A2	added	Technology, June 2024
300.6 A1	amended amended	EQR, February 2022 Technology, June 2024
300.6 A2	added	Technology, June 2024
300.7 A5	amended	QM, November 2022
300.7 A6	added	Technology, June 2024
300.7 A7	renumbered (previously 300.7 A6)	Technology, June 2024
300.7 A8	amended (as 300.7 A7) renumbered (previously 300.7 A7)	PIE, November 2023 Technology, June 2024
310.4 A1	amended	Technology, June 2024
310.8 A2	amended	Technology, June 2024
R310.12	amended	Technology, June 2024
310.12 A1	amended	Technology, June 2024
320.3 A4	amended amended	Fees, July 2022 QM, November 2022
320.7 A2	amended	Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
R320.10	amended	Technology, June 2024
320.10 A1	amended	Technology, June 2024
Sub-heading for R320.11	added	Technology, June 2024
R320.11 – 320.11 A1	added	Technology, June 2024
Sub-heading for 320.12 A1	added	Technology, June 2024
320.12 A1	added	Technology, June 2024
321.3 A1	amended	Tax Planning, January 2025
321.3 A3	amended	Tax Planning, January 2025
R321.4	amended	Tax Planning, January 2025
Section 325 Objectivity of an Engagement Quality Reviewer and other Appropriate Reviewers	added	EQR, February 2022
325.1 – 325.8 A3	added	EQR, February 2022
325.5 A1	amended	QM, November 2022
Heading for 330.3 A1	amended	BM editorial - September 2024
330.3 A1	amended	Fees, July 2022
330.3 A3	amended	Fees, July 2022
330.4 A2	amended	QM, November 2022
AUST R330.4.1	amended	Role and Mindset, March 2021
R360.16 – 360.18 A1	amended	ET-GA, June 2023
360.19 A1	amended	QM, November 2022
Footnote 7, paragraph 360.21 A1	amended	NAS, December 2022
360.25 A3	amended	ET-GA, June 2023
Footnote 8, paragraph 360.25 A3	amended	Role and Mindset, March 2021
R360.26 – R360.27	amended	Technology, June 2024
R360.31 – 360.34 A1	amended	ET-GA (consequential amendments), June 2023
R360.37 - R360.38	amended	Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
Section 380 Tax Planning Services	added	Tax Planning, January 2025
380.1 – 380.26 A2	added	Tax Planning, January 2025
PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS		
400.2	amended	Fees, July 2022
400.4	amended	QM, November 2022
400.6	amended	ET-GA, June 2023
Sub-heading for 400.8	added	ET-GA, June 2023
400.8 – 400.12	added	ET-GA, June 2023
400.13	renumbered (previously 400.8) amended	ET-GA, June 2023 PIE, November 2023
400.14	renumbered (previously AUST R400.8.1) renumbered (previously AUST R400.13.1) and amended	ET-GA, June 2023 PIE, November 2023
400.15	added	PIE, November 2023
400.16 – AUST R400.19.1	renumbered (previously 400.9 to AUST R400.12.1) renumbered (previously 400.14 to AUST R400.17.1) and amended	ET-GA, June 2023 PIE, November 2023
R400.20 – 400.20 A3	added (as R400.13 – 400.13 A3) renumbered (previously R400.13 to 400.13 A3) renumbered (previously R400.18 to 400.18 A3)	NAS, December 2022 ET-GA, June 2023 PIE, November 2023
400.20 A4	added (as 400.13 A4) renumbered (previously 400.13 A4) renumbered (previously 400.18 A4) and amended	NAS, December 2022 ET-GA, June 2023 PIE, November 2023
R400.21	added (as R400.14) renumbered (previously R400.14) renumbered (previously R400.19)	NAS, December 2022 ET-GA, June 2023 PIE, November 2023
400.21 A1	added	Technology, June 2024
Sub-heading for R400.22	added	PIE, November 2023
R400.22 – 400.23 A2	added	PIE, November 2023

Paragraph	How affected	APES 110 Amending Standard issued
AUST R400.23.1	renumbered (previously AUST 400.8.1 A1) and amended renumbered (previously AUST 400.13.1 A1) and amended	ET-GA (editorial), June 2023 PIE, November 2023
Footnote 12, paragraph AUST R400.23.1	amended	PIE, November 2023
AUST R400.24	added	PIE, November 2023
R400.25 – R400.26	added	PIE, November 2023
R400.27	renumbered (previously R400.20) and amended	PIE, November 2023
Sub-heading for R400.30	added	NAS, December 2022
400.30 A1	amended	ET-GA, June 2023
R400.31	amended amended	NAS, December 2022 ET-GA, June 2023
400.31 A1	amended	ET-GA, June 2023
400.31 A2	added	NAS, December 2022
400.31 A3	renumbered (previously 400.31 A2) and amended	NAS, December 2022
400.31 A4 – 400.32 A1	added	NAS, December 2022
R400.53	amended	QM, November 2022
400.53 A4	amended	QM, November 2022
R400.73	amended	EQR, February 2022
400.73 A1	amended amended	EQR, February 2022 QM, November 2022
R400.74	amended	BM editorial – September 2024
R400.80 – 400.80 A1	amended	QM, November 2022
Section 405 Group Audits	added	ET-GA, June 2023
405.1 – R405.4	added	ET-GA, June 2023
405.4 A1	added amended	ET-GA, June 2023 BM editorial – September 2024
R405.5 – 405.16 A2	added	ET-GA, June 2023
R405.17	added amended	ET-GA, June 2023 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
R405.18 - 405.21 A1	added	ET-GA, June 2023
405.21 A2	added amended	ET-GA, June 2023 Technology, June 2024
405.22 A1 – R405.29	added	ET-GA, June 2023
410.2	amended	Fees, July 2022
410.3 A1 – 410.4 A3 (including Footnote 15)	added	Fees, July 2022
410.4 A4	added amended	Fees, July 2022 QM, November 2022
410.4 A5 – R410.7	added	Fees, July 2022
R410.5 (extant) – R410.6 (extant)	deleted	Fees, July 2022
410.8 A1 – R410.10	renumbered (previously 410.9 A1 – R410.11)	Fees, July 2022
410.10 A1	renumbered (previously 410.12 A1) and amended	Fees, July 2022
410.10 A2	renumbered (previously 410.12 A2)	Fees, July 2022
410.10 A3	renumbered (previously 410.12 A3) and amended	Fees, July 2022
410.11 A1 – 410.12 A1	added	Fees, July 2022
410.12 A2	renumbered (previously 410.7 A1) and amended	Fees, July 2022
410.12 A3	added	Fees, July 2022
410.12 A4 – R410.13	renumbered (previously 410.7 A1 – R410.8) and amended	Fees, July 2022
410.14 A1	renumbered (previously 410.3 A1) and amended	Fees, July 2022
410.14 A2	added	Fees, July 2022
410.14 A3 – AUST R410.14.2	renumbered (previously 410.3 A2 – AUST 410.3.1 A1) and amended	Fees, July 2022
AUST R410.14.3 – R410.17	added	Fees, July 2022
R410.18	renumbered (previously R410.4) and amended	Fees, July 2022
R410.19 – R410.33 (including Footnotes 16 and 17)	added	Fees, July 2022

Paragraph	How affected	APES 110 Amending Standard issued
R410.24	amended	ET-GA (consequential amendments), June 2023
R410.27	amended	ET-GA (consequential amendments), June 2023
AUST R411.4	renumbered (previously R411.4) and amended	Fees, July 2022
510.4 A1	amended	ET-GA, June 2023
Footnote 18, paragraph 510.10 A13	renumbered (previously 15) amended	Fees, July 2022 NAS, December 2022
Footnotes 19 - 32	renumbered (previously 6 to 29)	Fees, July 2022
520.3 A2	amended	Technology, June 2024
520.3 A3	added	Technology, June 2024
520.6 A1	amended	Technology, June 2024
Sub-heading for 520.7 A1	added	Technology, June 2024
520.7 A1	added	Technology, June 2024
R525.4	amended	NAS, December 2022
R540.4	amended amended	EQR, February 2022 ET-GA, June 2023
R540.5	amended	EQR, February 2022
540.6 A1	amended	EQR, February 2022
Footnote 33, paragraph R540.9	renumbered (previously 30) amended	Fees, July 2022 NAS, December 2022
Footnote 34, paragraph R540.11	renumbered (previously 31)	Fees, July 2022
R540.12	amended	EQR, February 2022
Footnote 35, paragraph R540.12	renumbered (previously 32)	Fees, July 2022
540.14 A1	added	EQR, February 2022
R540.15	renumbered (previously R540.14)	EQR, February 2022
R540.16 – R540.18	renumbered (previously R540.15 – R540.17) and amended	EQR, February 2022
Footnote 36, paragraph R540.17	added renumbered (previously 33)	EQR, February 2022 Fees, July 2022
R540.19	renumbered (previously R540.18)	EQR, February 2022

Paragraph	How affected	APES 110 Amending Standard issued
R540.20	renumbered (previously R540.19) and amended	EQR, February 2022
Footnotes 37 to 40	renumbered (previously 33 to 36) renumbered (previously 34 to 37)	EQR, February 2022 Fees, July 2022
AUST R540.20.1	renumbered (previously AUST R540.19.1)	EQR, February 2022
R540.21	renumbered (previously R540.20) amended	EQR, February 2022 ET-GA, June 2023
540.21 A1	renumbered (previously 540.20 A1) and amended	EQR, February 2022
600.3	amended	NAS, December 2022
600.4	renumbered (previously part of 600.3) and amended	NAS, December 2022
600.4 A1 (extant)	deleted	NAS, December 2022
600.5	renumbered (previously 600.4 A2) and amended	NAS, December 2022
600.6	added	Technology, June 2024
600.6 A1 (extant) – 600.6 A2 (extant)	deleted	NAS, December 2022
600.7 A1	added (as 600.6 A1) renumbered (previously 600.6 A1)	NAS, December 2022 Technology, June 2024
600.8 A1	added (as 600.7 A1) amended (as 600.7 A1) amended (as 600.7 A1) renumbered (previously 600.7 A1)	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024
R600.7 (extant) – R600.8 (extant)	deleted	NAS, December 2022
R600.9	renumbered (previously R600.4) and amended (as R600.8) renumbered (previously R600.8)	NAS, December 2022 Technology, June 2024
600.10 A1	added (as 600.9 A1) renumbered (previously 600.9 A1)	NAS, December 2022 Technology, June 2024
600.10 A2	renumbered (previously 600.5 A1) and amended amended (as 600.9 A2) amended (as 600.9 A2) renumbered (previously 600.9 A2) and amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
600.10 A3 – 600.11 A1	renumbered (previously 600.5 A2 to 600.5 A3) and amended renumbered (previously 600.9 A3 to 600.10 A1)	NAS, December 2022 Technology, June 2024
600.11 A2	added (as 600.10 A2) renumbered (previously 600.10 A2)	NAS, December 2022 Technology, June 2024
600.12 A1	added (as 600.11 A1) renumbered (previously 600.11 A1) and amended	NAS, December 2022 Technology, June 2024
R600.13	renumbered (previously 600.5 A4) and amended renumbered (previously R600.12)	NAS, December 2022 Technology, June 2024
600.13 A1	added (as 600.12 A1) renumbered (previously 600.12 A1) and amended	NAS, December 2022 Technology, June 2024
600.14 A1 - 600.16 A2	added (as 600.13 A1 to 600.15 A2) renumbered (previously 600.13 A1 to 600.15 A2)	NAS, December 2022 Technology, June 2024
R600.17	added (as R600.16) renumbered (previously R600.16) and amended	NAS, December 2022 Technology, June 2024
R600.18	added (as R600.17) amended (as R600.17) amended (as R600.17) renumbered (previously R600.17) and amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024
600.18 A1	added (as 600.17 A1) renumbered (previously 600.17 A1)	NAS, December 2022 Technology, June 2024
600.19 A1	renumbered (previously 600.6 A3) and amended renumbered (previously 600.18 A1)	NAS, December 2022 Technology, June 2024
600.19 A2 – 600.19 A4	added (as 600.18 A2 – 600.18 A4) renumbered (previously 600.18 A2 – 600.18 A4)	NAS, December 2022 Technology, June 2024
600.20 A1	added (as 600.19 A1) renumbered (previously 600.19 A1)	NAS, December 2022 Technology, June 2024
600.21 A1 – 600.21 A2	added (as 600.20 A1 to 600.20 A2) renumbered (previously 600.20 A1 to 600.20 A2) and amended	NAS, December 2022 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
R600.22 – 600.22 A1	added (as R600.21 to 600.21 A1) renumbered (previously R600.21 to 600.21 A1)	NAS, December 2022 Technology, June 2024
R600.23 – R600.25	added (as R600.22 – R600.24) renumbered (previously R600.22 to R600.24) and amended	NAS, December 2022 Technology, June 2024
R600.26	renumbered (previously R600.9) and amended renumbered (previously R600.25)	NAS, December 2022 Technology, June 2024
600.26 A1	added (as 600.25 A1) renumbered (previously 600.25 A1)	NAS, December 2022 Technology, June 2024
R600.27	renumbered (previously R600.10) and amended amended (as R600.26) amended (as R600.26) renumbered (previously R600.26)	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024
600.28 A1	added (as 600.27 A1) renumbered (previously 600. 27 A1) and amended	NAS, December 2022 Technology, June 2024
601.1 (extant)	deleted	NAS, December 2022
601.1	renumbered (previously 601.2) and amended amended	NAS, December 2022 Technology, June 2024
601.2 A1	renumbered (previously 601.3 A2)	NAS, December 2022
601.3 A1	amended	NAS, December 2022
601.3 A3 (extant) – 601.3 A4 (extant)	deleted	NAS, December 2022
601.4 A1	added	NAS, December 2022
R601.5	amended	NAS, December 2022
601.5 A1	renumbered (previously 601.4 A1) and amended	NAS, December 2022
601.5. A2	added	Technology, June 2024
601.5 A3	renumbered (previously 601.4 A1) and amended amended (as 601.5 A2) amended (as 601.5 A2) renumbered (previously 601.5 A2) and amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
601.5 A4	renumbered (previously 601.5 A1) and amended renumbered (previously 601.5 A3)	NAS, December 2022 Technology, June 2024
R601.6	amended	NAS, December 2022
R601.7	amended	NAS, December 2022
602.1 (extant)	deleted	NAS, December 2022
602.1	renumbered (previously 602.2) and amended amended	NAS, December 2022 Technology, June 2024
602.2 A1 – 602.2 A2	renumbered (previously 602.3 A1 to 602.3 A2) and amended	NAS, December 2022
602.3 A1	added	NAS, December 2022
603.1 (extant)	deleted	NAS, December 2022
603.1	renumbered (previously 603.2) and amended amended	NAS, December 2022 Technology, June 2024
603.2 A1 – 603.2 A2	renumbered (previously 603.3 A1 to 603.3 A2) and amended	NAS, December 2022
603.3 A1	added	NAS, December 2022
603.3 A2	renumbered (previously 603.3 A3) and amended	NAS, December 2022
603.3 A3	renumbered (previously 603.3 A4) and amended	NAS, December 2022
603.4 A1	amended	NAS, December 2022
R603.5	amended amended	NAS, December 2022 Technology, June 2024
603.5 A1	added	NAS, December 2022
604.1 (extant)	deleted	NAS, December 2022
604.1	renumbered (previously 604.2) and amended amended	NAS, December 2022 Technology, June 2024
604.2 A1	renumbered (previously 604.3 A1) and amended	NAS, December 2022
604.2 A2 – 604.3 A1	added	NAS, December 2022
604.3 A2	amended	NAS, December 2022
AUST R604.4 – AUST R604.4 1	added	NAS, December 2022

Paragraph	How affected	APES 110 Amending Standard issued
604.4 A1 (extant)	deleted	NAS, December 2022
604.5 A1	renumbered (previously 604.4 A2) and amended	NAS, December 2022
604.6 A1 (extant)	deleted	NAS, December 2022
604.6 A1	renumbered (previously 604.4 A3) and amended	NAS, December 2022
604.7 A1	added	NAS, December 2022
604.8 A1	renumbered (previously 604.5 A1) and amended	NAS, December 2022
604.9 A1	renumbered (previously 604.5 A2) and amended	NAS, December 2022
604.9 A2	renumbered (previously 604.5 A3)	NAS, December 2022
R604.10	renumbered (previously R604.6) and amended amended	NAS, December 2022 Technology, June 2024
604.11 A1	renumbered (previously 604.7 A2) and amended	NAS, December 2022
604.12 A1	renumbered (previously 604.7 A1) and amended	NAS, December 2022
604.12 A2 – AUST R604.12.1	added	NAS, December 2022
604.12 A3	renumbered (previously 604.7 A3) and amended	NAS, December 2022
R604.13	renumbered (previously R604.8) and amended	NAS, December 2022
604.14 A1	renumbered (previously 604.7 A4) and amended	NAS, December 2022
R604.15	added amended	NAS, December 2022 Technology, June 2024
604.15 A1 – 604.16 A1	added	NAS, December 2022
604.17 A1	renumbered (previously 604.9 A1) and amended	NAS, December 2022
604.17 A2	renumbered (previously 604.9 A5) and amended	NAS, December 2022
604.17 A3	added	NAS, December 2022
604.18 A1 – 604.18 A3	renumbered (previously 604.9 A2 to 604.9 A4) and amended	NAS, December 2022

Paragraph	How affected	APES 110 Amending Standard issued
R604.19	added amended	NAS, December 2022 Technology, June 2024
604.19 A1	added	NAS, December 2022
604.20 A1	renumbered (previously 604.10 A2) and amended	NAS, December 2022
604.21 A1	renumbered (previously 604.10 A1) and amended	NAS, December 2022
604.22 A1 – 604.23 A1	renumbered (previously 604.10 A3 to 604.10 A4) and amended	NAS, December 2022
R604.24	added amended	NAS, December 2022 Technology, June 2024
604.24 A1	added	NAS, December 2022
R604.25	renumbered (previously R604.11) and amended	NAS, December 2022
R604.26	added	NAS, December 2022
604.27 A1 – 604.27 A2	renumbered (previously 604.11 A1 to 604.11 A2) and amended	NAS, December 2022
605.1 (extant)	deleted	NAS, December 2022
605.1	renumbered (previously 605.2) and amended amended	NAS, December 2022 Technology, June 2024
Footnote 40, paragraph 605.1	amended	BM editorial – September 2024
605.2 A1 – 605.2 A2	renumbered (previously 605.3 A1 to 605.3 A2) and amended	NAS, December 2022
R605.3	renumbered (previously R605.4) and amended amended amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023
605.3 A1 – 605.3 A2	renumbered (previously 605.4 A1 to 605.4 A2) and amended	NAS, December 2022
605.4 A1	added	NAS, December 2022
605.4 A2 – R605.4 A3	renumbered (previously 605.4 A3 to R605.4 A4) and amended amended	NAS, December 2022 ET-GA, June 2023
605.5 A1	renumbered (previously 605.4 A5) and amended	NAS, December 2022

Paragraph	How affected	APES 110 Amending Standard issued
R605.6	renumbered (previously R605.5) and amended amended	NAS, December 2022 Technology, June 2024
605.6 A1	renumbered (previously R605.5) and amended	NAS, December 2022
606.1 (extant)	deleted	NAS, December 2022
606.1	renumbered (previously 606.2) and amended amended	NAS, December 2022 Technology, June 2024
606.2 A1	added	Technology, June 2024
606.2 A2	renumbered (previously 606.3 A1) renumbered (previously 606.2 A1) and amended	NAS, December 2022 Technology, June 2024
R606.3	renumbered (previously R606.4) and amended amended amended amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023 Technology, June 2024
606.3 A1- 606.3 A2	added	Technology, June 2024
606.4 A1	added	NAS, December 2022
606.4 A2 (extant)	renumbered (previously 606.3 A2) and amended deleted	NAS, December 2022 Technology, June 2024
606.4 A2	renumbered (previously 606.4 A1and amended renumbered (previously 606.4 A3)	NAS, December 2022 Technology, June 2024
606.4 A3	added	Technology, June 2024
606.5 A1	renumbered (previously 606.4 A2) and amended	NAS, December 2022
R606.6	renumbered (previously R606.5) and amended amended	NAS, December 2022 Technology, June 2024
606.6 A1 (extant)	renumbered (previously R606.5) and amended deleted	NAS, December 2022 Technology, June 2024
607.1 (extant)	deleted	NAS, December 2022
607.1	renumbered (previously 607.2) and amended amended	NAS, December 2022 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
607.2 A1	renumbered (previously 607.3 A1) and amended	NAS, December 2022
607.3 A1	added	NAS, December 2022
607.4 A1	renumbered (previously 607.3 A2) and amended	NAS, December 2022
607.4 A2 – 607.5 A1	renumbered (previously 607.3 A3 to 607.3 A4) and amended	NAS, December 2022
R607.6	added amended	NAS, December 2022 Technology, June 2024
607.6 A1 – R607.9	added	NAS, December 2022
608.1 (extant)	deleted	NAS, December 2022
608.1	renumbered (previously 608.2) and amended amended	NAS, December 2022 Technology, June 2024
608.2 A1	renumbered (previously 608.3 A1)	NAS, December 2022
608.2 A2 – 608.3 A1	added	NAS, December 2022
608.4 A1	amended	NAS, December 2022
608.5 A1	renumbered (previously 608.4 A2) and amended	NAS, December 2022
608.5 A2 – 608.5 A3	added	NAS, December 2022
608.6 A1	renumbered (previously 608.4 A3) and amended	NAS, December 2022
R608.7	added amended	NAS, December 2022 Technology, June 2024
608.8 A1	added	NAS, December 2022
R608.9	renumbered (previously R608.5) and amended	NAS, December 2022
608.9 A1	renumbered (previously 608.5 A1)	NAS, December 2022
R608.10 – 608.10 A1	renumbered (previously R608.6 to 608.6 A1) and amended	NAS, December 2022
R608.11	added	NAS, December 2022
609.1 (extant)	deleted	NAS, December 2022
609.1	renumbered (previously 609.2) and amended amended	NAS, December 2022 Technology, June 2024
609.2 A1	renumbered (previously 609.3 A1)	NAS, December 2022

Paragraph	How affected	APES 110 Amending Standard issued
R609.3	renumbered (previously R609.4) and amended amended amended	NAS, December 2022 ET-GA (editorial), June 2023 PIE, November 2023
609.4 A1	added	NAS, December 2022
609.4 A2	renumbered (previously 609.3 A2) and amended	NAS, December 2022
609.4 A3	renumbered (previously 609.5 A1) and amended	NAS, December 2022
609.4 A4 – R609.5	renumbered (previously 609.5 A2 to R609.6)	NAS, December 2022
R609.6	renumbered (previously R609.7) and amended	NAS, December 2022
610.1 (extant)	deleted	NAS, December 2022
610.1	renumbered (previously 610.2) and amended amended	NAS, December 2022 Technology, June 2024
610.2 A1	renumbered (previously 610.3 A1) and amended	NAS, December 2022
610.3 A1	added	NAS, December 2022
610.4 A1	renumbered (previously 610.3 A2) and amended	NAS, December 2022
R610.5 – 610.7 A1	renumbered (previously 610.3 A3 to R610.5) and amended	NAS, December 2022
R610.8	added amended	NAS, December 2022 Technology, June 2024
610.8 A1	added	NAS, December 2022
R800.10	amended amended	EQR, February 2022 ET-GA, June 2023
PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS		
900.1	amended amended	Part 4B, September 2020 Technology, June 2024
900.3	amended amended	Part 4B, September 2020 QM, November 2022
900.5	amended	Part 4B, September 2020
900.7 – 900.8	amended	Part 4B, September 2020

Paragraph	How affected	APES 110 Amending Standard issued
Footnotes 37 - 38, paragraph 900.8 (extant)	deleted	Part 4B, September 2020
AUST 900.8.1 - 900.10	renumbered (previously AUST 900.11.1 to 900.13)	Part 4B, September 2020
900.9 (extant) – 900.11 (extant)	deleted	Part 4B, September 2020
R900.11	renumbered (previously R900.14) and amended	Part 4B, September 2020
900.11 A1 – 900.11 A3	added	Part 4B, September 2020
R900.12 to AUST R900.12.1	renumbered (previously paragraph R900.15 to AUST R900.15.1)	Part 4B, September 2020
R900.13	amended (as R950.6) renumbered (previously R950.6)	Part 4B, September 2022 NAS, December 2022
900.13 A1	renumbered (previously 950.6 A1)	NAS, December 2022
900.13 A2	amended (as 950.6 A2) renumbered (previously 950.6 A2) and amended	Part 4B, September 2020 NAS, December 2022
900.13 A3	renumbered (previously 950.6 A3)	NAS, December 2022
900.13 A4 – 900.13 A5	added	Technology, June 2024
900.13 A6	renumbered (previously 950.6 A4) and amended renumbered (previously 900.13 A4)	NAS, December 2022 Technology, June 2024
R900.14	amended (as 950.7) renumbered (previously 950.7) and amended	Part 4B, September 2020 NAS, December 2022
900.14 A1	added	Technology, June 2024
900.15 A1	renumbered to 900.13 A1(previously 900.21 A1) and amended renumbered to 900.14 A1 (previously 900.13 A1) renumbered (previously 900.14 A1)	Part 4B, September 2020 NAS, December 2022 ET-GA, June 2023
R900.16	renumbered to R900.14 (previously R900.16) and amended renumbered to R900.15 (previously R900.14) renumbered (previously R900.15)	Part 4B, September 2020 NAS, December 2022 ET-GA, June 2023

Paragraph	How affected	APES 110 Amending Standard issued
900.16 A1 – R900.17	renumbered (previously 900.16 A1 – R900.17) renumbered (previously 900.14 A1 – R900.15) renumbered (previously 900.15 A1 – R900.16)	Part 4B, September 2020 NAS, December 2022 ET-GA, June 2023
R900.18 (extant) – R900.20 (extant)	deleted	Part 4B, September 2020
Footnote 39, paragraph R900.18 (extant)	deleted	Part 4B, September 2020
R900.30	amended	Part 4B, September 2020
900.30 A1	amended	ET-GA, June 2023
R900.31	amended	Part 4B, September 2020
R900.32	amended amended	Part 4B, September 2020 ET-GA, June 2023
900.32 A1 – R900.33	amended	NAS, December 2022
900.34 A1 – 900.34 A2	added	NAS, December 2022
Sub-heading for R900.40	amended	Part 4B, September 2020
Sub-heading for R900.50	amended	Part 4B, September 2020
905.2	amended	Fees, July 2022
905.3 A1 – 905.3 A3	added	Fees, July 2022
905.3 A4	added amended	Fees, July 2022 QM, November 2022
905.3 A5	added	Fees, July 2022
905.4 A1 – 905.4 A3	added	Fees, July 2022
905.5 A1 – R905.6	renumbered (previously 905.6 A1 – R905.7)	Fees, July 2022
R905.7	amended (as extant R905.8) renumbered (previously R905.8) and amended	Part 4B, September 2020 Fees, July 2022
905.7 A1	renumbered (previously 905.9 A1) and amended	Fees, July 2022
905.7 A2	amended (as extant 905.9 A2) renumbered (previously 905.9 A2)	Part 4B, September 2020 Fees, July 2022
905.7 A3	renumbered (previously 905.9 A3)	Fees, July 2022

Paragraph	How affected	APES 110 Amending Standard issued
905.8 A1	added	Fees, July 2022
905.8 A2	renumbered (previously 905.4 A1) and amended	Fees, July 2022
905.8 A3	added	Fees, July 2022
905.8 A4 – R905.9	renumbered (previously 905.4 A2 – R905.5) and amended	Fees, July 2022
905.10 A1	renumbered (previously 905.3 A1) and amended	Fees, July 2022
905.10 A2 – 905.10 A3	added	Fees, July 2022
905.10 A4 – 905.10 A6	renumbered (previously 905.3 A2 – 905.3 A4) and amended	Fees, July 2022
905.10 A7	added	Fees, July 2022
905.10 A8	renumbered (previously 905.3 A5) and amended	Fees, July 2022
920.3 A2	amended amended	Part 4B, September 2020 Technology, June 2024
920.3 A3	added	Technology, June 2024
920.5 A1	amended	Technology, June 2024
Sub-heading for 920.6 A1	added	Technology, June 2024
920.6 A1	added	Technology, June 2024
921.3 A2	amended	Part 4B, September 2020
921.4 A1	amended	Part 4B, September 2020
R921.5 – 921.6 A1	amended	Part 4B, September 2020
R921.7	amended	Part 4B, September 2020
921.8 A1	amended	Part 4B, September 2020
R922.3 – 922.4 A1	amended	Part 4B, September 2020
923.4 A1	amended	Part 4B, September 2020
924.3 A1 - R924.4	amended	Part 4B, September 2020
940.3 A1	amended	Part 4B, September 2020
940.3 A3 - 940.3 A4	amended	Part 4B, September 2020
R940.4	amended	ET-GA, June 2023

Paragraph	How affected	APES 110 Amending Standard issued
Section 950 Provision of Non-Assurance Services to Assurance Clients	Section heading amended	Part 4B, September 2020
950.1	amended	Technology, June 2024
950.2	amended (part relocated to 950.3)	NAS, December 2022
950.3	renumbered (previously part of 950.2) and amended	NAS, December 2022
950.3 A1 (extant)	deleted	NAS, December 2022
950.4	renumbered (previously 950.3 A2) and amended	NAS, December 2022
950.5	added	Technology, June 2024
950.6 A1	added (as 950.5 A1) renumbered (previously 950.5 A1)	NAS, December 2022 Technology, June 2024
R950.7	amended (as R950.3) renumbered (previously R950.3) and amended renumbered (previously R950.6)	Part 4B, September 2020 NAS, December 2022 Technology, June 2024
950.8 A1	added (as 950.7 A1) renumbered (previously 950.7 A1)	NAS, December 2022 Technology, June 2024
950.8 A2	amended (as 950.4 A1) renumbered (previously 950.4 A1) and amended renumbered (previously 950.7 A2) and amended	Part 4B, September 2020 NAS, December 2022 Technology, June 2024
950.9 A1	amended (as 950.4 A2) renumbered (previously 950.4 A2) and amended renumbered (previously 950.8 A1)	Part 4B, September 2020 NAS, December 2022 Technology, June 2024
950.10 A1	renumbered (previously 950.4 A3) renumbered (previously 950.9 A1)	NAS, December 2022 Technology, June 2024
950.11 A1	amended (as 950.8 A1) renumbered (previously 950.8 A1) renumbered (previously 950.10 A1) and amended	Part 4B, September 2020 NAS, December 2022 Technology, June 2024
950.12 A1	added (as 950.11 A1) renumbered (previously 950.11 A1)	NAS, December 2022 Technology, June 2024

Paragraph	How affected	APES 110 Amending Standard issued
950.12 A2	added (as 950.11 A2) renumbered (previously 950.11 A2) and amended	NAS, December 2022 Technology, June 2024
950.13 A1	renumbered (previously 950.5 A1) and amended renumbered (previously 950.12 A1)	NAS, December 2022 Technology, June 2024
950.13 A2 – 950.13 A4	added (as 950.12 A2 – 950.12 A4) renumbered (previously 950.12 A2 – 950.12 A4)	NAS, December 2022 Technology, June 2024
R990.3 - 990.3 A1	amended	Part 4B, September 2020
R990.7	amended amended	EQR, February 2022 ET-GA, June 2023
TRANSITIONAL PROVISIONS		
1	amended	EQR, February 2022
2	added	Part 4B, September 2020
3	added	Role and Mindset, March 2021
4	added	EQR, February 2022
5	added	Fees, July 2022
6	added	QM, November 2022
7	added	NAS, December 2022
8	added	ET-GA, June 2023
9	added	PIE, November 2023
10	added	Technology, June 2024
11	added	Tax Planning, January 2025
CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS		
APES 110 and the IESBA Code	amended	All Amending Standards

GUIDE TO THE CODE

(This Guide is a non-authoritative aid to using the Code.)

Purpose of the Code

1. The *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") 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.

2. 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.

3. 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.

How the Code is Structured

4. The Code contains the following material:

   - *Glossary,* which 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 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework and is applicable to all Members.
   - Part 2 – *Members in Business (including employment relationships of Members in Public Practice),* which 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:
     - Commerce, industry or service.
     - The public sector.
     - Education.
     - The not-for-profit sector.
     - Regulatory or professional bodies.

     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.
   - Part 3 – *Members in Public Practice*, which sets out additional material that applies to Members in Public Practice when providing Professional Services.
   - *Independence Standards*, which sets out additional material that applies to Members in Public Practice when providing assurance services, as follows:
     - 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.

5. The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics. Each section of the Code is structured, where appropriate, as follows:

   - Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework. Introductory material contains information, including an explanation of terms used, which is important to the understanding and application of each Part and its sections.
   - Requirements – establish general and specific obligations with respect to the subject matter addressed.
   - Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

The Fundamental Principles, Independence and Conceptual Framework

6. The Code requires Members to comply with the fundamental principles of ethics. The Code also requires Members to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires having an inquiring mind, exercising professional judgement, and using the reasonable and informed third party test.

7. The conceptual framework recognises that the existence of conditions, policies and procedures established by the profession, legislation, regulation, the Firm, or the employing organisation might impact the identification of threats. Those conditions, policies and procedures might also be a relevant factor in the Member's evaluation of whether a threat is at an Acceptable Level. When threats are not at an Acceptable Level, the conceptual framework requires the Member to address those threats. Applying safeguards is one way that threats might be addressed. Safeguards are actions individually or in combination that the Member takes that effectively reduce threats to an Acceptable Level.

8. In addition, the Code requires Members to be independent when performing Audit, Review and other assurance engagements. The conceptual framework applies in the same way to identifying, evaluating and addressing threats to Independence as to threats to compliance with the fundamental principles.

9. Complying with the Code requires knowing, understanding and applying:

   - All of the relevant provisions of a particular section in the context of Part 1, together with the additional material set out in Sections 200, 300, 400 and 900, as applicable.
   - All of the relevant provisions of a particular section, for example, applying the provisions that are set out under the subheadings titled "General" and "All Audit Clients" together with additional specific provisions, including those set out under the subheadings titled "Audit Clients that are not Public Interest Entities" or "Audit Clients that are Public Interest Entities."
   - All of the relevant provisions set out in a particular section together with any additional provisions set out in any relevant subsection.

Requirements and Application Material

10. Requirements and application material are to be read and applied with the objective of complying with the fundamental principles, applying the conceptual framework and, when performing Audit, Review and other assurance engagements, being independent.

Requirements

11. Requirements are designated with the letter "R", denoted in **bold-type** and, in most cases, include the word "shall." The word "shall" in the Code imposes an obligation on a Member or Firm to comply with the specific provision in which "shall" has been used.

12. In some situations, the Code 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.

13. When the word "may" is used in the Code, it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

14. 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.

Application Material

15. In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. 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".

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

Appendix to Guide to the Code

17. Appendix 1 to this Guide provides an overview of the Code.

The Code and other Professional Standards

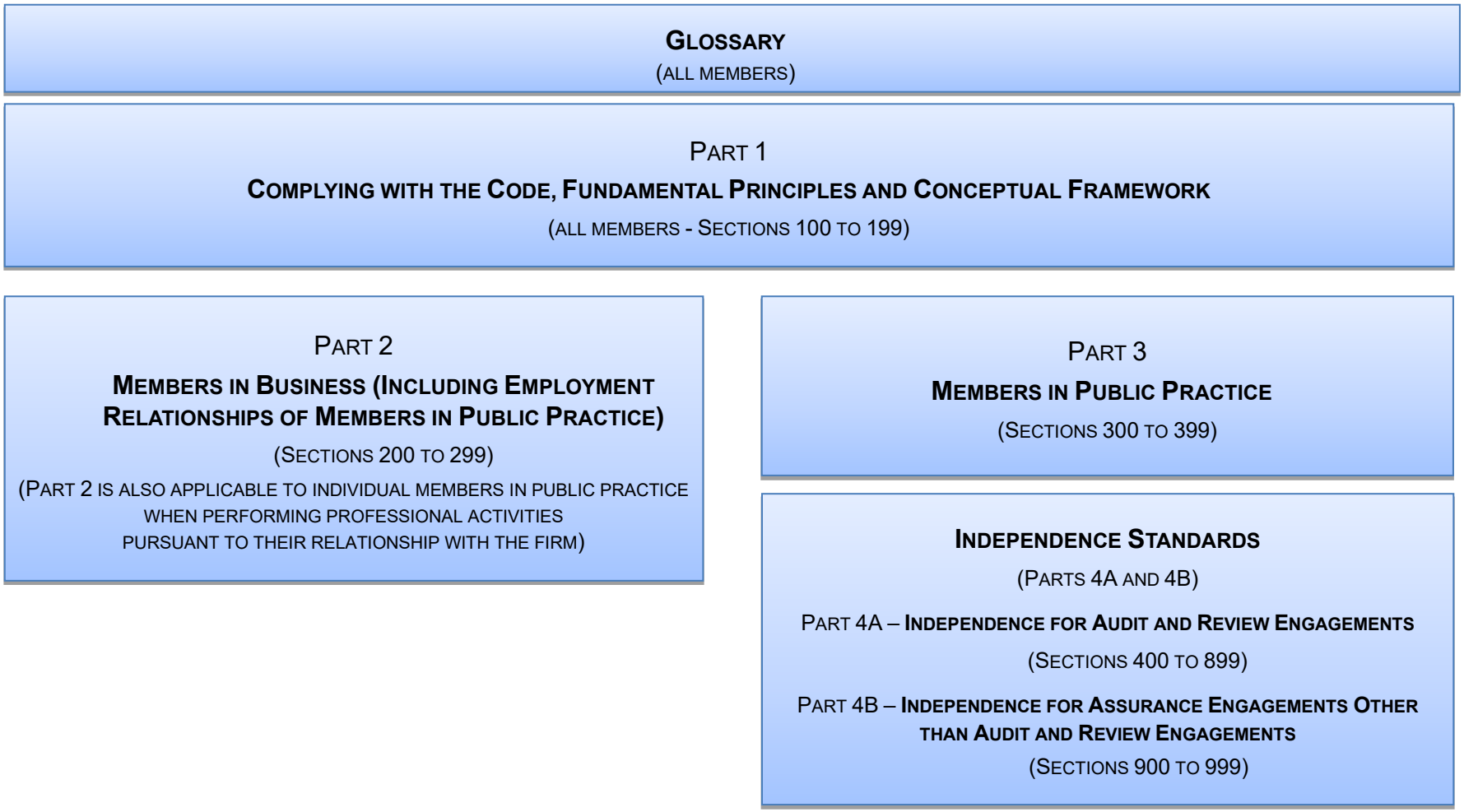
18. APESB develops and issues in the public interest, professional and ethical pronouncements that apply to Members of the Professional Bodies and comprise:
    - APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*;
    - professional standards; and
    - guidance notes.

19. All Members are required to comply with the Code and relevant Professional Standards, and to be familiar with guidance notes, when providing Professional Activities.

20. The structure of APESB pronouncements and the pronouncements issued to date are contained in Appendices 2 and 3 to this Guide.

Appendix 1 to Guide to the Code

Overview of the Code



Appendix 2 to Guide to the Code

Structure of APESB pronouncements

Conceptual Framework

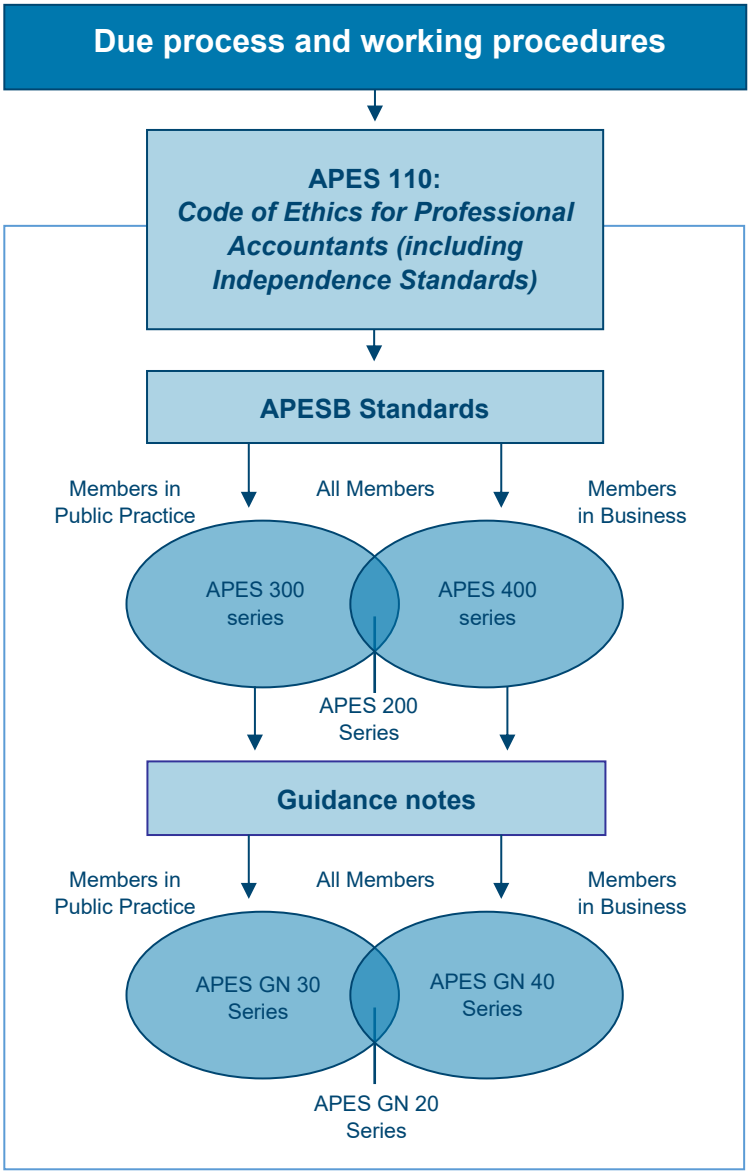
- Principles based
- Mandatory for professional accountants

Standards

- Introduces principles
- Mandatory requirements in **bold-type**
- Guidance and/or explanation in regular type

Guidance notes

- Do not introduce new principles
- Guidance on a specific matter on which the principles are already stated in a Standard
- Guidance is only in regular type



Appendix 3 to Guide to the Code

APESB issued pronouncements as at ~~June 2024~~January 2025

Professional Standards Classification and Range	APES Reference	Name of Standard or Guidance Note
Introductory	—	Due process and working procedures
Conceptual Framework for all Members	APES 110	*Code of Ethics for Professional Accountants (including Independence Standards)*
Standards & Guidance Notes for all Members		
APES 200-299	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 GN 20-29	APES GN 20	*Scope and Extent of Work for Valuation Services*
	APES GN 21	*Valuation Services for Financial Reporting*
Standards & Guidance Notes for Members in Public Practice		
APES 300-399	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*
APES GN 30-39	APES GN 30	*Outsourced Services*
	APES GN 31	*Professional and Ethical Considerations relating to Low Doc Offering Sign-offs*
Standards & Guidance Notes for Members in Business		
APES 400-499	—	
APES GN 40-49	APES GN 40	*Ethical Conflicts in the Workplace – Considerations for Members in Business*
	APES GN 41	*Management Representations*

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INDEPENDENCE STANDARDS)

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

Accounting Professional & Ethical Standards Board Limited (APESB) issued APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* in November 2018.

This compiled version of APES 110 incorporates amendments contained in subsequent APESB Standards issued by the APESB up to and including January 2025~~June 2024~~ (see Compilation Details).

SCOPE AND APPLICATION

1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (**this Code**). This Code 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, November 2013, May 2017 and April 2018). Earlier adoption of this Code is permitted. Transitional provisions relating to Key Audit Partner rotation, revisions to Part 4B, the role and mindset expected of Members provisions, the objectivity of Engagement Quality Reviewers and other appropriate reviewers, the fee-related provisions, the quality management-related conforming amendments, the non-assurance services provisions, the revisions to the definition of Engagement Team and Group Audit, the definitions of listed entity, Publicly Traded Entity and Public Interest Entity, ~~and~~ technology-related revisions, and tax planning and related services revisions apply as specified in the respective transitional provisions on page 302~~282~~.

R1.2 Subject to paragraph 1.5, all Members in Australia shall comply with APES 110 including when providing Professional Services in an honorary capacity.

R1.3 All Members practising outside of 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 the Members' obligation to comply with the Code, Members shall comply with other applicable Professional Standards and be familiar with relevant guidance notes when providing Professional Activities.

1.5 This Code is not intended to detract from any responsibilities which may be imposed by law or regulation. The 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.*

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

1.7 In applying the requirements outlined in this Code, Members shall be guided not merely by the words but also by the spirit of this Code.

1.8 In this Code, 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.

GLOSSARY

In the *Code of Ethics for Professional Accountants (including Independence Standards)* the terms below have the following meanings assigned to them.

In this Glossary, definitions 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.

[AUST] AASB	The Australian statutory body called the Australian Accounting Standards Board that was established under section 226 of the *Australian Securities and Investments Commission Act 1989* and is continued in existence by section 261 of the *Australian Securities and Investments Commission Act 2001*.
Acceptable Level	A level at which a Member using the reasonable and informed third party test would likely conclude that the Member complies with the fundamental principles.
[AUST] Administration	An appointment under either the *Bankruptcy Act 1966*, the *Corporations Act 2001* or any other legislation. Where appropriate, the term Administration applies to a solvent administration under Chapter 5 of the *Corporations Act 2001.*
Advertising	The communication to the public of information as to the services or skills provided by Members in Public Practice with a view to procuring professional business.
Appropriate reviewer	*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.* *This term is described in paragraph 300.8 A4.*
[AUST] ASQM 1	Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* issued by the AUASB.
Assurance Client	The Responsible Party and also, in an Attestation Engagement, the party taking responsibility for the Subject Matter Information (who might be the same as the Responsible Party).
Assurance Engagement	An engagement in which a Member in Public Practice 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. This includes an engagement in accordance with the *Framework for Assurance Engagements* issued by the AUASB or in accordance with specific relevant standards, such as International Standards on Auditing, for Assurance Engagements. (For guidance on Assurance Engagements, see the *Framework for Assurance Engagements* issued by the AUASB. The *Framework for Assurance Engagements* describes the elements and objectives of an

	Assurance Engagement and identifies engagements to which *Australian Auditing Standards* (ASAs), *Standards on Review Engagements* (ASREs) and *Standards on Assurance Engagements* (ASAEs) apply.) *In Part 4B, the term "Assurance Engagement" addresses Assurance Engagements other than Audit Engagements or Review Engagements.*
Assurance Team	(a) All members of the Engagement Team for the Assurance Engagement; (b) All others within, or engaged by, the Firm who can directly influence the outcome of the Assurance Engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Assurance Engagement Partner in connection with the performance of the Assurance Engagement; (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the Assurance Engagement; and (iii) Those who perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the engagement.
Attestation Engagement	An Assurance Engagement in which a party other than the Member in Public Practice measures or evaluates the Underlying Subject Matter against the Criteria. A party other than the Member also often presents the resulting Subject Matter Information in a report or statement. In some cases, however, the Subject Matter Information may be presented by the Member in the assurance report. In an Attestation Engagement, the Member's conclusion addresses whether the Subject Matter Information is free from material misstatement. The Member's conclusion may be phrased in terms of: (i) The Underlying Subject Matter and the applicable Criteria; (ii) The Subject Matter Information and the applicable Criteria; or (iii) A statement made by the appropriate party.
[AUST] AUASB	The Australian statutory body called the Auditing and Assurance Standards Board established under section 227A of the *Australian Securities and Investments Commission Act 2001*.
Audit	*In Part 4A, the term "audit" applies equally to "review."*
Audit Client	An entity in respect of which a Firm conducts an Audit Engagement. When the client is a Publicly Traded Entity, in accordance with paragraphs R400.22 and R400.23, Audit Client will always include its Related Entities. When the Audit Client is not a Publicly Traded Entity, Audit Client includes those Related Entities over which the client has direct or indirect control. *(See also paragraph R400.27.)* *In Part 4A, the term "Audit Client" applies equally to "Review Client." In the case of a Group Audit, see the definition of Group Audit Client.*

Audit Engagement	A reasonable Assurance Engagement in which a Member in Public Practice expresses an opinion whether Financial Statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with Auditing and Assurance Standards. This includes a statutory audit, which is an audit required by legislation or other regulation. *In Part 4A, the term "Audit Engagement" applies equally to "Review Engagement."*
Audit report	*In Part 4A, the term "audit report" applies equally to "review report."*
Audit Team	(a) All members of the Engagement Team for the Audit Engagement; (b) All others within, or engaged by, the Firm who can directly influence the outcome of the Audit Engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Engagement Partner in connection with the performance of the Audit Engagement, including those at all successively senior levels above the Engagement Partner through to the individual who is the Firm's senior or managing partner (chief executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the engagement; and (c) Any other individuals within a Network Firm who can directly influence the outcome of the Audit Engagement. *In Part 4A, the term "Audit Team" applies equally to "Review Team." In the case of a Group Audit, see the definition of Group Audit Team.*
[AUST] Auditing and Assurance Standards	The AUASB standards, as described in ASA 100 *Preamble to AUASB Standards*, ASA 101 *Preamble to ~~Australian Auditing Standards~~ AUASB Standards* and the *Foreword to AUASB Pronouncements*, issued by the AUASB, and operative from the date specified in each standard.
[AUST] Australian Accounting Standards	The Accounting Standards (including~~ Australian Accounting Interpretations~~ AASB Interpretations) promulgated by the AASB.
Close Family	A parent, child or sibling who is not an Immediate Family member.
Component	An entity, business unit, function or business activity, or some combination thereof, determined by the Group auditor for purposes of planning and performing audit procedures in a Group Audit.

Component Audit Client	A Component in respect of which a Group Auditor Firm or Component Auditor Firm performs audit work for purposes of a Group Audit. When a Component is: (a) A legal entity, the Component Audit Client is the entity and any Related Entities over which the entity has direct or indirect control; or (b) A business unit, function or business activity (or some combination thereof), the Component Audit Client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.
Component Auditor Firm	A Firm performing audit work related to a Component for purposes of a Group Audit.
Conceptual framework	*This term is described in Section 120.*
Confidential Information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
Contingent Fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the Firm. A fee that is established by a court or other public authority is not a Contingent Fee.
Cooling-off period	*This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to AUST R540.20.1.*
Criteria	In an Assurance Engagement, the benchmarks used to measure or evaluate the Underlying Subject Matter. The "applicable Criteria" are the Criteria used for the particular engagement.
Direct Engagement	An Assurance Engagement in which the Member in Public Practice measures or evaluates the Underlying Subject Matter against the applicable Criteria and the Member presents the resulting Subject Matter Information as part of, or accompanying, the assurance report. In a Direct Engagement, the Member's conclusion addresses the reported outcome of the measurement or evaluation of the Underlying Subject Matter against the Criteria.
Direct Financial Interest	A Financial Interest: (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or Officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title. This includes a Director or Officer as defined in Section 9 of the *Corporations Act 2001*.
Eligible Audit Engagement	*This term is described in paragraph 800.2 for the purposes of Section 800.*
Eligible Assurance Engagement	*This term is described in paragraph 990.2 for the purposes of Section 990.*

Engagement Partner	The partner or other person in the Firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement Period (Audit and Review Engagements)	The Engagement Period starts when the Audit Team begins to perform the audit. The Engagement Period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
Engagement Period (Assurance Engagements Other than Audit and Review Engagements)	The Engagement Period starts when the Assurance Team begins to perform assurance services with respect to the particular engagement. The Engagement Period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement Quality Review	An objective evaluation of the significant judgements made by the Engagement Team and the conclusions reached thereon, performed by the Engagement Quality Reviewer and completed on or before the date of the engagement report.
Engagement Quality Reviewer	A partner, other individual in the Firm, or an external individual, appointed by the Firm to perform the Engagement Quality Review.
Engagement Team[1]	All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding External Experts. *In Part 3, the term "Engagement Team" refers to individuals performing procedures on assurance or non-assurance engagements.* *In Part 4A, the term "Engagement Team" refers to individuals performing audit or review procedures on the Audit or Review Engagement, respectively. This term is further described in paragraph 400.9.* *ASA 220 ~~(Revised)~~Quality Management for an Audit of a Financial Report and Other Historical Financial Information (Compiled 2023) provides further guidance on the definition of Engagement Team in the context of an audit of Financial Statements.* *ASA 620 Using the Work of an Auditor's Expert (Compiled 2022) defines an auditor's expert as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ASA 620 deals with the auditor's responsibilities relating to the work of such experts.* *ASA 610 Using the Work of Internal Auditors (Compiled 2022) deals with the auditor's responsibilities if using the work of internal auditors.* *In Part 4B, the term "Engagement Team" refers to individuals performing assurance procedures on the Assurance Engagement.*

1 The definition of Engagement Team in APES 110 has been amended from the International equivalent to remove the reference to individuals within the client's internal audit function who perform procedures on an Audit Engagement as the AUASB has prohibited the use of direct assistance in Auditing and Assurance Standard ASA 610 *Using the Work of Internal Auditors (Compiled)* (April 2022).

Existing Accountant	A Member in Public Practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar Professional Services for a client.
External Expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the Firm or a Network Firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the Member in obtaining sufficient appropriate evidence.
Financial Interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial Statements	A structured representation of Historical Financial Information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements. For the purposes of this Code, financial report is considered to be an equivalent term to Financial Statements. *The term does not refer to specific elements, accounts or items of a Financial Statement.*
Financial Statements on which the Firm will express an Opinion	In the case of a single entity, the Financial Statements of that entity. In the case of consolidated Financial Statements, also referred to as Group Financial Statements, the consolidated Financial Statements.
Firm	(a) A sole practitioner, partnership, corporation or other entity of professional accountants; (b) An entity that controls such parties, through ownership, management or other means; (c) An entity controlled by such parties, through ownership, management or other means; or (d) An Auditor-General's office or department. *Paragraphs 400.4 and 900.3 explain how the word "Firm" is used to address the responsibility of Members and Firms for compliance with Parts 4A and 4B, respectively.*
Fundamental principles	*This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:* *Integrity* — *R111.1* *Objectivity* — *R112.1* *Professional competence and due care* — *R113.1* *Confidentiality* — *R114.1 to AUST R114.3* *Professional behaviour* — *R115.1*

Group	A reporting entity for which Group Financial Statements are prepared.
Group Audit	The audit of Group Financial Statements.
Group Audit Client	The entity on whose Group Financial Statements the Group Auditor Firm conducts an Audit Engagement. When the entity is a Publicly Traded Entity, the Group Audit Client will always include its Related Entities and any other Components at which audit work is performed. When the entity is not a Publicly Traded Entity, the Group Audit Client includes Related Entities over which such entity has direct or indirect control and any other Components at which audit work is performed. *See also paragraph R400.27.*
Group Audit Team	(a) All members of the Engagement Team for the Group Audit, including individuals within, or engaged by, Component Auditor Firms who perform audit procedures related to Components for purposes of the Group Audit; (b) All others within, or engaged by, the Group Auditor Firm who can directly influence the outcome of the Group Audit, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Group Engagement Partner in connection with the performance of the Group Audit, including those at all successively senior levels above the Group Engagement Partner through to the individual who is the Firm's senior or managing partner (chief executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the Group Audit; and (iii) Those who perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the Group Audit; (c) Any other individuals within a Network Firm of the Group Auditor Firm's Network who can directly influence the outcome of the Group Audit; and (d) Any other individuals within a Component Auditor Firm outside the Group Auditor Firm's Network who can directly influence the outcome of the Group Audit.
Group Auditor Firm	The Firm that expresses the opinion on the Group Financial Statements.
Group Engagement Partner	The Engagement Partner who is responsible for the Group Audit.
Group Financial Statements	Financial Statements that include the financial information of more than one entity or business unit through a consolidation process.
Historical Financial Information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate Family	A spouse (or equivalent) or dependant.

Independence

Independence 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.

As set out in paragraphs 400.5 and 900.4, references to an individual or Firm being "independent" mean that the individual or Firm has complied with Parts 4A and 4B, as applicable.

Indirect Financial Interest

A Financial Interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Inducement

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 business colleagues (for Members in Business), or between Members and existing or prospective clients (for Members in Public Practice), to acts that result in non-compliance 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.*

Key Audit Partner

The Engagement Partner, the individual responsible for the Engagement Quality Review, and other audit partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the Financial Statements on which the Firm will express an Opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, Engagement Partners for certain Components in a Group Audit such as significant subsidiaries or divisions.

May

This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.

[AUST] Member	A member of a Professional Body that has adopted this Code as applicable to their membership, as defined by that Professional Body. *In Part 1, the term "Member" refers to individual Members in Business and to Members in Public Practice and their Firms.* *In Part 2, the term "Member" refers to Members in Business, and also to Members in Public Practice when performing Professional Activities pursuant to their relationship with the Firm, whether as a contractor, employee or owner.* *In Parts 3, 4A and 4B, the term "Member" refers to Members in Public Practice and their Firms.*
Member in Business	A Member working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, Director (executive or non-executive), owner-manager or volunteer.
Member in Public Practice	A Member, irrespective of functional classification (for example, audit, tax or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.
Might	*This term is used in the Code to denote 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.*
Network	A larger structure: (a) That is aimed at cooperation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network Firm	A Firm or entity that belongs to a Network. *For further information, see paragraphs 400.50 A1 to 400.54 A1.*
Non-compliance with laws and regulations *(Members in Business)*	*Non-compliance with laws and regulations ("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) The Member's employing organisation;* *(b) Those Charged with Governance of the employing organisation;* *(c) Management of the employing organisation; or* *(d) Other individuals working for or under the direction of the employing organisation.* *This term is described in paragraph 260.5 A1.*

Non-compliance with laws and regulations *(Members in Public Practice)*	*Non-compliance with laws and regulations ("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.* *This term is described in paragraph 360.5 A1.*
Office	A distinct sub-group, whether organised on geographical or practice lines.
Predecessor Accountant	A Member in Public Practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar Professional Services for a client, where there is no Existing Accountant.
Professional Activity	An activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, tax, management consulting, and financial management.
[AUST] Professional Bodies	Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants.
Professional judgement	*Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular Professional Activities, and the interests and relationships involved.* *This term is described in paragraph 120.5 A4.*
Professional Services	Professional Activities performed for clients.
[AUST] Professional Standards	All standards issued by Accounting Professional & Ethical Standards Board Limited and all professional and ethical requirements of the applicable Professional Body.
Proposed Accountant	A Member in Public Practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar Professional Services for a prospective client (or in some cases, an existing client).
Public Interest Entity	For the purposes of Part 4A, an entity is a Public Interest Entity when it falls within any of the following categories: (a) A Publicly Traded Entity*; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

	* Includes a listed entity as defined in Section 9 of the *Corporations Act 2001*. The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2.
Publicly Traded Entity	An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. *A listed entity as defined by relevant securities law or regulation is an example of a Publicly Traded Entity.*
Reasonable and informed third party *Reasonable and informed third party test*	*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 that 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.* *These terms are described in paragraph 120.5 A9.*
Related Entity	An entity that has any of the following relationships with the client: (a) An entity that has direct or indirect control over the client if the client is material to such entity; (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; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c), has a Direct Financial Interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Responsible Party	In an Assurance Engagement, the party responsible for the Underlying Subject Matter.
Review Client	An entity in respect of which a Firm conducts a Review Engagement.
Review Engagement	An Assurance Engagement, conducted in accordance with Auditing and Assurance Standards on Review Engagements or equivalent, in which a Member in Public Practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the Member's attention that causes the Member to believe that the Historical Financial Information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review Team	(a) All members of the Engagement Team for the Review Engagement; and (b) All others within, or engaged by, the Firm who can directly influence the outcome of the Review Engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Engagement Partner in connection with the performance of the Review Engagement, including those at all successively senior levels above the Engagement Partner through to the individual who is the Firm's senior or managing partner (chief executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the engagement; and (c) Any other individuals within a Network Firm who can directly influence the outcome of the Review Engagement.
Safeguards	*Safeguards are actions, individually or in combination, that the Member takes that effectively reduce threats to compliance with the fundamental principles to an Acceptable Level.* *This term is described in paragraph 120.10 A2.*
Senior Member in Business	*Senior Members in Business are Directors, Officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources.* *This term is described in paragraph 260.11 A1.*
Special Purpose Financial Statements	Financial Statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Subject Matter Information	The outcome of the measurement or evaluation of the Underlying Subject Matter against the Criteria, i.e., the information that results from applying the Criteria to the Underlying Subject Matter.
Substantial harm	*This term is described in paragraphs 260.5 A3 and 360.5 A3.*
Those Charged with Governance	The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, Those Charged with Governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats	*This term is described in paragraph 120.6 A3 and includes the following categories:*	
	Self interest	*120.6 A3(a)*
	Self-review	*120.6 A3(b)*
	Advocacy	*120.6 A3(c)*
	Familiarity	*120.6 A3(d)*
	Intimidation	*120.6 A3(e)*
Time-on period	*This term is described in paragraph R540.5.*	
Underlying Subject Matter	The phenomenon that is measured or evaluated by applying Criteria.	

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

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SECTION 100

COMPLYING WITH THE CODE

Introduction

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organisations involve Members in a broad range of areas, including financial and corporate reporting, assurance and other Professional Activities. Members understand and acknowledge that such confidence is based on the skills and values that Members bring to the Professional Activities they undertake, including:

(a) Adherence to ethical principles and professional standards;

(b) Use of business acumen;

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgement.

The application of these skills and values enables Members to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organisations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. APESB adopts the IESBA Code in the development of this Code, which applies to all Members (including Firms).

100.4 The Code establishes five fundamental principles to be complied with by all Members. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other Assurance Engagements, threats to Independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that Members might encounter, whether in business or in public practice.

Requirements and Application Material

100.5 A1 The requirements in the Code, designated with the letter "R" and denoted in **bold-type,** impose obligations.

100.5 A2 Application material, designated with the letter "A", provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. 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.

R100.6 A Member shall comply with the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable Members to meet their responsibility to act in the public interest.

100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.

100.6 A3 Compliance with the requirements of the Code does not mean that Members will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which a Member believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the Member is encouraged to consult with an appropriate body such as a professional or regulatory body.

100.6 A4 In acting in the public interest, a Member considers not only the preferences or requirements of an individual client or employing organisation, but also the interests of other stakeholders when performing Professional Activities.

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.

100.7 A1 The principle of professional behaviour requires a Member to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Members in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

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.

100.8 A1 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.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for 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; and

(iii) Avoid any conduct that the Member knows or should know might discredit the profession.

R110.2 A Member shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of a Member. The conceptual framework establishes the approach which a Member is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A 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.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the 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.

110.2 A3 The Member is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 A Member 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 A Member 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 a 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.

SUBSECTION 112 – OBJECTIVITY

R112.1 A Member 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 A Member shall not undertake a Professional Activity if a circumstance or relationship unduly influences the Member's professional judgement regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 **A Member shall comply with the principle of professional competence and due care, which requires a Member to:**

(a) **Attain and maintain professional knowledge and skills 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 involves the exercise of sound judgement in applying professional knowledge and skills.

113.1 A2 The knowledge and skills necessary for a Professional Activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the Professional Activity, interpersonal, communication and organisational skills facilitate the Member's interaction with entities and individuals with whom the Member interacts.

113.1 A3 Maintaining professional competence requires a Member to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the Professional Activities undertaken by the Member. Continuing professional development enables a Member to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A4 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, a 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, a Member shall make clients, the employing organisation, or other users of the Member's Professional Activities, aware of the limitations inherent in the Professional Activities and explain the implications of those limitations.**

SUBSECTION 114 – CONFIDENTIALITY

R114.1 **A Member shall comply with the principle of confidentiality, which requires a Member to respect the confidentiality of information acquired in the course 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; and**

(d) **Take reasonable steps to ensure that personnel under the Member's control, and individuals from whom advice and assistance are obtained, comply with the Member's duty of confidentiality.**

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the Member taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R114.2 Subject to paragraph AUST R114.3, a Member shall not:

(a) Disclose Confidential Information acquired in the course of professional and business relationships;

(b) Use Confidential Information acquired in the course of professional and business relationships for the advantage of the Member, the Firm, the employing organisation or a third party;

(c) Use or disclose any Confidential Information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

AUST R114.3 As an exception to paragraph R114.2, a Member may disclose or use Confidential Information, or information in respect of which the duty of confidentiality applies, where:

(a) There is a legal or professional duty or right to do so; or

(b) This is authorised by the client or any person with the authority to permit disclosure or use of the Confidential Information and this is not prohibited by law or regulation.

114.3 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 might be required or have the duty or right to disclose Confidential Information:

(a) Disclosure is required by law or regulation, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:

(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.

AUST 114.3 A1.1 The circumstances described in paragraph 114.3 A1 do not take into account Australian legal and regulatory requirements. A Member considering disclosing Confidential Information about a client or employer without their consent is advised to first obtain legal advice.

114.3 A2 In deciding whether to disclose or use Confidential Information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organisation authorises the disclosure or use of information by the Member.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information, include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the Confidential Information originates.

114.3 A3 The circumstances in which a Firm or employing organisation seeks authorisation to use or disclose Confidential Information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorisation might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorisation of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R114.4 A 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 in the course of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

R115.1 A 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, a Member shall not bring the profession into disrepute. A 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 a Member is in doubt about whether a form of Advertising or marketing is appropriate, the Member is encouraged to consult with the relevant Professional Body.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

120.1 The circumstances in which 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 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 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 a 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

General

R120.3 The 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, 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.

R120.5 When applying the conceptual framework, the 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 A9.

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.

Exercising Professional Judgement

120.5 A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account 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.

120.5 A6 The circumstances in which Members carry out Professional Activities and the factors involved vary considerably in their range and complexity. The professional judgement exercised by Members might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the Firm or employing organisation and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgements the Member has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2)

120.5 A8 Managing complexity might also involve:

- Analysing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyse relevant data to inform the Member's judgement.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

120.5 A9 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.

Identifying Threats

R120.6 The 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.

Evaluating Threats

R120.7 When the 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 a 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 Level 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 the 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, the Member is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the 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 the 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 The 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.

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:

(a) Encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority; and

(b) Exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the Members, the Firm or the employing organisation has a professional or business relationship.

Firm Culture

AUST 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.

Considerations for Audits, Reviews, Other Assurance and 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.[2] 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.

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to Independence. In the context of audits, reviews and other assurance engagements, a system of quality management designed, implemented and operated by a Firm in accordance with the quality management standards issued by the AUASB is an example of such conditions, policies and procedures.

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.
  - 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.

2 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.

- 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 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.

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)

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SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – MEMBERS IN BUSINESS

Introduction

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. 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.

Requirements and Application Material

General

R200.5 A Member 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.

200.5 A1 A Member has a responsibility to further the legitimate objectives of the Member's employing organisation. The Code does not seek to hinder Members from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Members may promote the position of the employing organisation when furthering the legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a Member, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, Members are expected to encourage and promote an ethics-based culture in the organisation and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the Member or the employing organisation has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistleblowing policies.[3]
- Policies and procedures designed to prevent non-compliance with laws and regulations ("NOCLAR").

Identifying Threats

200.6 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 that might create threats for a Member when undertaking a Professional Activity:

(a) Self-interest Threats:

- A Member holding a Financial Interest in, or receiving a loan or guarantee from, the employing organisation.
- A Member participating in incentive compensation arrangements offered by the employing organisation.
- A Member having access to corporate assets for personal use.
- A Member being offered a gift or special treatment from a supplier of the employing organisation.

(b) Self-review Threats:

- A Member determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

(c) Advocacy Threats:

- A Member having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.

(d) Familiarity Threats:

- A Member being responsible for the financial reporting of the employing organisation when an Immediate or Close Family member employed by the organisation makes decisions that affect the financial reporting of the organisation.
- A Member having a long association with individuals influencing business decisions.

3 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 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.

(e) Intimidation Threats:

- A Member or Immediate or Close Family member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle.
  - The way in which financial information is to be reported.
- An individual attempting to influence the decision-making process of the Member, for example with regard to the awarding of contracts or the application of an accounting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a Member when undertaking a Professional Activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The Member might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the Member or employing organisation.

Evaluating Threats

200.7 A1 The conditions, policies and procedures described in paragraphs 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.

200.7 A2 The Member's evaluation of the level of a threat is also impacted by the nature and scope of the Professional Activity.

200.7 A3 The Member's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:

- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls.
- Recruitment procedures emphasising the importance of employing high calibre competent personnel.

- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 The Member's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organisation and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

200.7 A5 Members might consider obtaining legal advice where they believe that unethical behaviour or actions by others have occurred, or will continue to occur, within the employing organisation.

Addressing Threats

200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing Professional Activities and include examples of actions that might address such threats.

200.8 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an Acceptable Level, it might be appropriate for a Member to resign from the employing organisation.

Communicating with Those Charged with Governance

R200.9 When communicating with Those Charged with Governance in accordance with the Code, a Member shall determine the appropriate individual(s) within the employing organisation'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.

200.9 A1 In determining with whom to communicate, a Member might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

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

R200.10 If a Member 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.

200.10 A1 In some circumstances, all of Those Charged with Governance are involved in managing the employing organisation, for example, a small business where a single owner manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the Member has satisfied the requirement to communicate with Those Charged with Governance.

SECTION 210

CONFLICTS OF INTEREST

Introduction

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

210.2 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 undertakes a Professional Activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

(b) The interest of a Member with respect to a particular matter and the interests of a party for whom the Member undertakes a Professional Activity related to that matter are in conflict.

A party might include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.

210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

General

R210.4 A Member shall not allow a conflict of interest to compromise professional or business judgement.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organisations and acquiring Confidential Information from one organisation that might be used by the Member to the advantage or disadvantage of the other organisation.
- Undertaking a Professional Activity for each of two parties in a partnership, where both parties are employing the Member to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the Member's employing organisation who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organisation when an Immediate Family member of the Member might benefit financially from the transaction.
- Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the Member or an Immediate Family member.

Conflict Identification

R210.5 A Member 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 activity and its implication for relevant parties.

R210.6 A Member shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a Professional Activity.

Threats Created by Conflicts of Interest

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

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive Director.

Disclosure and Consent

General

210.8 A1 It is generally necessary to:

(a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organisation affected by a conflict; and

(b) Obtain consent from the relevant parties for the Member to undertake the Professional Activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the Member has sufficient evidence to conclude that the parties 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.

210.8 A3 If such disclosure or consent is not in writing, the Member 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.

Other Considerations

210.9 A1 When addressing a conflict of interest, the Member is encouraged to seek guidance from within the employing organisation or from others, such as a professional body, legal counsel or another Member. When making such disclosures or sharing information within the employing organisation and seeking guidance of third parties, the principle of confidentiality applies.

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

Introduction

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

220.2 Preparing or presenting information might create a self-interest, intimidation or other threats 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

General

220.3 A1 Members at all levels in an employing organisation are involved in the preparation or presentation of information both within and outside the organisation.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and Those Charged with Governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organisation's state of affairs and in making decisions concerning the organisation. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Risk analyses.
- General and Special Purpose Financial Statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, a Member shall:

(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

(b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;

(c) Exercise professional judgement to:

(i) Represent the facts accurately and completely in all material respects;

(ii) Describe clearly the true nature of business transactions or activities; and

(iii) Classify and record information in a timely and proper manner;

(d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;

(e) Avoid undue influence of, or undue reliance on, individuals, organisations or technology; and

(f) Be aware of the risk of bias.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgements. The Member shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial or operating risk in order to mislead.

R220.6 When performing Professional Activities, especially those that do not require compliance with a relevant reporting framework, the Member shall exercise professional judgement to identify and consider:

(a) The purpose for which the information is to be used;

(b) The context within which it is given; and

(c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgements.

220.6 A2 The Member might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

R220.7 A Member who intends to use the work of others, whether internal or external to the employing organisation, or other organisations, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 Factors to consider when a Member intends to use the work of others include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

Using the Output of Technology

R220.8 A Member who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a Member intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the Member has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the Member knows or has reason to believe that the information with which the Member is associated is misleading, the Member shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the Member's superior and/or the appropriate level(s) of management within the Member's employing organisation or Those Charged with Governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - Having the information corrected.
  - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistleblowing policy) regarding how to address such matters internally.

220.9 A2 The Member might determine that the employing organisation has not taken appropriate action. If the Member continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the Member remains alert to the principle of confidentiality:

- Consulting with:
  - A relevant Professional Body.
  - The internal or external auditor of the employing organisation.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

AUST R220.9.1 Where a Member referred to in paragraph R220.4 is not satisfied that the Financial Statements of an employing organisation are presented in accordance with applicable Australian Accounting Standards, the Member shall:

(a) in all cases, notify Those Charged with Governance and document the communication; and

(b) qualify any declarations given by the Member in compliance with legislative and regulatory requirements or the organisation's reporting requirements.

R220.10 If after exhausting all feasible options, the Member determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the Member shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for a Member to resign from the employing organisation.

Documentation

220.11 A1 The Member is encouraged to document:

- The facts.
- The accounting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The courses of action considered.
- How the Member attempted to address the matter(s).

Other Considerations

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a Financial Interest, including compensation and incentives linked to financial reporting and decision making, the requirements and application material set out in Section 240 apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations ("NOCLAR"), the requirements and application material set out in Section 260 apply.

220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.12 A4 When a Member is considering using the work of others or the output of technology, a consideration is whether the Member is in a position within the employing organisation to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 230

ACTING WITH SUFFICIENT EXPERTISE

Introduction

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

230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R230.3 A Member shall not intentionally mislead an employing organisation as to the level of expertise or experience possessed.

230.3 A1 The principle of professional competence and due care requires that a Member only undertake significant tasks for which the Member has, or can obtain, sufficient training or experience.

230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if a Member has:

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The extent to which the Member is working with others.
- The relative seniority of the Member in the business.
- The level of supervision and review applied to the work.

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

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, a Member shall determine whether to decline to perform the duties in question. If the Member determines that declining is appropriate, the Member shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when a Member is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

SECTION 240

FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL REPORTING AND DECISION MAKING

Introduction

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

240.2 Having a Financial Interest, or knowing of a Financial Interest held by an Immediate or Close Family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R240.3 A Member shall not manipulate information or use Confidential Information for personal gain or for the financial gain of others.

240.3 A1 Members might have Financial Interests or might know of Financial Interests of Immediate or Close Family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial Interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the Member or an Immediate or Close Family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a Direct or Indirect Financial Interest in the employing organisation and the value of that Financial Interest might be directly affected by decisions made by the Member.
- Is eligible for a profit-related bonus and the value of that bonus might be directly affected by decisions made by the Member.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organisation, the value of which might be affected by decisions made by the Member.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximise the value of the employing organisation's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the Financial Interest. What constitutes a significant Financial Interest will depend on personal circumstances and the materiality of the Financial Interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.

- In accordance with any internal policies, disclosure to Those Charged with Governance of:
  - All relevant interests.
  - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the Financial Interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles.*

SECTION 250

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

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

250.2 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.

250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of Inducements when undertaking Professional Activities that does not constitute non-compliance with laws and regulations ("NOCLAR"). This section also requires a Member to comply with relevant laws and regulations when offering or accepting Inducements.

Requirements and Application Material

General

250.4 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 business colleagues to acts that result in non-compliance 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.

Inducements Prohibited by Laws and Regulations

R250.5 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. The Member shall obtain an understanding of relevant laws and regulations and comply with them when the Member encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

250.6 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

R250.7 **A Member 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.**

R250.8 **A Member 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.**

250.9 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 considering what constitutes unethical behaviour on the part of the Member and, if necessary by analogy, other individuals.

250.9 A2 A breach of the fundamental principle of integrity arises when a Member 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.

250.9 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 Activity, 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 employing organisation, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the Inducement.
- Whether the Member knows, or has reason to believe, that accepting the Inducement would breach the policies and procedures of the counterparty's employing organisation.
- 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

250.10 A1 If the Member 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 R250.7 and R250.8 are met.

250.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or Those Charged with Governance of the employing organisation of the Member or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

Inducements with No Intent to Improperly Influence Behaviour

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

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

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

- Self-interest threats
  - A Member is offered part-time employment by a vendor.
- Familiarity threats
  - A Member regularly takes a customer or supplier to sporting events.
- Intimidation threats
  - A Member accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

250.11 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 250.9 A3 for determining intent.

250.11 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 any business-related decision involving the counterparty to another individual who the Member has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 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 or Those Charged with Governance of the employing organisation of the Member or of the counterparty about offering or accepting an Inducement.
- Registering the Inducement in a log maintained by the employing organisation of the Member or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the Professional Activity, review any work performed or decisions made by the Member with respect to the individual or organisation from which the Member accepted the Inducement.
- Donating the Inducement to charity after receipt and appropriately disclosing the donation, for example, to Those Charged with Governance 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.

Immediate or Close Family Members

R250.12 A Member 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 a counterparty with whom the Member has a professional relationship; or

(b) To an Immediate or Close Family member of the Member by a counterparty with whom the Member has a professional relationship.

R250.13 Where the Member 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 the counterparty, 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.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the Member or of the counterparty. 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 counterparty; and

(c) The Member and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the Member by a counterparty with whom the Member is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 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 or of the counterparty even if the Immediate or Close Family member has followed the advice given pursuant to paragraph R250.13.

Application of the Conceptual Framework

250.14 A1 Where the Member becomes aware of an Inducement offered in the circumstances addressed in paragraph R250.12, 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 R250.13; 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 counterparty exists.

250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 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 250.13 A1.

Other Considerations

250.15 A1 If a Member is offered an Inducement by the employing organisation relating to Financial Interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.

250.15 A2 If a Member encounters or is made aware of Inducements that might result in NOCLAR or suspected NOCLAR by other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 260 apply.

250.15 A3 If a Member faces pressure to offer or accept Inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

SECTION 260

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

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

260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a Member becomes aware of non-compliance or suspected non-compliance with laws and regulations ("NOCLAR").

260.3 A Member might encounter or be made aware of NOCLAR or suspected NOCLAR in the course of carrying out Professional Activities. 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 employing organisation'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 employing organisation's Financial Statements, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Member in Relation to NOCLAR

260.4 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 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 employing organisation, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected NOCLAR; or

(ii) Deter 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

General

260.5 A1 Non-compliance with laws and regulations ("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) The Member's employing organisation;

(b) Those Charged with Governance of the employing organisation;

(c) Management of the employing organisation; or

(d) Other individuals working for or under the direction of the employing organisation.

260.5 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.

260.5 A3 NOCLAR might result in fines, litigation or other consequences for the employing organisation, 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, NOCLAR 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.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how Members are required to address NOCLAR or suspected NOCLAR. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such NOCLAR or suspected NOCLAR, the 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 relevant party.

260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.

260.7 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a Public Interest Entity.

260.7 A2 A Member 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 employing organisation, its stakeholders and the general public.

260.7 A3 This section does not address:

(a) Personal misconduct unrelated to the business activities of the employing organisation; and

(b) NOCLAR by parties other than those specified in paragraph 260.5 A1.

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

Responsibilities of the Employing Organisation's Management and Those Charged with Governance

260.8 A1 The employing organisation's management, with the oversight of Those Charged with Governance, is responsible for ensuring that the employing organisation'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 employing organisation;

(b) An individual charged with governance of the employing organisation;

(c) A member of management; or

(d) Other individuals working for or under the direction of the employing organisation.

Responsibilities of All Members

R260.9 If protocols and procedures exist within the Member's employing organisation to address NOCLAR or suspected NOCLAR, the Member shall consider them in determining how to respond to such NOCLAR.

260.9 A1 Many employing organisations have established protocols and procedures regarding how to raise NOCLAR or suspected NOCLAR internally. These protocols and procedures include, for example, an ethics policy or internal whistleblowing mechanism.[4] Such protocols and procedures might allow matters to be reported anonymously through designated channels.

R260.10 Where a Member 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. For the purpose of taking timely steps, the Member shall have regard to the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

Responsibilities of Senior Members in Business

260.11 A1 Senior Members in Business are Directors, Officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to NOCLAR or suspected NOCLAR than other Members within the employing organisation. This is because of senior Members in Business' roles, positions and spheres of influence within the employing organisation.

4 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 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.

Obtaining an Understanding of the Matter

R260.12 If, in the course of carrying out Professional Activities, a senior Member in Business becomes aware of information concerning NOCLAR or suspected NOCLAR, the Member shall obtain an understanding of the matter. This understanding shall include:

(a) The nature of the NOCLAR or suspected NOCLAR and the circumstances in which it has occurred or might occur;

(b) The application of the relevant laws and regulations to the circumstances; and

(c) An assessment of the potential consequences to the employing organisation, investors, creditors, employees or the wider public.

260.12 A1 A senior Member in Business 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 greater than that which is required for the Member's role within the employing organisation. Whether an act constitutes NOCLAR is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.12 A2 Depending on the nature and significance of the matter, the senior Member in Business might cause, or take appropriate steps to cause, the matter to be investigated internally. The Member might also consult on a confidential basis with others within the employing organisation or a Professional Body, or with legal counsel.

Addressing the Matter

R260.13 If the senior Member in Business identifies or suspects that NOCLAR has occurred or might occur, the Member shall, subject to paragraph R260.9, discuss the matter with the Member's immediate superior, if any. If the Member's immediate superior appears to be involved in the matter, the Member shall discuss the matter with the next higher level of authority within the employing organisation.

260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

R260.14 The senior Member in Business shall also take appropriate steps to:

(a) Have the matter communicated to Those Charged with Governance;

(b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of NOCLAR or suspected NOCLAR to an appropriate authority;

(c) Have the consequences of the NOCLAR or suspected NOCLAR rectified, remediated or mitigated;

(d) Reduce the risk of recurrence; and

(e) Seek to deter the commission of the NOCLAR if it has not yet occurred.

260.14 A1 The purpose of communicating the matter to Those Charged with Governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfil their responsibilities.

260.14 A2 Some laws and regulations might stipulate a period within which reports of NOCLAR or suspected NOCLAR are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior Member in Business shall determine whether disclosure of the matter to the employing organisation's external auditor, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior Member in Business' duty and legal obligation to provide all information necessary to enable the auditor to perform the audit.

Determining Whether Further Action Is Needed

R260.16 The senior Member in Business shall assess the appropriateness of the response of the Member's superiors, if any, and Those Charged with Governance.

260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior Member in Business' superiors, if any, and Those Charged with Governance include whether:

- The response is timely.
- They have taken or authorised appropriate action to seek to rectify, remediate or mitigate the consequences of the NOCLAR, or to avert the NOCLAR if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R260.17 In light of the response of the senior Member in Business' superiors, if any, and Those Charged with Governance, the Member shall determine if further action is needed in the public interest.

260.17 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 employing organisation.
- Whether the senior Member in Business continues to have confidence in the integrity of the Member's superiors and 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 employing organisation, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior Member in Business no longer to have confidence in the integrity of the Member's superiors and Those Charged with Governance include situations where:

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

R260.18 The senior Member in Business 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.

260.18 A1 Further action that the senior Member in Business might take includes:

- Informing the management of the parent entity of the matter if the employing organisation is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organisation.

260.18 A2 Resigning from the employing organisation is not a substitute for taking other actions that might be needed to achieve the senior Member in Business' objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the Member. In such circumstances, resignation might be the only available course of action.

Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgements, the senior Member in Business 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

260.20 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.

260.20 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 senior Member in Business might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

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

260.20 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 upon 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.
- Whether there are actual or potential threats to the physical safety of the senior Member in Business or other individuals.

R260.21 If the senior Member in Business determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph AUST R114.3 of the Code. When making such disclosure, the Member shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

R260.22 In exceptional circumstances, the senior Member in Business 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 employing organisation, 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 AUST R114.3 of the Code.

Documentation

260.23 A1 In relation to NOCLAR or suspected NOCLAR that falls within the scope of this section, the senior Member in Business is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the Member's superiors, if any, and Those Charged with Governance and other parties.
- How the Member's superiors, if any, and 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 R260.17.

Responsibilities of Members Other than Senior Members in Business

R260.24 **If, in the course of carrying out Professional Activities, a Member 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 occur.**

260.24 A1 The Member 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 greater than that which is required for the Member's role within the employing organisation. Whether an act constitutes NOCLAR is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the Member might consult on a confidential basis with others within the employing organisation or a Professional Body, or with legal counsel.

R260.25 **If the Member identifies or suspects that NOCLAR has occurred or might occur, the Member shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the Member's immediate superior appears to be involved in the matter, the Member shall inform the next higher level of authority within the employing organisation.**

R260.26 **In exceptional circumstances, the Member may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the Member does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph AUST R114.3 of the Code. When making such disclosure, the Member shall act in good faith and exercise caution when making statements and assertions.**

Documentation

260.27 A1 In relation to NOCLAR or suspected NOCLAR that falls within the scope of this section, the Member is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the Member's superior, management and, where applicable, Those Charged with Governance and other parties.
- How the Member's superior has responded to the matter.
- The courses of action the Member considered, the judgements made and the decisions that were taken.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

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

270.2 Pressure exerted on, or by, a Member might create an intimidation 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

General

R270.3 A Member shall not:

(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or

(b) Place pressure on others that the Member knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A Member might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a Professional Activity. Pressure might be explicit or implicit and might come from:

- Within the employing organisation, for example, from a colleague or superior.
- An external individual or organisation such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the Member's employing organisation to select the family member over another prospective vendor.

  See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
  - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision making on capital projects and acquisitions.
  - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.

- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.
  - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to Financial Interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to Inducements:
  - Pressure from others, either internal or external to the employing organisation, to offer Inducements to influence inappropriately the judgement or decision making process of an individual or organisation.
  - Pressure from colleagues to accept a bribe or other Inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations ("NOCLAR"):
  - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:
  - Pressure exerted by a Member on another Member to provide Professional Services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 330, *Fees and Other Types of Remuneration*.

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organisation including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organisation has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the Member to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the Member's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
    - Higher levels of management.
    - Internal or external auditors.
    - Those Charged with Governance.
- Disclosing the matter in line with the employing organisation's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
    - A colleague, superior, human resources personnel, or another Member;
    - Relevant professional or regulatory bodies or industry associations; or
    - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the Member's request for a restructure of, or segregation of, certain responsibilities and duties so that the Member is no longer involved with the individual or entity exerting the pressure.

Documentation

270.4 A1 The Member is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

SECTION 280

TAX PLANNING ACTIVITIES

Introduction

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

280.2 Performing tax planning activities might create self-interest, self-review, advocacy or intimidation threats to compliance with the fundamental principles.

280.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the performance of tax planning activities. This section also requires a Member to comply with relevant tax laws and regulations when performing such activities.

Requirements and Application Material

General

Members' Public Interest Role in Relation to Tax Planning Activities

280.4 A1 Members play an important role in tax planning by contributing their expertise and experience to assist employing organisations in meeting their tax planning goals while complying with tax laws and regulations. In doing so, Members help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.

280.4 A2 Employing organisations are entitled to organise their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, employing organisations have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, Members' role is to use their expertise and experience to assist their employing organisations in achieving their tax planning goals and meeting their tax obligations. However, when Members provide such assistance, it might involve certain tax minimisation arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.

280.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

Description of Tax Planning Activities

280.5 A1 Tax planning activities are advisory activities designed to assist an employing organisation in planning or structuring its affairs in a tax-efficient manner.

280.5 A2 Tax planning activities cover a broad range of topics or areas. Examples of such activities include:

- Advising management on structuring the employing organisation's international operations to minimise its overall taxes.
- Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.

- Advising management on the utilisation of losses in a tax-efficient manner for the employing organisation.
- Advising the employing organisation on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising management on structuring the employing organisation's compensation strategy for senior executives to optimise the tax benefits for the employing organisation.
- Advising a non-profit employing organisation on how to structure its business to avoid breaching its non-profit status.
- Advising management on structuring the employing organisation's investments to take advantage of tax incentives offered by jurisdictions or localities.

280.5 A3 Tax planning activities do not include activities that are generally referred to as tax compliance or tax preparation, which are activities to assist the employing organisation in fulfilling its filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax activity comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

280.5 A4 This section applies regardless of the nature of the employing organisation, including whether it is a Public Interest Entity.

Related Activities

280.6 A1 There might be circumstances where a Member is involved in performing a related activity for an employing organisation that is based on or linked to a tax planning arrangement developed by a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

280.6 A2 Examples of such related activities include:

- Assisting the employing organisation in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the employing organisation in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the employing organisation.
- Advising the employing organisation on an acquisition where the valuation depends on the tax planning arrangement established by the target.

Compliance with Laws and Regulations

280.7 A1 This section does not address tax evasion, which is illegal.

Anti-avoidance Laws and Regulations

R280.8 Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a Member shall obtain an understanding of those laws and regulations and advise the employing organisation to comply with them when performing tax planning activities.

Non-compliance with Tax Laws and Regulations

280.8 A1 If, in the course of performing a tax planning activity, a Member becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by an employing organisation, management, Those Charged with Governance or other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 260 apply.

Responsibilities of Management and Those Charged with Governance of the Employing Organisation

280.9 A1 In relation to tax planning, management, with the oversight of Those Charged with Governance, has a number of responsibilities, including:

- Ensuring that the employing organisation's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the employing organisation to fulfill its tax compliance obligations.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the Member's recommendation or advice on a tax planning arrangement.
- Authorising the submission of the employing organisation's tax returns and dealing with the relevant tax authorities in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the Financial Statements or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the employing organisation's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

Responsibilities of All Members

R280.10 As part of performing a tax planning activity for an employing organisation, the Member shall obtain an understanding of the nature of the tax planning activity, including:

(a) The purpose, facts and circumstances of the tax planning arrangement; and

(b) The relevant tax laws and regulations.

280.11 A1 A Member is expected to apply professional competence and due care in accordance with Subsection 113 when performing a tax planning activity. The Member is also expected to have an inquiring mind and exercise professional judgement in accordance with Section 120 when considering the specific facts and circumstances relating to the tax planning activity.

Basis for Recommending or Otherwise Advising on a Tax Planning Arrangement

R280.12 A Member shall recommend or otherwise advise on a tax planning arrangement for an employing organisation only if the Member has determined that there is a credible basis in laws and regulations[5] for the arrangement.

280.12 A1 The determination of whether there is a credible basis involves the exercise of professional judgement by the Member. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

AUST 280.12 A1.1 For tax planning arrangements that require advice or recommendations in respect of Australian tax laws and regulations, a credible basis means a reasonably arguable position as defined in section 284-15 of the *Tax Administration Act 1953*.

280.12 A2 If the Member determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R280.12 does not preclude the Member from explaining to the Member's immediate superior or other responsible individual within the employing organisation the Member's rationale for the determination or advising on an alternative arrangement that has a credible basis.

280.12 A3 Paragraph R280.12 also does not preclude the Member from assisting the employing organisation to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of activity is a related activity as described in paragraphs 280.6 A1 and A2. This includes, for example:

- Assisting the employing organisation to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution activity.
- Agreeing with the employing organisation appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the employing organisation in administrative or court proceedings.

280.12 A4 Examples of actions that a Member might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.

5 Members should consider applicable legal precedents, in addition to the laws and regulations relating to the promoter penalty regime in Division 290 of Schedule 1 to the *Taxation Administration Act 1953*.

- Consulting with legal counsel or other experts within or outside the employing organisation regarding what a reasonable interpretation of the relevant tax laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

R280.13 If the Member becomes aware of circumstances that might impact the previous determination of the credible basis, the Member shall re-assess the validity of that basis.

Consideration of the Overall Tax Planning Recommendation or Advice

R280.14 In addition to determining that there is a credible basis for the tax planning arrangement, the Member shall exercise professional judgement and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

280.14 A1 The reputational and commercial consequences might relate to personal or business implications to the employing organisation or implications to the reputation of the employing organisation and the profession from a prolonged dispute with the relevant tax or other authorities. The implications to the employing organisation might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the employing organisation.

280.14 A2 An awareness of the wider economic consequences might take into account the Member's general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the employing organisation operates.

R280.15 If, having considered the matters set out in paragraph R280.14, the Member decides not to recommend or otherwise advise on a tax planning arrangement that the employing organisation would like to pursue, the Member shall inform management and, if appropriate, Those Charged with Governance, of this and explain the basis for the Member's conclusion.

Tax Planning Arrangements Involving Multiple Jurisdictions

280.16 A1 There might be circumstances where a Member becomes aware that an employing organisation is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the employing organisation might be in compliance with the tax laws and regulations of each jurisdiction, the Member might advise management to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

280.16 A2 Relevant factors the Member might consider in determining whether to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the employing organisation if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

Circumstances of Uncertainty

280.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a Member might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the Member to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

280.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

R280.18 Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a Member shall discuss the uncertainty with management and, if appropriate, Those Charged with Governance.

280.18 A1 The discussion serves a number of purposes, including:

- Explaining the Member's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from management and, if appropriate, Those Charged with Governance that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the employing organisation, including consideration of disclosure to the relevant tax authorities.

Potential Threats Arising from Performing a Tax Planning Activity

280.19 A1 Performing a tax planning activity for an employing organisation might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a Member has recently performed a valuation activity for the employing organisation for tax purposes, the output of which is then relied upon or is a key input to a tax planning activity for the employing organisation.
- A self-interest threat might be created when a Member's career advancement prospects depend on developing a creative tax planning arrangement for which the interpretation of the relevant tax laws and regulations is unclear.
- A self-interest threat might be created when a Member participates in an incentive compensation scheme impacted by the Member's design of a tax planning arrangement.
- A self-interest threat might be created when a Member is in possession of Confidential Information obtained from the Member's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the Confidential Information would be valuable in advising the Member's employing organisation in its tax planning arrangements.
- Self-interest and advocacy threats might be created when a Member advocates an employing organisation's position in a tax planning arrangement which the Member previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a dominant owner or leader of the employing organisation exerts significant influence over the design of a particular tax arrangement, in a way that might influence the Member's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a Member faces potential dismissal over the position the employing organisation is insisting on pursuing regarding a tax planning arrangement.

280.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency regarding the underlying business transaction or circumstances, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the Member knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the Member's expertise and experience in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and significance of any incentives offered to the Member to develop the arrangement.
- The extent to which the Member is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted on the Member.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple clients with little modification for the employing organisation's specific circumstances.
- The organisational culture of the employing organisation.

280.19 A3 Examples of actions that might eliminate such threats include:

- Advising the employing organisation to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising management not to pursue the tax planning arrangement.

280.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the employing organisation to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the employing organisation to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the employing organisation in the relevant tax areas.

- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or another Member) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having a tax expert, who is not otherwise involved in the tax planning activity, review any work performed or conclusions reached by the Member with respect to the tax planning arrangement.
- Having the employing organisation provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

280.19 A5 Examples of steps a Member might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within or outside the employing organisation, having regard to the principle of confidentiality.
- Reviewing the employing organisation's tax records, Financial Statements and other relevant corporate records.
- Researching relevant public records.

Communication of Basis of the Tax Planning Recommendation or Advice

R280.20 A Member shall explain to management and, if appropriate, Those Charged with Governance the basis on which the Member recommended or otherwise advised on a tax planning arrangement to the employing organisation.

Disagreement on the Tax Planning Arrangement

R280.21 If the Member disagrees with the Member's immediate superior or other responsible individual within the employing organisation that a tax planning arrangement that the employing organisation would like to pursue has a credible basis, the Member shall:

(a) Inform the immediate superior or other responsible individual within the employing organisation, and if appropriate, Those Charged with Governance, of the Member's assessment;

(b) Communicate to them the potential consequences of pursuing the arrangement; and

(c) Advise them not to pursue the arrangement.

R280.22 If the immediate superior or other responsible individual within the employing organisation decides to pursue the tax planning arrangement, despite the Member's advice to the contrary, the Member shall consider:

(a) Taking steps to have the details of the arrangement and the difference of views communicated with the next higher level of authority within the employing organisation and, if appropriate, Those Charged with Governance;

(b) Advising the employing organisation to make full disclosure of the arrangement to the relevant tax authorities; and

(c) Communicating the details of the arrangement and the difference of views to the employing organisation's external auditor, if any.

280.22 A1 In light of the response of the immediate superior or other responsible individual within the employing organisation to the Member's advice, the Member might also consider whether there is a need to resign from the employing organisation.

280.22 A2 Many employing organisations have established protocols and procedures regarding how to raise ethical or other concerns internally. These protocols and procedures include, for example, an ethics policy or internal whistleblowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

Documentation

AUST R280.23 When performing a tax planning activity, a Member shall document the work performed in accordance with the requirement in paragraph 11.1 of APES 220 *Taxation Services* on a timely basis.

AUST 280.23 A1 In complying with paragraph AUST R280.23, a Member might consider documenting the following matters:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The Member's analysis, the courses of action considered, the judgements made, and the conclusions reached in advising the employing organisation on developing the tax planning arrangement.
- The results of discussions with the Member's immediate superior and appropriate levels of management, Those Charged with Governance and other parties.
- The response of the Member's immediate superior, management and, where applicable, Those Charged with Governance to the Member's advice.
- Any disagreement with the Member's immediate superior, management and, where applicable, Those Charged with Governance.

280.23 A2 Preparing such documentation assists the Member to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the Member's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgements at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the Member has complied with the provisions in this section.

PART 3 – MEMBERS IN PUBLIC PRACTICE

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SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – MEMBERS IN PUBLIC PRACTICE

Introduction

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

General

R300.4 A 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, 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.

300.5 A2 The more senior the position of a Member in Public Practice, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the Firm. To the extent that they are able to do so, taking into account their position and seniority in the Firm, Members are expected to encourage and promote an ethics-based culture in the Firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the Member or the Firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistleblowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations ("NOCLAR").

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.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a Member in Public Practice when undertaking a Professional Activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The Member might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the Member or the Firm.

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.

300.7 A6 The Member in Public Practice's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the Member's Firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 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. (Ref: Paras. R120.9 and R120.10).

300.7 A8 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 Publicly Traded 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.

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.

Communicating with Those Charged with Governance

R300.9 When communicating with Those Charged with Governance in accordance with the Code, a 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 a 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.

SECTION 310

CONFLICTS OF INTEREST

Introduction

310.1 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.

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 a 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

General

R310.4 A 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.

Conflict Identification

General

R310.5 Before accepting a new client relationship, engagement, or business relationship, a 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 A 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, a 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.

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.

Disclosure and Consent

General

R310.9 A 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 a 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.

Confidentiality

General

R310.11 A 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.

Documentation

R310.13 In the circumstances set out in paragraph R310.12, the 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.

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

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

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.

Changes in a Professional Appointment

General

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

(a) Is asked by a potential client to replace another accountant;

(b) Considers tendering for an engagement held by another accountant; or

(c) 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, the Member in Public Practice shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Accountant

R320.7 When a 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 114.3 A1 of the Code.

Changes in Audit or Review Appointments

R320.8 In the case of an audit or review of Financial Statements, a 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 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.

Client and Engagement Continuance

R320.9 For a recurring client engagement, a 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.

Using the Work of an Expert

R320.10 When a Member in Public Practice intends to use the work of an expert in the course of undertaking a Professional Activity, the Member shall determine whether the use is appropriate for the intended purpose.

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, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

Using the Output of Technology

R320.11 When a Member in Public Practice intends to use the output of technology in the course of undertaking a Professional Activity, the Member shall determine whether the use is appropriate for the intended purpose.

320.11 A1 Factors to consider when a Member in Public Practice intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the Member has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The Firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

320.12 A1 When a Member in Public Practice is considering using the work of experts or the output of technology, a consideration is whether the Member is in a position within the Firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 321

SECOND OPINIONS

Introduction

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

General

321.3 A1 A Member in Public Practice might be asked to provide a second opinion on the application of tax laws and regulations, and 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 or other service provider 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 or other service provider.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the Existing or Predecessor Accountant or other service provider with a copy of the opinion.

When Permission to Communicate is Not Provided

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

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

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

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.

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.

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.

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.

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

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

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.

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 Public 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*.

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 **A 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 **A 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.

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.

SECTION 340

INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

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

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 non-compliance 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.

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. The Member in Public Practice shall obtain an understanding of relevant laws and regulations and comply with them when the Member encounters such circumstances.

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 **A 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 **A 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.

Immediate or Close Family Members

R340.12 A 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 the 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.

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.

SECTION 350

CUSTODY OF CLIENT ASSETS

Introduction

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.[6]

Requirements and Application Material

Before Taking Custody

R350.3 A 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, a 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.

After Taking Custody

R350.5 A 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.

6 APESB has issued APES 310 *Client Monies* which mandates requirements and provides guidance for Members in Public Practice when they deal with client monies.

SECTION 360

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

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

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.[7] These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such NOCLAR or suspected NOCLAR, the 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.

7 For example, there are auditor reporting obligations in the *Corporations Act 2001* which a 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*.

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.

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.

Responsibilities of All Members in Public Practice

R360.9 Where a 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.

Audits of Financial Statements

Obtaining an Understanding of the Matter

R360.10 If a 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 the 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 the 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 The 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 The 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 a Member in Public Practice becomes aware of NOCLAR or suspected NOCLAR in either of the following two situations in the context of a Group, 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 performs audit work related to a Component for purposes of the Group Audit; or

(b) The Member in Public Practice is engaged to perform an audit of the Financial Statements of a legal entity or business unit that is part of a Group 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 a Group Audit, the Group Engagement Partner shall consider whether the matter might be relevant to:

(a) One or more Components subject to audit work for purposes of the Group Audit; or

(b) One or more legal entities or business units that are part of the Group and 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 legal entities or business units specified in paragraph R360.17(b), the Group Engagement Partner shall take steps to have the matter communicated to those performing audit work at the Components, legal entities or business units, 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 legal entities or business units specified in paragraph R360.17(b) are subject to audit and, if so, to ascertain to the extent practicable the identity of the auditors.

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the Components, legal entities or business units 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 audit work at the Components, legal entities or business units.

Determining Whether Further Action Is Needed

R360.19 The 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 reoccurrence, 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, the 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 The 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.[8]
- 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 the 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.

8 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 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.

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.[9]
- Whether there are actual or potential threats to the physical safety of the Member in Public Practice or other individuals.

9 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 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.

R360.26 **If the 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 AUST R114.3 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 AUST R114.3 of the Code.**

Documentation

R360.28 **In relation to NOCLAR or suspected NOCLAR that falls within the scope of this section, the 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.

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 a 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 the 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 the 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 the 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 The 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 the 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 AUST R114.3 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, 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 of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph AUST R114.3 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.

SECTION 380

TAX PLANNING SERVICES

Introduction

380.1 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.

380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.

380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services. This section also requires a Member to comply with relevant tax laws and regulations when providing such services.[10]

Requirements and Application Material

General

Members in Public Practices' Public Interest Role in Relation to Tax Planning Services

380.4 A1 Members in Public Practice play an important role in tax planning by contributing their expertise and experience to assist clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, Members help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.

380.4 A2 Clients are entitled to organise their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, Members in Public Practice's role is to use their expertise and experience to assist their clients in achieving their tax planning goals and meeting their tax obligations. However, when Members provide such assistance, it might involve certain tax minimisation arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.

380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

Description of Tax Planning Services

380.5 A1 Tax planning services are advisory services designed to assist a client, whether an individual or an entity, in planning or structuring the client's affairs in a tax-efficient manner.

10 Members who are registered tax practitioners need to consider their obligations under the *Tax Agent Services Act 2009*, the *Tax Agent Services Regulations 2022* and the *Tax Agent Services (Code of Professional Conduct) Determination 2024* when providing a tax planning or related service.

380.5 A2 Tax planning services cover a broad range of topics or areas. Examples of such services include:

- Advising an individual to structure their tax affairs to achieve investment, retirement or estate planning goals.
- Advising an individual business owner on structuring their ownership and income from the business to minimise their overall taxes.
- Advising an entity on structuring its international operations to minimise its overall taxes.
- Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.
- Advising on the utilisation of losses in a tax-efficient manner.
- Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimise the tax benefits.

380.5 A3 Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

380.5 A4 This section applies regardless of the nature of the client, including whether it is a Public Interest Entity.

Related Services

380.6 A1 There might be circumstances where a Member in Public Practice is engaged to provide a related service to a client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

380.6 A2 Examples of such related services include:

- Assisting the client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the client.
- Advising the client on an acquisition where the valuation depends on the tax planning arrangement established by the target.
- Advising the client on estate planning based on a tax planning arrangement established for the client's business.

Compliance with Laws and Regulations

380.7 A1 This section does not address tax evasion, which is illegal.

Anti-avoidance Laws and Regulations

R380.8 Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a Member in Public Practice shall obtain an understanding of those laws and regulations and advise the client to comply with them when providing tax planning services.

Non-compliance with Tax Laws and Regulations

380.8 A1 If, in the course of providing tax planning services, a Member in Public Practice becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a client, management, Those Charged with Governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 360 apply.

Responsibilities of Management and Those Charged with Governance

380.9 A1 In relation to tax planning, management, with the oversight of Those Charged with Governance, has a number of responsibilities, including:

- Ensuring that the client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the client to fulfill its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the Member in Public Practice to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the Members in Public Practice's recommendation or advice on a tax planning arrangement.
- Authorising the submission of the client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the Financial Statements or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

Responsibilities of All Members in Public Practice

R380.10 As part of providing a tax planning service, a Member in Public Practice shall obtain an understanding of the nature of the engagement, including:

(a) Knowledge and understanding of the client, its owners, management and Those Charged with Governance, and its business activities;

(b) The purpose, facts and circumstances of the tax planning arrangement; and

(c) The relevant tax laws and regulations.

380.10 A1 The requirements and application material in Section 320 apply with respect to client and engagement acceptance.

380.10 A2 A Member in Public Practice might be engaged to provide a second opinion on a tax planning arrangement. In addition to the provisions in this section, the requirements and application material in Section 321 also apply in such circumstances.

380.11 A1 A Member in Public Practice is expected to apply professional competence and due care in accordance with Subsection 113 when providing a tax planning service. The Member is also expected to have an inquiring mind and exercise professional judgement in accordance with Section 120 when considering the specific facts and circumstances relating to the tax planning service.

Basis for Recommending or otherwise Advising on a Tax Planning Arrangement

R380.12 A Member in Public Practice shall recommend or otherwise advise on a tax planning arrangement to a client only if the Member has determined that there is a credible basis in laws and regulations[11] for the arrangement.

380.12 A1 The determination of whether there is a credible basis involves the exercise of professional judgement by the Member in Public Practice. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

AUST 380.12 A1.1 For tax planning arrangements that require advice or recommendations in respect of Australian tax laws and regulations, a credible basis means a reasonably arguable position as defined in section 284-15 of the *Tax Administration Act 1953*.

380.12 A2 If the Member in Public Practice determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R380.12 does not preclude the Member from explaining to the client the Member's rationale for the determination or advising on an alternative arrangement that has a credible basis.

380.12 A3 Paragraph R380.12 also does not preclude the Member in Public Practice from being engaged by the client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs 380.6 A1 and A2. This includes, for example:

- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
- Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.

380.12 A4 Examples of actions that a Member in Public Practice might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.

11 Members should consider applicable legal precedents, in addition to the laws and regulations relating to the promoter penalty regime in Division 290 of Schedule 1 to the *Taxation Administration Act 1953*.

- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with legal counsel or other experts within or outside the Member in Public Practice's Firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

R380.13 If, during the course of the engagement, the Member in Public Practice becomes aware of circumstances that might impact the previous determination of the credible basis, the Member shall re-assess the validity of that basis.

Consideration of the Overall Tax Planning Recommendation or Advice

R380.14 In addition to determining that there is a credible basis for the tax planning arrangement, the Member in Public Practice shall exercise professional judgement and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

380.14 A1 The reputational and commercial consequences might relate to personal or business implications to the client or implications to the reputation of the client and the profession from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

380.14 A2 An awareness of the wider economic consequences might take into account the Member in Public Practice's general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the client operates.

R380.15 If, having considered the matters set out in paragraph R380.14, the Member in Public Practice decides not to recommend or otherwise advise on a tax planning arrangement that the client would like to pursue, the Member shall inform the client of this and explain the basis for the Member's conclusion.

Tax Planning Arrangements Involving Multiple Jurisdictions

380.16 A1 There might be circumstances where a Member in Public Practice becomes aware that a client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the Member might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

380.16 A2 Relevant factors the Member in Public Practice might consider in determining whether to advise the client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

Circumstances of Uncertainty

380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a Member in Public Practice might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the Member to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

R380.18 Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a Member in Public Practice shall discuss the uncertainty with the client.

380.18 A1 The discussion serves a number of purposes, including:

- Explaining the Member in Public Practice's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the client, including consideration of disclosure to the relevant tax authorities.

Potential Threats Arising from Providing a Tax Planning Service

380.19 A1 Providing a tax planning service to a client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a Member in Public Practice has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.
- A self-interest threat might be created when a Member in Public Practice has a Direct Financial Interest in a client and the Member is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a Member in Public Practice actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a Member in Public Practice is in possession of Confidential Information obtained from the Member's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the Confidential Information would be valuable to the Member in advising other clients on their tax planning arrangements.
- A self-interest threat might be created when a Member in Public Practice accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a Member in Public Practice advocates a client's position in a tax planning arrangement which the Member previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a Member in Public Practice provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the Member's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a Member in Public Practice is threatened with dismissal from the engagement or the Member's Firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the Member in Public Practice knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the Member in Public Practice's expertise and experience in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.

- The extent to which the Member in Public Practice is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the client or another party on the Member in Public Practice.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple clients with little modification for the client's specific circumstances.
- The known previous behaviour or reputation of the client, including its organisational culture.

380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the client to an expert outside the Member in Public Practice's Firm who has the necessary expertise and experience to advise the client on the tax planning arrangement.
- Advising the client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the client not to pursue the tax planning arrangement.

380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the Member in Public Practice's Firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or another Member in Public Practice) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the Member in Public Practice with respect to the tax planning arrangement.
- Having the client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

380.19 A5 Examples of steps a Member in Public Practice might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the client.
- Making inquiries of others within or outside the Firm who have dealt with the client, having regard to the principle of confidentiality.
- Reviewing the client's tax records, Financial Statements and other relevant corporate records.
- Making inquiries of registrars where the client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

Communication of Basis of the Tax Planning Recommendation or Advice

R380.20 A Member in Public Practice shall explain the basis on which the Member recommended or otherwise advised on a tax planning arrangement to the client.

Disagreement with the Client

R380.21 If the Member in Public Practice disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the Member shall:

(a) Inform the client of the basis of the Member's assessment;

(b) Communicate to the client the potential consequences of pursuing the arrangement; and

(c) Advise the client not to pursue the arrangement.

R380.22 If the client decides to pursue the tax planning arrangement despite the Member in Public Practice's advice to the contrary, the Member shall advise the client to:

(a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;

(b) Consider making full disclosure of the arrangement to the relevant tax authorities; and

(c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

380.22 A1 As part of communicating the matters set out in paragraphs R380.21 and R380.22, a Member in Public Practice might consider it appropriate to raise the relevant matters with Those Charged with Governance of the client.

R380.23 In light of the client's response to the Member in Public Practice's advice, the Member shall consider whether there is a need to withdraw from the engagement and the professional relationship.

Tax Planning Products or Arrangements Developed by a Third Party

R380.24 If a client engages a Member in Public Practice to advise on a tax planning product or arrangement developed by a third party, the Member shall:

(a) Inform the client of any professional or business relationship the Member has with the third-party provider; and

(b) Apply the provisions in this section with respect to the tax planning product or arrangement.

R380.25 If a Member in Public Practice recommends or refers a client to a third-party provider of tax planning services, the Member shall inform the client of any professional or business relationship the Member has with the third-party provider.

380.25 A1 Where the Member in Public Practice only recommends or refers a client to a third-party provider of tax planning services, the provisions of this section do not apply.

380.25 A2 If a Member in Public Practice receives a referral fee or commission from the third-party provider, the provisions in Section 330 apply.

Documentation

AUST R380.26 When providing a tax planning service, a Member in Public Practice shall document the work performed in accordance with the requirement in paragraph 11.1 of APES 220 *Taxation Services* on a timely basis.

AUST 380.26 A1 In complying with paragraph AUST R380.26, a Member in Public Practice might consider documenting the following matters:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The Member's analysis, the courses of action considered, the judgements made, and the conclusions reached in advising the client on the tax planning arrangement.
- The results of discussions with the client and other parties.
- The client's response to the Member's advice.
- Any disagreement with the client.

380.26 A2 Preparing such documentation assists the Member in Public Practice to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the Member's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgements at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the Member has complied with the provisions in this section.

INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

[AUST] PREFACE: PART 4A AND PART 4B

PART 4A - INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS AND 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

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SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

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.

400.2 This Part applies to both Audit and Review Engagements unless otherwise stated. The terms "audit," "Audit Team," "Audit Engagement," "Audit Client," and "audit report" apply equally to review, Review Team, Review Engagement, Review Client, and Review Engagement report.

400.3 In this Part, the term "Member" refers to individual Members in Public Practice and their Firms.

400.4 ASQM 1 requires a Firm to design, implement and operate a system of quality management for audits or reviews of Financial Statements 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. Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of this Part 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. In addition, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

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. Section 405 sets out specific requirements and application material applicable in a Group Audit.

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.

Engagement Team and Audit Team

400.8 This Part applies to all Audit Team members, including Engagement Team members.

400.9 An Engagement Team for an Audit Engagement includes all partners and staff in the Firm who perform audit work on the engagement, and any other individuals who perform audit procedures who are from:

(a) A Network Firm; or

(b) A Firm that is not a Network Firm, or another service provider.

For example, an individual from a Component Auditor Firm who performs audit procedures on the financial information of a Component for purposes of a Group Audit is a member of the Engagement Team for the Group Audit.

400.10 In ASQM 1, a service provider includes an individual or organisation external to the Firm that provides a resource that is used in the performance of engagements. Service providers exclude the Firm, a Network Firm or other structures or organisations in the Network.

400.11 An Audit Engagement might involve experts within, or engaged by, the Firm, a Network Firm, or a Component Auditor Firm outside a Group Auditor Firm's Network, who assist in the engagement. Depending on the role of the individuals, they might be Engagement Team or Audit Team members. For example:

- Individuals with expertise in a specialised area of accounting or auditing who perform audit procedures are Engagement Team members. These include, for example, individuals with expertise in accounting for income taxes or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the Firm who have direct influence over the outcome of the Audit Engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are Audit Team members but not Engagement Team members.

However, individuals who are External Experts are neither Engagement Team nor Audit Team members.

400.12 If the Audit Engagement is subject to an Engagement Quality Review, the Engagement Quality Reviewer and any other individuals performing the Engagement Quality Review are Audit Team members but not Engagement Team members.

Public Interest Entities

400.13 Some of the requirements and application material set out in this Part are applicable only to the audit of Financial Statements of Public Interest Entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

400.14 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.15 Stakeholders have heightened expectations regarding the Independence of a Firm performing an Audit Engagement for a Public Interest Entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for Public Interest Entities as described in paragraph 400.13 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's Financial Statements that can be used when assessing the entity's financial condition.

Reports that Include a Restriction on Use and Distribution

400.16 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

400.17 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

General

R400.18 **A Firm performing an Audit Engagement shall be independent.**

R400.19 **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 R400.19.1 **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

R400.20 **A Firm or a Network Firm shall not assume a management responsibility for an Audit Client.**

400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.20 A2 When a Firm or a Network Firm assumes a management responsibility for an Audit Client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the Firm or Network Firm becomes too closely aligned with the views and interests of management.

400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the Firm or Network Firm or other third parties to implement.
- Reporting to Those Charged with Governance on behalf of management.
- Taking responsibility for:
    - The preparation and fair presentation of the Financial Statements in accordance with the applicable financial reporting framework.
    - Designing, implementing, monitoring or maintaining internal control.

400.20 A4 Subject to compliance with paragraph R400.21, providing advice and recommendations to assist the management of an Audit Client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an Audit Client might create a self-review threat and is addressed in Section 600.

R400.21 **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.**

400.21 A1 When technology is used in performing a Professional Activity for an Audit Client, the requirements in paragraphs R400.20 and R400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

R400.22 **For the purposes of this Part, a Firm shall treat an entity as a Public Interest Entity when it falls within any of the following categories:**

(a) **A Publicly Traded Entity;**

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

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

(d) **An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.**

400.22 A1 When terms other than Public Interest Entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.15, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.15, that designation does not necessarily mean that such entities are Public Interest Entities for the purposes of the Code.

R400.23 **In complying with the requirement in paragraph R400.22, a Firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.22(a) to (c).**

400.23 A1 The categories set out in paragraph R400.22(a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for Members to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.

- Setting size criteria for certain types of entities.

400.23 A2 Paragraph R400.22(d) anticipates that those bodies responsible for setting ethics standards for Members will add categories of Public Interest Entities to meet the purpose described in paragraph 400.15, taking into account factors such as those set out in paragraph 400.14. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organisations or governmental entities.
- Public utilities.

AUST R400.23.1 The following entities in Australia will generally satisfy the conditions in paragraphs 400.14, R400.22 and R400.23 reflecting the significant public interest in the financial condition, 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)[12] under the *Banking Act 1959*;**
- **Authorised insurers and authorised NOHCs regulated by APRA[13] under the *Insurance Act 1973*;**
- **Life insurance companies and registered NOHCs regulated by APRA[14] under the *Life Insurance Act 1995*;**
- **Private health insurers regulated by APRA[15] 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[16] under the *Superannuation Industry (Supervision) Act 1993*; and**
- **Other issuers of debt and equity instruments to the public.**

AUST R400.24 A Firm shall determine whether to treat additional entities, or certain categories of entities, as Public Interest Entities for the purposes of this Part. When making this determination, the Firm shall consider the factors set out in paragraph 400.14 as well as the following factors:

- **Whether the entity is likely to become a Public Interest Entity in the near future.**
- **Whether in similar circumstances, a predecessor Firm has applied Independence requirements for Public Interest Entities to the entity.**

12 Refer to the APRA *Prudential Standard CPS 510 Governance* for applicable Independence requirements for audits of APRA-regulated entities.

13 Refer to the APRA *Prudential Standard CPS 510 Governance* for applicable Independence requirements for audits of APRA-regulated entities.

14 Refer to the APRA *Prudential Standard CPS 510 Governance* for applicable Independence requirements for audits of APRA-regulated entities.

15 Refer to the *APRA Prudential Standard CPS 510 Governance* for applicable Independence requirements for audits of APRA-regulated entities.

16 Refer to the APRA *Prudential Standard SPS 510 Governance* for applicable Independence requirements for audits of APRA-regulated entities.

- **Whether in similar circumstances, the Firm has applied Independence requirements for Public Interest Entities to other entities.**
- **Whether the entity has been specified as not being a Public Interest Entity by law, regulation or professional standards.**
- **Whether the entity or other stakeholders requested the Firm to apply Independence requirements for Public Interest Entities to the entity and, if so, whether there are any reasons for not meeting this request.**
- **The entity's corporate governance arrangements, for example, whether Those Charged with Governance are distinct from the owners or management.**

Public Disclosure – Application of Independence Requirements for Public Interest Entities

R400.25 **Subject to paragraph R400.26, when a Firm has applied the Independence requirements for Public Interest Entities as described in paragraph 400.13 in performing an audit of the Financial Statements of an entity, the Firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.**

R400.26 **As an exception to paragraph R400.25, a Firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.**

Related Entities

R400.27 **As defined, an Audit Client that is a Publicly Traded Entity in accordance with paragraphs R400.22 and R400.23 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.**

[Paragraphs 400.28 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

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.**

400.30 A1 The Engagement Period starts when the Engagement Team begins to perform the audit. The Engagement Period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

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) **Previous services provided to the Audit Client by the Firm or a Network Firm.**

400.31 A1 Threats to Independence are created if a non-assurance service was provided to an Audit Client during, or after the period covered by the Financial Statements, but before the Engagement Team begins to perform the audit, and the service would not be permitted during the Engagement Period.

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might 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.

400.31 A3 Examples of actions that might be safeguards to address threats to Independence include:

- Not assigning professionals who performed the non-assurance service to be members of the Engagement Team.
- Having an appropriate reviewer review the audit work or non-assurance service as appropriate.
- Engaging another Firm outside of the Network to evaluate the results of the non-assurance service or having another Firm outside of the Network re-perform the non-assurance service to the extent necessary to enable the other Firm to take responsibility for the service.

400.31 A4 A threat to Independence created by the provision of a non-assurance service by a Firm or a Network Firm prior to the Audit Engagement Period or prior to the period covered by the Financial Statements on which the Firm will express an Opinion is eliminated or reduced to an Acceptable Level if the results of such a service have been used or implemented in a period audited by another Firm.

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.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an Acceptable Level any threats to Independence created by the provision of non-assurance services to a Public Interest Entity prior to appointment as auditor of that entity include:

- The results of the service had been subject to auditing procedures in the course of the audit of the prior year's Financial Statements by a predecessor Firm.
- The Firm engages a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, to perform a review of the first Audit Engagement affected by the self-review threat consistent with the objective of an Engagement Quality Review.

- The Public Interest Entity engages another Firm outside of the Network to:

  (i) Evaluate the results of the non-assurance service; or

  (ii) Re-perform the service,

  to the extent necessary to enable the other Firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

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.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a Firm and Those Charged with Governance of the client regarding relationships and other matters that might, in the Firm's opinion, reasonably bear on Independence. Such communication enables Those Charged with Governance to:

(a) Consider the Firm's judgements in identifying and evaluating threats;

(b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

(c) Take appropriate action.

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

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other Firms and entities to enhance their ability to provide Professional Services. Whether these larger structures create a Network depends on the particular facts and circumstances. It does not depend on whether the Firms and entities are legally separate and distinct.

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

400.51 A1 The Independence requirements in this Part that apply to a Network Firm apply to any entity that meets the definition of a Network Firm. It is not necessary for the entity also to meet the definition of a Firm. For example, a consulting practice or professional law practice might be a Network Firm but not a Firm.

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).

400.53 A1 There might be other arrangements between Firms and entities within a larger structure that constitute a Network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a Network.

400.53 A2 The sharing of immaterial costs does not in itself create a Network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a Network. Further, an association between a Firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a Network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a Network Firm merely because it cooperates with another entity solely to respond jointly to a request for a proposal for the provision of a Professional Service. (Ref: Para. R400.53(d)).

400.53 A6 A common brand name includes common initials or a common name. A Firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its Firm name when a partner of the Firm signs an audit report. (Ref: Para. R400.53(e)).

400.53 A7 Even if a Firm does not belong to a Network and does not use a common brand name as part of its Firm name, it might appear to belong to a Network if its stationery or promotional materials refer to the Firm being a member of an association of Firms. Accordingly, if care is not taken in how a Firm describes such membership, a perception might be created that the Firm belongs to a Network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable Firms to exchange information such as client data, billing and time records.
- Partners and other personnel.

- Technical departments that consult on technical or industry specific issues, transactions or events for Assurance Engagements.
- Audit methodology or audit manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating Firms with technical advice that the Firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

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.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the Firm or the Network, even though it is no longer connected to the Firm or the Network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not Network Firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

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.

400.60 A1 Documentation provides evidence of the Firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a Firm considered a particular matter or whether the Firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a Related Entity of an Audit Client because of a merger or acquisition. A threat to Independence and, therefore, to the ability of a Firm to continue an Audit Engagement might be created by previous or current interests or relationships between a Firm or Network Firm and such a Related Entity.

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.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the Firm provides a non-assurance service to the Related Entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the Related Entity relationship (for example, whether the Related Entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

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.

400.73 A1 Examples of such transitional measures include:

- Having a Member in Public Practice review the audit or non-assurance work as appropriate.
- Having a Member in Public Practice, who is not a member of the Firm expressing the opinion on the Financial Statements, perform a review that is consistent with the objective of an Engagement Quality Review.
- Engaging another Firm to evaluate the results of the non-assurance service or having another Firm re-perform the non-assurance service to the extent necessary to enable the other Firm to take responsibility for the service.

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(b) 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.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

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;[17]

(c) Promptly communicate the breach in accordance with its policies and procedures to:

(i) The Engagement Partner;

(ii) The individual with operational responsibility for compliance with Independence requirements;

(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.

400.80 A1 A breach of a provision of this Part might occur despite the Firm having a system of quality management designed to address Independence requirements. It might be necessary to end the Audit Engagement because of the breach.

400.80 A2 The significance and impact of a breach on the Firm's objectivity and ability to issue an audit report will depend on factors such as:

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

17 For example, there are auditor reporting obligations in the *Corporations Act 2001* which a 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*.

400.80 A3 Depending upon the significance of the breach, examples of actions that the Firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the Audit Team.
- Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
- Recommending that the Audit Client engage another Firm to review or re-perform the affected audit work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the Financial Statements, engaging another Firm to evaluate the results of the non-assurance service or having another Firm re-perform the non-assurance service to the extent necessary to enable the other Firm to take responsibility for the service.

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

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with 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 Report 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**

(b) **The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the Firm could issue an audit report.**

SECTION 405

GROUP AUDITS

Introduction

405.1 Section 400 requires a Firm to be independent when performing an Audit Engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to Independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a Group Audit Engagement.

Requirements and Application Material

General

405.2 A1 Auditing and Assurance Standards apply to an audit of Group Financial Statements. ASA 600 (Revised) *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)* deals with special considerations that apply to an audit of Group Financial Statements, including when Component auditors are involved. ASA 600 (Revised) requires the Group Engagement Partner to take responsibility for confirming whether the Component auditors understand and will comply with the relevant ethical requirements, including those related to Independence, that apply to the Group Audit. The Independence requirements referred to in ASA 600 (Revised), or other relevant auditing standards applicable to Group Audits that are equivalent to ASA 600 (Revised), are those specified in this section.

405.2 A2 A Component Auditor Firm that participates in a Group Audit Engagement might separately issue an audit opinion on the Financial Statements of the Component Audit Client. Depending on the circumstances, the Component Auditor Firm might need to comply with different Independence requirements when performing audit work for a Group Audit and separately issuing an audit opinion on the Financial Statements of the Component Audit Client for statutory, regulatory or other reasons.

Communication Between a Group Auditor Firm and a Component Auditor Firm

R405.3 ASA 600 (Revised) requires the Group Engagement Partner to take responsibility to make a Component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the Group Audit Engagement. When making the Component Auditor Firm aware of the relevant ethical requirements, the Group Auditor Firm shall communicate at appropriate times the necessary information to enable the Component Auditor Firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the Group Auditor Firm might communicate include:

- Whether the Group Audit Client is a Public Interest Entity and the relevant ethical requirements applicable to the Group Audit Engagement.
- The Related Entities and other Components within the Group Audit Client that are relevant to the Independence considerations applicable to the Component Auditor Firm and the Group Audit Team members within, or engaged by, that Firm.
- The period during which the Component Auditor Firm is required to be independent.
- Whether an audit partner who performs work at the Component for purposes of the Group Audit is a Key Audit Partner for the Group Audit.

R405.4 **ASA 600 (Revised) also requires the Group Engagement Partner to request the Component auditor to communicate whether the Component auditor has complied with the relevant ethical requirements, including those related to Independence, that apply to the Group Audit Engagement. For the purposes of this section, such a request shall include the communication of:**

(a) **Any Independence matters that require significant judgement; and**

(b) **In relation to those matters, the Component Auditor Firm's conclusion whether the threats to its Independence are at an Acceptable Level, and the rationale for that conclusion.**

405.4 A1 If a matter comes to the attention of the Group Engagement Partner that indicates that a threat to Independence exists, ASA 220 (Revised) *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* requires the Group Engagement Partner to evaluate the threat and take appropriate action.

Independence Considerations Applicable to Individuals

Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms

R405.5 **Members of the Group Audit Team within, or engaged by, the Group Auditor Firm and its Network Firms shall be independent of the Group Audit Client in accordance with the requirements of this Part that are applicable to the Audit Team.**

Other Members of the Group Audit Team

R405.6 **Members of the Group Audit Team within, or engaged by, a Component Auditor Firm outside the Group Auditor Firm's Network shall be independent of:**

(a) **The Component Audit Client;**

(b) **The entity on whose Group Financial Statements the Group Auditor Firm expresses an opinion; and**

(c) **Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the Component Audit Client,**

in accordance with the requirements of this Part that are applicable to the Audit Team.

R405.7 **In relation to Related Entities or Components within the Group Audit Client other than those covered in paragraph R405.6, a member of the Group Audit Team within, or engaged by, a Component Auditor Firm outside the Group Auditor Firm's Network shall notify the Component Auditor Firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's Independence in the context of the Group Audit.**

405.7 A1 Examples of relationships or circumstances involving the individual or any of the individual's Immediate Family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R405.7 include:

- A Direct or material Indirect Financial Interest in an entity that has control over the Group Audit Client if the Group Audit Client is material to that entity (see Section 510).
- A loan or guarantee involving: (see Section 511)
    - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or

- A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

- A business relationship that is significant or involves a material Financial Interest (see Section 520).
- An Immediate Family member who is: (see Section 521)
  - A Director or Officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's accounting records or Financial Statements.
- The individual serving as, or having recently served as: (see Section 522 and Section 523)
  - A Director or Officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's accounting records or Financial Statements.

R405.8 **Upon receiving the notification as set out in paragraph R405.7, the Component Auditor Firm shall evaluate and address any threats to Independence created by the individual's relationship or circumstance.**

Independence Considerations Applicable to a Group Auditor Firm

R405.9 **A Group Auditor Firm shall be independent of the Group Audit Client in accordance with the requirements of this Part that are applicable to a Firm.**

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

R405.10 **A Network Firm of the Group Auditor Firm shall be independent of the Group Audit Client in accordance with the requirements of this Part that are applicable to a Network Firm.**

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

All Group Audit Clients

R405.11 **A Component Auditor Firm outside the Group Auditor Firm's Network shall:**

(a) **Be independent of the Component Audit Client in accordance with the requirements set out in this Part that are applicable to a Firm with respect to all Audit Clients;**

(b) **Apply the relevant requirements in paragraphs R510.4(a), R510.7 and R510.9 with respect to Financial Interests in the entity on whose Group Financial Statements the Group Auditor Firm expresses an opinion; and**

(c) **Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose Group Financial Statements the Group Auditor Firm expresses an opinion.**

R405.12 **When a Component Auditor Firm outside the Group Auditor Firm's Network knows, or has reason to believe, that a relationship or circumstance involving the Group Audit Client, beyond those addressed in paragraph R405.11(b) and (c), is relevant to the evaluation of the Component Auditor Firm's Independence from the Component Audit Client, the Component Auditor Firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to Independence.**

R405.13 **When a Component Auditor Firm outside the Group Auditor Firm's Network knows, or has reason to believe, that a relationship or circumstance of a Firm within the Component Auditor Firm's Network with the Component Audit Client or the Group Audit Client creates a threat to the Component Auditor Firm's Independence, the Component Auditor Firm shall evaluate and address any such threat.**

Period During which Independence is Required

405.14 A1 The references to the Financial Statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the Group Financial Statements and the audit report on the Group Financial Statements, respectively, when applied in this section.

Group Audit Clients that are Not Public Interest Entities

R405.15 **When the Group Audit Client is not a Public Interest Entity, a Component Auditor Firm outside the Group Auditor Firm's Network shall be independent of the Component Audit Client in accordance with the requirements set out in this Part that are applicable to Audit Clients that are not Public Interest Entities for the purposes of the Group Audit.**

405.15 A1 Where a Component Auditor Firm outside the Group Auditor Firm's Network also performs an Audit Engagement for a Component Audit Client that is a Public Interest Entity for reasons other than the Group Audit, for example, a statutory audit, the Independence requirements that are relevant to Audit Clients that are Public Interest Entities apply to that engagement.

Group Audit Clients that are Public Interest Entities

Non-Assurance Services

R405.16 **Subject to paragraph R405.17, when the Group Audit Client is a Public Interest Entity, a Component Auditor Firm outside the Group Auditor Firm's Network shall comply with the provisions in Section 600 that are applicable to Public Interest Entities with respect to the provision of non-assurance services to the Component Audit Client.**

405.16 A1 Where the Group Audit Client is a Public Interest Entity, a Component Auditor Firm outside the Group Auditor Firm's Network is prohibited from, for example:

- Providing accounting and bookkeeping services to a Component Audit Client that is not a Public Interest Entity (see Subsection 601).
- Designing the information technology system, or an aspect of it, for a Component Audit Client that is not a Public Interest Entity where such information technology system generates information for the Component Audit Client's accounting records or Financial Statements (see Subsection 606).
- Acting in an advocacy role for a Component Audit Client that is not a Public Interest Entity in resolving a dispute or litigation before a tribunal or court (see Subsection 608).

405.16 A2 The financial information on which a Component Auditor Firm outside the Group Auditor Firm's Network performs audit procedures is relevant to the evaluation of the self-review threat that might be created by the Component Auditor Firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the Component Auditor Firm's audit procedures are limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

R405.17 **As an exception to paragraph R405.16, a Component Auditor Firm outside the Group Auditor Firm's Network may provide a non-assurance service that is not prohibited under Section 600 to a Component Audit Client without communicating information about the proposed non-assurance service to Those Charged with Governance of the Group Audit Client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.22 to R600.25.**

Key Audit Partners

R405.18 **The Group Engagement Partner shall determine whether an audit partner who performs audit work at a Component for purposes of the Group Audit is a Key Audit Partner for the Group Audit. If so, the Group Engagement Partner shall:**

(a) **Communicate that determination to that individual; and**

(b) **Indicate:**

(i) **In the case of all Group Audit Clients, that the individual is subject to paragraph AUST R411.4, and**

(ii) **In the case of Group Audit Clients that are Public Interest Entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.21.**

405.18 A1 A Key Audit Partner makes key decisions or judgements on significant matters with respect to the audit of the Group Financial Statements on which the Group Auditor Firm expresses an opinion in the Group Audit.

Changes in Components

All Group Audit Clients

R405.19 **When an entity that is not a Related Entity becomes a Component within the Group Audit Client, the Group Auditor Firm shall apply paragraphs R400.71 to R400.76.**

Changes in Component Auditor Firms

All Group Audit Clients

405.20 A1 There might be circumstances in which the Group Auditor Firm requests another Firm to perform audit work as a Component Auditor Firm during or after the period covered by the Group Financial Statements, for example due to a client merger or acquisition. A threat to the Component Auditor Firm's Independence might be created by:

(a) Financial or business relationships of the Component Auditor Firm with the Component Audit Client during or after the period covered by the Group Financial Statements but before the Component Auditor Firm agrees to perform the audit work; or

(b) Previous services provided to the Component Audit Client by the Component Auditor Firm.

405.20 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a Component Auditor Firm's assessment of threats to Independence if a non-assurance service was provided by the Component Auditor Firm to the Component Audit Client during or after the period covered by the Group Financial Statements, but before the Component Auditor Firm begins to perform the audit work for the purposes of the Group Audit, and the service would not be permitted during the Engagement Period.

405.20 A3 Paragraph 400.31 A4 sets out application material that is applicable for a Component Auditor Firm's assessment of threats to Independence if a non-assurance service was provided by the Component Auditor Firm to the Component Audit Client prior to the period covered by the Group Financial Statements.

Group Audit Clients that are Public Interest Entities

405.21 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a Component Auditor Firm agrees to perform audit work for Group Audit purposes in relation to a Group Audit Client that is a Public Interest Entity if the Component Auditor Firm has previously provided a non-assurance service to the Component Audit Client.

405.21 A2 Paragraphs R600.26 and 600.26 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a Component Auditor Firm to a Component Audit Client when the Group Audit Client subsequently becomes a Public Interest Entity.

Breach of an Independence Provision at a Component Auditor Firm

405.22 A1 A breach of a provision of this section might occur despite a Component Auditor Firm having a system of quality management designed to address Independence requirements. Paragraphs R405.23 to R405.29 are relevant to a Group Auditor Firm's determination as to whether it would be able to use a Component Auditor Firm's work if a breach has occurred at the Component Auditor Firm.

405.22 A2 In the case of a breach at a Component Auditor Firm within the Group Auditor Firm's Network, paragraphs R400.80 to R400.89 also apply to the Group Auditor Firm in relation to the Group Audit, as applicable.

When a Component Auditor Firm Identifies a Breach

R405.23 If a Component Auditor Firm concludes that a breach of this section has occurred, the Component Auditor Firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Evaluate the significance of the breach and its impact on the Component Auditor Firm's objectivity and ability to perform audit work for the purposes of the Group Audit;

(c) Depending on the significance of the breach, determine 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; and

(d) Promptly communicate in writing the breach to the Group Engagement Partner, including the Component Auditor Firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.23 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the Component Auditor Firm's evaluation of the significance and impact of the breach on the Component Auditor Firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the Component for purposes of the Group Audit, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R405.24 **Upon receipt of the Component Auditor Firm's communication of the breach, the Group Engagement Partner shall:**

(a) **Review the Component Auditor Firm's assessment of the significance of the breach and its impact on the Component Auditor Firm's objectivity, and any action that can be or has been taken to address the consequences of the breach;**

(b) **Evaluate the Group Auditor Firm's ability to use the work of the Component Auditor Firm for the purposes of the Group Audit; and**

(c) **Determine the need for any further action.**

R405.25 **In applying paragraph R405.24, the Group Engagement Partner shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the Component Auditor Firm's objectivity is compromised, and therefore, the Group Auditor Firm is unable to use the work of the Component Auditor Firm for the purposes of the Group Audit.**

405.25 A1 If the Group Engagement Partner determines that the consequences of the breach have been satisfactorily addressed by the Component Auditor Firm and does not compromise the Component Auditor Firm's objectivity, the Group Auditor Firm may continue to use the work of the Component Auditor Firm for the Group Audit. In certain circumstances, the Group Engagement Partner might determine that additional actions are needed to satisfactorily address the breach in order to use the Component Auditor Firm's work. Examples of such action include the Group Auditor Firm performing specific procedures on the areas impacted by the breach or requesting the Component Auditor Firm to perform appropriate remedial work on the affected areas.

405.25 A2 ASA 600 (Revised) sets out that if there has been a breach by a Component auditor and the breach has not been satisfactorily addressed, the Group auditor cannot use the work of that Component auditor. In those circumstances, the Group Engagement Partner might find other means to obtain the necessary audit evidence on the Component Audit Client's financial information. Examples of such means include the Group Auditor Firm performing the necessary audit work on the Component Audit Client's financial information or requesting another Component Auditor Firm to perform such audit work.

Discussion with Those Charged with Governance of the Group Audit Client

405.26 A1 With respect to breaches by a Component Auditor Firm within the Group Auditor Firm's Network, paragraph R400.84 applies.

R405.27 **With respect to breaches by a Component Auditor Firm outside the Group Auditor Firm's Network, the Group Auditor Firm shall discuss with Those Charged with Governance of the Group Audit Client:**

(a) **The Component Auditor Firm's assessment of the significance and impact of the breach on the Component Auditor Firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and**

(b) **Whether:**

(i) **The action will satisfactorily address, or has addressed, the consequences of the breach; or**

(ii) **The Group Auditor Firm will use other means to obtain the necessary audit evidence on the Component Audit Client's financial information.**

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.

R405.28 **The Group Auditor Firm shall communicate in writing to Those Charged with Governance of the Group Audit Client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of Those Charged with Governance that the action can be or has been taken to satisfactorily address the consequences of the breach.**

R405.29 **If Those Charged with Governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the Component Auditor Firm, the Group Auditor Firm shall not use the work performed by the Component Auditor Firm for the purposes of the Group Audit.**

SECTION 410

FEES

Introduction

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

General

410.3 A1 Fees for Professional Services are usually negotiated with and paid by an Audit Client and might create threats to Independence. This practice is generally recognised and accepted by intended users of Financial Statements.

410.3 A2 When the Audit Client is a Public Interest Entity, stakeholders have heightened expectations regarding the Firm's Independence. As transparency can serve to better inform the views and decisions of Those Charged with Governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both Those Charged with Governance and stakeholders more generally for Audit Clients that are Public Interest Entities.

410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of Financial Statements. Where reference is made to the fee for the audit of the Financial Statements, this does not include any fee for an audit of Special Purpose Financial Statements or a review of Financial Statements.[18] (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an Audit Client, this creates a self-interest threat and might create an intimidation threat to Independence.

410.4 A2 The application of the conceptual framework requires that before a Firm or Network Firm accepts an audit or any other engagement for an Audit Client, the Firm determines whether the threats to Independence created by the fees proposed to the client are at an Acceptable Level. The application of the conceptual framework also requires the Firm to re-evaluate such threats when facts and circumstances change during the Engagement Period for the audit.

18 In Australia, there are requirements in the *Corporations Act 2001* (for example, in sections 302 and 309) for specific entities to prepare a half-year report which needs to be audited or reviewed. Where a review is performed to meet financial reporting requirements of the *Corporations Act 2001*, the fee for the review is to be considered as a fee for the audit of the Financial Statements of the entity or group.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the Audit Client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the Firm's commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the Firm or a Network Firm.
- The level of the fee in the context of the service to be provided by the Firm or a Network Firm.
- The operating structure and the compensation arrangements of the Firm and Network Firms.
- The significance of the client, or a third party referring the client, to the Firm, Network Firm, partner or Office.
- The nature of the client, for example whether the client is a Public Interest Entity.
- The relationship of the client to the Related Entities to which the services other than audit are provided, for example when the Related Entity is a sister entity.
- The involvement of Those Charged with Governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the Firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed, implemented and operated by the Firm in accordance with the quality management standards issued by the AUASB) might also impact the evaluation of whether the threats to Independence are at an Acceptable Level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an Acceptable Level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an Audit Client, whether for audit or other services, is a business decision of the Firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the Audit Client include:

- The Firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the Audit Engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the Audit Engagement review the work performed.

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.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an Audit Client is not an appropriate consideration in determining the audit fee.

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

410.8 A1 Contingent Fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A Contingent Fee charged through an intermediary is an example of an indirect Contingent Fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

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.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a Firm or a Network Firm from entering into certain Contingent Fee arrangements with an Audit Client. Even if a Contingent Fee arrangement is not precluded when providing a non-assurance service to an Audit Client, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the Contingent Fee depends.
- Disclosure to intended users of the work performed by the Firm and the basis of remuneration.
- The nature of the service.

- The effect of the event or transaction on the Financial Statements.

410.10 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.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the Firm or Network Firms to an Audit Client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the Audit Engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the Firm or Network Firm focuses on the non-audit relationship, which might create a threat to the auditor's Independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the Firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the Audit Client.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an Audit Client for the audit or services other than audit are overdue during the period of the Audit Engagement.

410.12 A2 It is generally expected that the Firm will obtain payment of such fees before the audit report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the Firm.
- The length of time the fees have been overdue.
- The Firm's assessment of the ability and willingness of the Audit Client to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the Audit Engagement review the audit work.

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

All Audit Clients

410.14 A1 When the total fees generated from an Audit Client by the Firm expressing the audit opinion represent a large proportion of the total fees of that Firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.

410.14 A2 In calculating the total fees of the Firm, the Firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the Firm.
- Whether the Firm is expected to diversify such that any dependence on the Audit Client is reduced.

410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a Member of the Firm review the audit work.
- Reducing the extent of services other than audit provided to the Audit Client.
- Increasing the client base of the Firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.14 A5 A self-interest or intimidation threat is created when the fees generated by a Firm from an Audit Client represent a large proportion of the revenue of one partner or one Office of the Firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the Audit Client to the partner or Office.
- The extent to which the compensation of the partner, or the partners in the Office, is dependent upon the fees generated from the client.

410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the Audit Engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or Office to the Audit Client.

- Increasing the client base of the partner or the Office to reduce dependence on the Audit Client.
- Increasing the extent of services provided by the partner or the Office to other clients.

AUST 410.14.1 A1 Another party or Firm may refer multiple Audit Clients to an Engagement Partner, an Office of a Firm or a Firm. The dependence on that source and concern about losing those clients creates a self-interest or intimidation threat. Paragraphs 410.14 A3 and 410.14 A6 provide examples of factors that are relevant in evaluating the significance of the threat and paragraphs 410.14 A4 and 410.14 A7 provide examples of actions that might be safeguards.

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.

410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative Firms to carry out the Audit Engagement, having regard to the nature and location of the client's business.

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

Communication About Fee-related Information with Those Charged with Governance

410.22 A1 Communication by the Firm of fee-related information (for both audit and services other than audit) with Those Charged with Governance assists in their assessment of the Firm's Independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that Those Charged with Governance might have regarding the scope and extent of audit work and impact on the audit fee.

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.**

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the Financial Statements on which the Firm will express an Opinion to enable Those Charged with Governance to consider the Independence of the Firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the Audit Client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
  - The cost of other resources utilised or expended in performing the audit.
  - The quality of record keeping and processes for Financial Statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The Firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

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.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable Those Charged with Governance to consider the Independence of the Firm.[19] The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by Those Charged with Governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the Firm and Network Firms for the audit of the Financial Statements on which the Firm will express an Opinion.

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.

410.26 A1 Factors the Firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other Related Entities, individually and in the aggregate, for the provision of services by the Firm or a Network Firm are relevant to the evaluation of the Firm's Independence include:

- The extent of the Audit Client's involvement in the appointment of the Firm or Network Firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other Related Entities to the Firm or a Network Firm.
- The proportion of fees from the other Related Entities to the fees paid by the client.

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.

19 Refer to sections 300 (11B) to (11E) of the *Corporations Act 2001* for requirements imposed on Those Charged with Governance in Australia in relation to disclosure relating to fees and auditor Independence. In addition, AASB 1054 *Australian Additional Disclosures* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* also set out requirements in relation to the disclosure of audit fee information.

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.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of Public Interest Entities, it is beneficial for stakeholders to have visibility about the professional relationships between the Firm and the Audit Client which might reasonably be thought to be relevant to the evaluation of the Firm's Independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an Audit Client for both audit and services other than audit paid and payable to the Firm and Network Firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an Audit Client to disclose audit fees,[20] 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.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the Firm's Independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the Firm.

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

20 Refer to sections 300 (11B) to (11E) of the *Corporations Act 2001* for requirements imposed on Those Charged with Governance in Australia in relation to disclosure relating to fees and auditor Independence. In addition, AASB 1054 *Australian Additional Disclosures* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* also set out requirements in relation to the disclosure of audit fee information.

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.

410.31 A1 The Firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the Firm's Independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the Firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the Firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the Firm's website.
- In the Firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

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.

SECTION 411

COMPENSATION AND EVALUATION POLICIES

Introduction

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

General

411.3 A1 When an Audit Team member for a particular Audit Client is evaluated on or compensated for selling non-assurance services to that Audit Client, the level of the self-interest threat will depend on:

(a) What proportion of the compensation or evaluation is based on the sale of such services;

(b) The role of the individual on the Audit Team; and

(c) Whether the sale of such non-assurance services influences promotion decisions.

411.3 A2 Examples of actions that might eliminate such a self-interest threat include:

- Revising the compensation plan or evaluation process for that individual.
- Removing that individual from the Audit Team.

411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the Audit Team member.

AUST 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.

SECTION 420

GIFTS AND HOSPITALITY

Introduction

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.

Requirement and Application Material

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.

420.3 A1 Where a Firm, Network Firm or Audit Team member is offering or accepting an Inducement to or from an Audit Client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to Independence.

420.3 A2 The requirements set out in Section 340 relating to offering or accepting Inducements do not allow a Firm, Network Firm or Audit Team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 430

ACTUAL OR THREATENED LITIGATION

Introduction

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.

Application Material

General

430.3 A1 The relationship between client management and Audit Team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an Audit Client and the Firm, a Network Firm or an Audit Team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

430.3 A2 Factors that are relevant in evaluating the level of such threats include:

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

430.3 A3 If the litigation involves an Audit Team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the Audit Team.

430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 510

FINANCIAL INTERESTS

Introduction

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

General

510.3 A1 A Financial Interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that Financial Interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that Financial Interest to be indirect.

510.3 A2 This section contains references to the "materiality" of a Financial Interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a Financial Interest in an Audit Client include:

- The role of the individual holding the Financial Interest.
- Whether the Financial Interest is direct or indirect.
- The materiality of the Financial Interest.

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.

510.4 A1 The Office in which the Engagement Partner practices in connection with an Audit Engagement is not necessarily the Office to which that partner is assigned. When the Engagement Partner is located in a different Office from that of the other Engagement Team members, professional judgement is needed to determine the Office in which the partner practices in connection with the engagement.

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

Immediate Family

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an Audit Team member, or any of that individual's Immediate Family, or the Firm or a Network Firm has a Financial Interest in an entity when a Director or Officer or controlling owner of the Audit Client is also known to have a Financial Interest in that entity.

510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the Audit Team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the Financial Interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the Audit Team member with the Financial Interest from the Audit Team.

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the Audit Team member.

Close Family

510.10 A5 A self-interest threat might be created if an Audit Team member knows that a Close Family member has a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the Audit Team member and the Close Family member.
- Whether the Financial Interest is direct or indirect.
- The materiality of the Financial Interest to the Close Family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the Close Family member dispose, as soon as practicable, of all of the Financial Interest or dispose of enough of an Indirect Financial Interest so that the remaining interest is no longer material.
- Removing the individual from the Audit Team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the Audit Team member.

Other Individuals

510.10 A9 A self-interest threat might be created if an Audit Team member knows that a Financial Interest in the Audit Client is held by individuals such as:

- Partners and professional employees of the Firm or Network Firm, apart from those who are specifically not permitted to hold such Financial Interests by paragraph R510.4, or their Immediate Family members.
- Individuals with a close personal relationship with an Audit Team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The Firm's organisational, operating and reporting structure.
- The nature of the relationship between the individual and the Audit Team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the Audit Team member with the personal relationship from the Audit Team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the Audit Team member from any significant decision making concerning the Audit Engagement.
- Having an appropriate reviewer review the work of the Audit Team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a Firm or a Network Firm holds a Direct or material Indirect Financial Interest in an Audit Client.[21]

21 Refer to s324CH(1) Items 10-12 of the *Corporations Act 2001* which prohibits this arrangement in respect of audits performed in accordance with the Act.

SECTION 511

LOANS AND GUARANTEES

Introduction

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

General

511.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

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.[22]

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.

511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.

511.5 A2 Even if a Firm or Network Firm receives a loan from an Audit Client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the Audit Client or Firm receiving the loan.

511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an Audit Team member, from a Network Firm that is not a beneficiary of the loan.

22 Refer to s324CH(1) Items 15,16, 17 & 19 of the *Corporations Act 2001* which prohibits making or guaranteeing loans irrespective of materiality for audits performed in accordance with the Act.

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.**

SECTION 520

BUSINESS RELATIONSHIPS

Introduction

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

General

520.3 A1 This section contains references to the "materiality" of a Financial Interest and the "significance" of a business relationship. In determining whether such a Financial Interest is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common Financial Interest include:

- Having a Financial Interest in a joint venture with either the client or a controlling owner, Director or Officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the Firm or a Network Firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the Firm or a Network Firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the Firm's or a Network Firm's products or services.
- Arrangements under which the Firm or a Network Firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the Firm or a Network Firm licenses products or solutions to or from a client.

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 relationship[23] 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.

23 Refer to s324CH(1) of the *Corporations Act 2001* which prohibits certain relationships between a person or the Firm and the corporate Audit Client irrespective of materiality or the significance of the relationship or Financial Interest.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the Audit Client or its management and the Immediate Family of an Audit Team member.

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 relationship[24] 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.

Buying Goods or Services

520.6 A1 The purchase of goods and services, including the licensing of technology from an Audit Client by a Firm, a Network Firm, an Audit Team member, or any of that individual's Immediate Family does not usually create a threat to Independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the Audit Team.

Providing, Selling, Reselling or Licensing Technology

520.7 A1 Where a Firm or a Network Firm provides, sells, resells or licenses technology:

(a) To an Audit Client; or

(b) To an entity that provides services using such technology to Audit Clients of the Firm or Network Firm,

depending on the facts and circumstances, the requirements and application material in Section 600 apply.

24 Refer to s 324CH(1) of the *Corporations Act 2001* which prohibits certain relationships between a person or the Firm and the corporate Audit Client irrespective of materiality or the significance of the relationships or Financial Interest.

SECTION 521

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

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

General

521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an Audit Team member and a Director or Officer or, depending on their role, certain employees of the Audit Client.

521.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the Audit Team.
- The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of an Audit Team Member

521.4 A1 A self-interest, familiarity or intimidation threat is created when an Immediate Family member of an Audit Team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

521.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the Immediate Family member.
- The role of the Audit Team member.

521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Audit Team.

521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Audit Team so that the Audit Team member does not deal with matters that are within the responsibility of the Immediate Family 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

521.6 A1 A self-interest, familiarity or intimidation threat is created when a Close Family member of an Audit Team member 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.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the Audit Team member and the Close Family member.
- The position held by the Close Family member.
- The role of the Audit Team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Audit Team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Audit Team so that the Audit Team member does not deal with matters that are within the responsibility of the Close Family 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.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the Audit Team member.
- The position the individual holds with the client.
- The role of the Audit Team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Audit Team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Audit Team so that the Audit Team member does not deal with matters that are within the responsibility of the individual with whom the Audit Team member has a close relationship.

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.**

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner or employee of the Firm and the Director or Officer or employee of the client.
- The degree of interaction of the partner or employee of the Firm with the Audit Team.
- The position of the partner or employee within the Firm.
- The position the individual holds with the client.

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the Audit Engagement.
- Having an appropriate reviewer review the relevant audit work performed.

SECTION 522

RECENT SERVICE WITH AN AUDIT CLIENT

Introduction

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

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[25] 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

522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit report, an Audit Team member:

(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 Financial Statements on which the Firm will express an Opinion.[26]

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current Audit Engagement.

522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the Audit Team member.

522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the Audit Team member.

25 Refer to s9 of the *Corporations Act 2001* for the definition of 'audit-critical employee'.

26 Refer to s324CH(1) Items 8 & 9 and s324CF(5) Items 3,4,5 & 9 of the *Corporations Act 2001* regarding a cooling-off period of 12 months immediately preceding the beginning of the audited period for a corporate Audit Client.

SECTION 523

SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT

Introduction

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

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.[27]

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.[28]

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.

523.4 A1 The position of company secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the Firm or a Network Firm serves as company secretary for an Audit Client. (More information on providing non-assurance services to an Audit Client is set out in Section 600, *Provision of Non-Assurance Services to an Audit Client.)*

27 Refer to s324CI of the *Corporations Act 2001* regarding prohibitions on partners or employees serving as a Director or Officer of a corporate Audit Client.

28 The *Corporations Act 2001* sets out specific independence requirements for audit companies (refer to s324CF) and audit Firms (refer to s324CG) in relation to relevant relationships set out in s324CH(1), such as partners or employees acting as a Director or Officer of an Audit Client.

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.**

SECTION 524

EMPLOYMENT WITH AN AUDIT CLIENT

Introduction

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

All Audit Clients

524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an Audit Team member or partner of the Firm or a Network Firm:

- A Director or Officer of the Audit Client.[29]
- 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.

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[30] 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

29 Refer to s324CI of the *Corporations Act 2001* regarding prohibitions on partners or employees serving as a Director or Officer of a corporate Audit Client.

30 Refer to s324CK of the *Corporations Act 2001* regarding the 5 year cooling-off period before a former Audit Engagement Partner can be appointed as a Director or Officer of a corporate Audit Client in circumstances where another former partner of the Firm is already a Director or Officer of the corporate Audit Client.

(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.

524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the Firm or Network Firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an Audit Client of the Firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the Audit Team.
- The length of time since the individual was an Audit Team member or partner of the Firm or Network Firm.
- The former position of the individual within the Audit Team, Firm or Network Firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or Those Charged with Governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit plan.
- Assigning to the Audit Team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former Audit Team member.

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.

524.5 A1 A self-interest threat is created when an Audit Team member participates in the Audit Engagement while knowing that the Audit Team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the Audit Team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that individual while on the team.

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.[31]

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.[32]

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.

31 Refer to s324CI of the *Corporations Act 2001* for additional prohibitions on former audit partners joining corporate Audit Clients.

32 Refer to s324CI of the *Corporations Act 2001* for additional prohibitions on former audit partners joining corporate Audit Clients.

SECTION 525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

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

General

525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a Firm or a Network Firm to an Audit Client include:

- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
- Not including the loaned personnel as an Audit Team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a Firm or a Network Firm to an Audit Client, such that the Firm or the Network Firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

R525.4 A Firm or a 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 the 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.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

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

All Audit Clients

540.3 A1 Although an understanding of an Audit Client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an Audit Team member with:

(a) The Audit Client and its operations;

(b) The Audit Client's senior management; or

(c) The Financial Statements on which the Firm will express an Opinion or the financial information which forms the basis of the Financial Statements.

540.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a long standing client or an interest in maintaining a close personal relationship with a member of senior management or Those Charged with Governance. Such a threat might influence the individual's judgement inappropriately.

540.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior Firm.
- How long the individual has been an Engagement Team member, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other Engagement Team members.
- The closeness of the individual's personal relationship with senior management or Those Charged with Governance.
- The nature, frequency and extent of the interaction between the individual and senior management or Those Charged with Governance.

(b) In relation to the Audit Client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or Those Charged with Governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or Those Charged with Governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an Audit Engagement over a long period of time would be rotating the individual off the Audit Team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the Audit Team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an Audit Team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

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) Perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the 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[33] (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.

33 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of Listed Entities in Australia.

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.**

540.6 A1 For example, an individual who served as Engagement Partner for four years followed by three years off can only act thereafter as a Key Audit Partner on the same Audit Engagement for three further years (making a total of seven cumulative years[34]). Thereafter, that individual is required to cool off in accordance with paragraph R540.15.

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.**

540.7 A1 For example, a Key Audit Partner may remain in that role on the Audit Team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended Engagement Partner. In such circumstances, this will involve the Firm discussing with Those Charged with Governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 **If an Audit Client becomes a Public Interest Entity, a Firm shall take into account the length of time[35] 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[36] 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.**

34 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia.

35 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia. The *Corporations Act 2001* restricts the number of years that an Engagement Partner can serve a listed Audit Client (which includes all the years served by the Engagement Partner on that entity).

36 Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investments Commission may grant extensions.

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.**

540.10 A1 There might be situations where the Firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a Key Audit Partner to continue in that role even though the length of time served as a Key Audit Partner is less than seven years.

Cooling-off Period

R540.11 **If the individual acted as the Engagement Partner for seven cumulative years,[37] 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,[38] 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.**

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ASQM 2 *Engagement Quality Reviews* as a condition for eligibility before the Engagement Partner can assume the role of Engagement Quality Reviewer.

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[39] 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.**

37 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia.

38 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia.

39 Members should refer to the requirement in ASQM 2 for Members to undertake a two-year cooling-off period between the time they finish being an Engagement Partner for an Audit Client and then assuming the role of Engagement Quality Reviewer for the same Audit Client.

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.[40]**

AUST R540.20.1 **In Australia, where laws or regulations require a two year cooling-off period for Engagement Partners for audits of Public Interest Entities,[41] 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.[42]**

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 perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review 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.**

40 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia.

41 For example, s324DA of the *Corporations Act 2001* requires a minimum two year cooling-off period for the rotation of audit partners of listed entities in Australia.

42 Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of listed entities in Australia.

540.21 A1 The provisions of paragraph R540.21 are not intended to prevent the individual from assuming a leadership role in the Firm or a Network Firm, such as that of the senior or managing partner (chief executive or equivalent).

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

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 that are relevant when a Firm or a Network Firm provides certain types of 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 a 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.

600.6 The requirements and application material in this section apply where a Firm or a Network Firm:

(a) Uses technology to provide a non-assurance service to an Audit Client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the Firm or a Network Firm:

(i) To an Audit Client; or

(ii) To an entity that provides services using such technology to Audit Clients of the Firm or Network Firm.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.7 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to Audit Clients that differ from or go beyond those set

out in this section, Firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

600.8 A1 When a Firm or a Network Firm provides a non-assurance service to an Audit Client, there is a risk that the Firm or Network Firm will assume a management responsibility unless the Firm or Network Firm is satisfied that the requirements in paragraph R400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R600.9 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.

Identifying and Evaluating Threats

All Audit Clients

600.10 A1 A description of the categories of threats that might arise when a Firm or a Network Firm provides a non-assurance service to an Audit Client is set out in paragraph 120.6 A3.

600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an Audit Client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a Public Interest Entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgement. (Ref: Para. R400.20 to R400.21).
- Whether the outcome of the service will affect the accounting records or matters reflected in the Financial Statements on which the Firm will express an Opinion, and, if so:
    - The extent to which the outcome of the service will have a material effect on the Financial Statements.
    - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the Financial Statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
    - Accounting records or Financial Statements on which the Firm will express an Opinion.
    - Internal controls over financial reporting.

- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

600.10 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to Independence created by providing certain non-assurance services, and evaluating the level of such threats.

Materiality in Relation to Financial Statements

600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an Audit Client. Subsections 601 to 610 refer to materiality in relation to an Audit Client's Financial Statements. The concept of materiality in relation to an audit is addressed in Auditing and Assurance Standard ASA 320 *Materiality in Planning and Performing an Audit (Compiled)*, and in relation to a review in ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* and ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to an Audit Client, a Firm or a Network Firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the Financial Statements on which the Firm will express an Opinion.

Providing advice and recommendations

600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.15. Where the Audit Client is not a Public Interest Entity and a self-review threat is identified, the Firm is required to apply the conceptual framework to evaluate and address the threat. If the Audit Client is a Public Interest Entity, paragraphs R600.17 and R600.18 apply.

Multiple non-assurance services provided to the same audit client

R600.13 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.

600.13 A1 In addition to paragraph 600.10 A2, factors that are relevant in a Firm's evaluation of the level of threats to Independence created where multiple non-assurance services are provided to an Audit Client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the Audit Client.

Self-review threats

600.14 A1 When a Firm or a Network Firm provides a non-assurance service to an Audit Client, there might be a risk of the Firm auditing its own or the Network Firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a Firm or a Network Firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the Firm or Network Firm as part of a non-assurance service on which the Audit Team will rely when forming a judgement as part of an audit.

R600.15 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

600.16 A1 When the Audit Client is a Public Interest Entity, stakeholders have heightened expectations regarding the Firm's Independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an Audit Client that is a Public Interest Entity.

600.16 A2 Where the provision of a non-assurance service to an Audit Client that is a Public Interest Entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an Acceptable Level.

Self-review threats

R600.17 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. 600.14 A1 and R600.15).

Providing advice and recommendations

R600.18 As an exception to paragraph R600.17, 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. R400.20 and R400.21); 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.

600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit include:

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.

- Advising on the appropriateness of financial and accounting controls and the methods used in determining the stated amounts in the Financial Statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.
- Advising on compliance with group accounting policies.

Addressing Threats

All Audit Clients

600.19 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to Independence, including a description of safeguards.

600.19 A2 Threats to Independence created by providing a non-assurance service or multiple services to an Audit Client vary depending on the facts and circumstances of the Audit Engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not Audit Team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an Audit Client to an Acceptable Level. In such a situation, the application of the conceptual framework requires the Firm or Network Firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;

(b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an Acceptable Level; or

(c) End the Audit Engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit Clients

600.20 A1 Paragraphs 400.40 A1 and 400.40 A2 are relevant to a Firm's communication with Those Charged with Governance in relation to the provision of non-assurance services.

Audit Clients that are Public Interest Entities

600.21 A1 Paragraphs R600.22 to R600.24 require a Firm to communicate with Those Charged with Governance of a Public Interest Entity before the Firm or Network Firm provides non-assurance services to entities within the corporate structure of which the Public Interest Entity forms part that might create threats to the Firm's Independence from the Public Interest Entity. The purpose of the communication is to enable Those Charged with Governance of the Public Interest Entity to have effective oversight of the Independence of the Firm that audits the Financial Statements of that Public Interest Entity.

600.21 A2 To facilitate compliance with such requirements, a Firm might agree with Those Charged with Governance of the Public Interest Entity a process that addresses when and with whom the Firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other Public Interest Entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.22 without specific approval of Those Charged with Governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the Firm's Independence or, if any such threats are created, they would be at an Acceptable Level.
- Establish how Those Charged with Governance of multiple Public Interest Entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for Those Charged with Governance to evaluate whether a proposed service might create a threat to the Firm's Independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or Confidential Information.
- Specify how any issues not covered by the process might be resolved.

R600.22 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.

600.22 A1 Examples of information that might be provided to Those Charged with Governance of the Public Interest Entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the Firm has identified any threats to Independence that might be created by the provision of the proposed service, the basis for the Firm's assessment that the threats are at an Acceptable Level or, if not, the actions the Firm or Network Firm will take to eliminate or reduce any threats to Independence to an Acceptable Level.

- Whether the combined effect of providing multiple services creates threats to Independence or changes the level of previously identified threats.

R600.23 **A Firm or a Network Firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.22 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.**

R600.24 **As an exception to paragraphs R600.22 and R600.23, 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).**

R600.25 **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 R600.22 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

R600.26 **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.

600.26 A1 Examples of actions that the Firm might recommend to the Audit Client include engaging another Firm to:

- Review or re-perform the affected audit work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other Firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.27 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 R400.20, a Firm or a 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.

Documentation

600.28 A1 Documentation of the Firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the Firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the Financial Statements on which the Firm will express an Opinion.
- The nature of any threat to Independence that is created by providing the service to the Audit Client, including whether the results of the service will be subject to audit procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.

- Any safeguards that are applied, or other actions taken to address a threat to Independence.
- The Firm's rationale for determining that the service is not prohibited and that any identified threat to Independence is at an Acceptable Level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.22, the steps taken to comply with paragraphs R600.22 to R600.24.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an Audit Client.

Requirements and Application Material

General

601.2 A1 Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
  - Purchase orders.
  - Payroll time records.
  - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records or Financial Statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing Financial Statements from one financial reporting framework to another.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

601.4 A1 Providing accounting and bookkeeping services to an Audit Client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion.

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.

601.5 A1 Accounting and bookkeeping services that are routine or mechanical:

(a) Involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary; and

(b) Require little or no professional judgement.

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgement of the Firm or Network Firm.

601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing Financial Statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The Firm or a Network Firm may provide such services to Audit Clients that are not Public Interest Entities provided that the Firm or Network Firm complies with the requirements of paragraph R400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in subparagraph R601.5 (b).

601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

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 a 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 of 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; and**

(d) **The statutory Financial Statements of the Related Entity will not form the basis of future Group Financial Statements of that Public Interest Entity.**

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising an Audit Client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

602.3 A1 Providing administrative services to an Audit Client does not usually create a threat when such services are clerical in nature and require little to no professional judgement.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing valuation services to an Audit Client.

Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity.

603.2 A2 If a Firm or a Network Firm is requested to perform a valuation to assist an Audit Client with its tax reporting obligations or for tax planning purposes and the results of the valuation have no effect on the accounting records or the Financial Statements other than through accounting entries related to tax, the requirements and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

603.3 A1 Providing a valuation service to an Audit Client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such a service might also create an advocacy threat.

603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation services to an Audit Client, and evaluating the level of such threats include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the Financial Statements.
- The extent of the disclosures related to the valuation in the Financial Statements.
- The volatility of the amounts involved as a result of dependence on future events.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R603.5 applies.

Audit Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

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.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

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. R600.15 and R600.17).

Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to an Audit Client that is a Public Interest Entity is using professionals who are not Audit Team members to perform the service.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing tax services to an Audit Client.

Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services.

- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the Firm such as corporate finance services. It is, therefore, impracticable to categorise generically the threats to which specific tax services give rise.

Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such services might also create an advocacy threat.

604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an Audit Client, and evaluating the level of such threats include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the Firm or Network Firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

All Audit Clients

AUST 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.

604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the Firm is confident is likely to prevail, providing the non-assurance service described in paragraph AUST R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an Acceptable Level.

AUST 604.4 A1.1 The Firm will need a high level of confidence that the tax treatment has a basis in tax law that is likely to prevail to satisfy paragraph AUST R604.4. The Firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax treatment will be 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.

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the Audit Client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

604.6 A1 Providing tax return preparation services does not usually create a threat because:

(a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and

(b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the Financial Statements of the Audit Client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an Audit Client for the purpose of preparing accounting entries that support such balances creates a self-review threat.

Audit Clients that are Not Public Interest Entities

604.9 A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an Audit Client is whether the calculation might have a material effect on the Financial Statements on which the Firm will express an Opinion.

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the Audit Client is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

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. R600.15 and R600.17).

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the Audit Client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

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

All Audit clients

604.12 A1 Providing tax advisory and tax planning services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such services might also create an advocacy threat.

604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

(a) Are supported by a tax authority or other precedent;

(b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or

(c) Have a basis in tax law that the Firm is confident is likely to prevail.

AUST 604.12 A2.1 The Firm will need a high level of confidence that the tax advisory and tax planning services have a basis in tax law that is likely to prevail to satisfy subparagraph 604.12 A2(c). The Firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax advisory and tax planning services will be likely to prevail.

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.

604.12 A3 In addition to paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to Audit Clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the Financial Statements.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the Financial Statements.
- The extent to which the outcome of the tax advice might have a material effect on the Financial Statements.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R604.15 applies.

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 Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

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. R600.15, R600.17, 604.12 A2).

Advocacy Threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to an Audit Client that is a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganisations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

604.17 A1 Providing a valuation for tax purposes to an Audit Client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such a service might also create an advocacy threat.

604.17 A2 When a Firm or a Network Firm performs a valuation for tax purposes to assist an Audit Client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

(a) Have no effect on the accounting records or the Financial Statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.

(b) Affect the accounting records or the Financial Statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

604.17 A3 Performing a valuation for tax purposes for an Audit Client will not create a self-review threat if:

(a) The underlying assumptions are either established by law or regulation, or are widely accepted; or

(b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Audit Clients that are Not Public Interest Entities

604.18 A1 A Firm or a Network Firm might perform a valuation for tax purposes for an Audit Client that is not a Public Interest Entity where the result of the valuation only affects the accounting records or the Financial Statements through accounting entries related to tax. This would not usually create threats if the effect on the Financial Statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the Financial Statements, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an Audit Client that is not a Public Interest Entity, and evaluating the level of such threats:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address such threats for an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

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. R600.15, R600.17, 604.17 A3).

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an Audit Client that is a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an Audit Client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

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

All Audit Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an Audit Client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such a service might also create an advocacy threat.

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an Audit Client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the Financial Statements on which the Firm will express an Opinion.
- Whether the Firm or Network Firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R604.24 applies.

Audit Clients that are Not Public Interest Entities

604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an Audit Client that is not a Public Interest Entity in the resolution of tax disputes include:

- Using professionals who are not Audit Team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

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. (Ref: Para. R600.15 and R600.17).

Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an Audit Client that is a Public Interest Entity is using professionals who are not Audit Team members to perform the service.

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.

All Audit Clients

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a Firm or a Network Firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing the tax issues related to the matter.

604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to an Audit Client.[43]

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the Audit Client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of Those Charged with Governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the Financial Statements.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.20 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;

43 The AUASB has prohibited the use of direct assistance from individuals within the client's internal audit function in Auditing and Assurance Standard ASA 610 *Using the Work of Internal Auditors (Compiled)* (April 2022).

(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.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the Firm or the Network Firm providing internal audit services will assume a management responsibility.

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to Those Charged with Governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the Firm or Network Firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

605.4 A1 Providing internal audit services to an Audit Client might create a self-review threat when there is a risk that the results of the services impact the audit of the Financial Statements on which the Firm will express an Opinion.

605.4 A2 When a Firm uses the work of an internal audit function in an Audit Engagement, Auditing and Assurance Standards require the performance of procedures to evaluate the adequacy of that work. Similarly, when a Firm or Network Firm accepts an engagement to provide internal audit services to an Audit Client, the results of those services might be used in conducting the external audit. This might create a self-review threat because it is possible that the Engagement Team will use the results of the internal audit service for purposes of the Audit Engagement without:

(a) Appropriately evaluating those results; or

(b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the Firm.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an Audit Client, and evaluating the level of such a threat include:

- The materiality of the related Financial Statements amounts.
- The risk of misstatement of the assertions related to those Financial Statement amounts.
- The degree of reliance that the Engagement Team will place on the work of the internal audit service.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R605.6 applies.

Audit Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an Audit Client that is not a Public Interest Entity is using professionals who are not Audit Team members to perform the service.

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. R600.15 and R600.17).

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client's accounting records or Financial Statements on which the Firm will express an Opinion.
- Amounts or disclosures that relate to the Financial Statements on which the Firm will express an Opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an Audit Client.

Requirements and Application Material

Description of Service

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customisation.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A2 The IT systems might:

(a) Aggregate source data;

(b) Form part of the internal control over financial reporting; or

(c) Generate information that affects the accounting records or Financial Statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the Audit Client's accounting records or the internal control over financial reporting or Financial Statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.20 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, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;

(c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and

(d) The client is responsible for operating the IT system and for the data it generates and uses.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a Firm or a Network Firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the Audit Client. Such services include:
  - Acting as the only access to a financial or non-financial information system of the Audit Client.
  - Taking custody of or storing the Audit Client's data or records such that the Audit Client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the Audit Client's data or records.
- Operates, maintains, or monitors the Audit Client's IT systems, network or website.

606.3 A2 The collection, receipt, transmission and retention of data provided by an Audit Client in the course of an audit or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

606.4 A1 Providing IT systems services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the audit of the Financial Statements on which the Firm will express an Opinion.

606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an Audit Client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records, internal controls over financial reporting or Financial Statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an Audit Client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting an Audit Client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the Firm or a Network Firm.

Audit Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an Audit Client that is not a Public Interest Entity is using professionals who are not Audit Team members to perform the service.

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. R600.15 and R600.17).

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to an Audit Client.

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

607.3 A1 Providing litigation support services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such services might also create an advocacy threat.

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to an Audit Client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the Financial Statements on which the Firm will express an Opinion.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R607.6 applies.

607.4 A2 If a Firm or a Network Firm provides a litigation support service to an Audit Client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the Financial Statements on which the Firm will express an Opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Audit Clients that are Not Public Interest Entities

607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to an Audit Client that is not a Public Interest Entity is using a professional who was not an Audit Team member to perform the service.

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. R600.15 and R600.17).

607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the Financial Statements on which the Firm will express an Opinion.

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to an Audit Client that is a Public Interest Entity is using a professional who was not an Audit Team member to perform the service.

Acting as a Witness

All Audit Clients

607.7 A1 A professional within the Firm or the Network Firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

(a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.

(b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat to Independence is not created when an individual, in relation to a matter that involves an Audit Client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an Audit Client is at an Acceptable Level if a Firm or a Network Firm is:

(a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or

(b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:

(i) The Firm's Audit Clients constitute less than 20% of the members of the class or group (in number and in value);

(ii) No Audit Client is designated to lead the class or group; and

(iii) No Audit Client is authorised by the class or group to determine the nature and scope of the services to be provided by the Firm or the terms on which such services are to be provided.

Audit Clients that are Not Public Interest Entities

608.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an Audit Client that is not a Public Interest Entity is using a professional to perform the service who is not, and has not been, an Audit Team member.

Audit Clients that are Public Interest Entities

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.

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a legal service to an Audit Client.

Requirements and Application Material

Description of Service

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

(a) Have the required legal training to practice law; or

(b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit Clients

608.3 A1 Providing legal services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to Audit Clients, such as:

- Contract support.
- Supporting an Audit Client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an Audit Client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Audit Clients

608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to an Audit Client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's Financial Statements.
- The complexity of the legal matter and the degree of judgement necessary to provide the service.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R608.7 applies.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's Financial Statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's Financial Statements.

608.5 A3 Negotiating on behalf of an Audit Client might create an advocacy threat or might result in the Firm or Network Firm assuming a management responsibility.

Audit Clients that are Not Public Interest Entities

608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

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. R600.15 and R600.17).

Advocacy Threats

608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an Audit Client that is a Public Interest Entity.

B. Acting as General Counsel

All Audit Clients

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

608.9 A1 The position of general counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

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.

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

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.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to an Audit Client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.20 precludes a Firm or a 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.**

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

609.4 A1 Providing recruiting services to an Audit Client might create a self-interest, familiarity, or intimidation threat.

609.4 A2 Providing the following services does not usually create a threat as long as individuals within the Firm or the Network Firm do not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an Audit Client, and evaluating the level of such threats include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the Firm providing the advice or service.

609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not Audit Team members to perform the service.

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.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an Audit Client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an Audit Client in developing corporate strategies.
- Identifying possible targets for the Audit Client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

610.3 A1 Providing corporate finance services to an Audit Client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the Financial Statements on which the Firm will express an Opinion. Such services might also create an advocacy threat.

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an Audit Client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the Financial Statements.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the Financial Statements.
  - The outcome of the corporate finance service might have a material effect on the Financial Statements.

When a self-review threat for an Audit Client that is a Public Interest Entity has been identified, paragraph R610.8 applies.

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 the 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 doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.**

Audit Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an Audit Client that is not a Public Interest Entity include:

- Using professionals who are not Audit Team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 **A Firm or a Network Firm shall not provide corporate finance 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. R600.15 and R600.17).**

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an Audit Client that is a Public Interest Entity is using professionals who are not Audit Team members to perform the service.

SECTION 800

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Introduction

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

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.

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the Firm to communicate with intended users about Independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the Firm to obtain the agreement of the intended users to the modified Independence requirements.

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.

800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the Firm might describe the modified Independence requirements in an engagement letter to the representative of the lenders. The representative might then make the Firm's engagement letter available to the members of the group of lenders to meet the requirement for the Firm to make such users aware of the modified Independence requirements agreed to by the 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 perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the engagement; 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.

800.10 A1 Others within a Firm who can directly influence the outcome of the Audit Engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the Audit Engagement Partner in connection with the performance of the Audit Engagement including those at all successively senior levels above the Engagement Partner through to the individual who is the Firm's senior or managing partner (chief executive or equivalent).

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 ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

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SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

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 non-financial information, for example, environmental, social and governance disclosures, including greenhouse gas statements.
- An audit of specific elements, accounts or items of a Financial Statement.

900.2 In this Part, the term "Member" refers to individual Members in Public Practice and their Firms.

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 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

General

R900.11 **A Firm performing an Assurance Engagement shall be independent of the Assurance Client.**

900.11 A1 For the purposes of this Part, the Assurance Client in an Assurance Engagement is the Responsible Party and also, in an Attestation Engagement, the party taking responsibility for the Subject Matter Information (who might be the same as the Responsible Party).

900.11 A2 The roles of the parties involved in an Assurance Engagement might differ and affect the application of the Independence provisions in this Part. In the majority of Attestation Engagements, the Responsible Party and the party taking responsibility for the Subject Matter Information are the same. This includes those circumstances where the Responsible Party involves another party to measure or evaluate the Underlying Subject Matter against the Criteria (the measurer or evaluator) where the Responsible Party takes responsibility for the Subject Matter Information as well as the Underlying Subject Matter. However, the Responsible Party or the engaging party might appoint another party to prepare the Subject Matter Information on the basis that this party is to take responsibility for the Subject Matter Information. In this circumstance, the Responsible Party and the party responsible for the Subject Matter Information are both Assurance Clients for the purposes of this Part.

900.11 A3 In addition to the Responsible Party and, in an Attestation Engagement, the party taking responsibility for the Subject Matter Information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the Subject Matter Information. In these circumstances, applying the conceptual framework requires the Member to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

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.**

900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

900.13 A2 When a Firm assumes a management responsibility related to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of an Assurance Engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the Firm becomes too closely aligned with the views and interests of management.

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the Firm or other third parties to implement.
- Reporting to Those Charged with Governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Examples of IT systems services that result in the assumption of a management responsibility in relation to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of an Assurance Engagement, include where a Firm:

- Stores data or manages (directly or indirectly) the hosting of data related to the Underlying Subject Matter or Subject Matter Information. Such services include:
  - Acting as the only access to the data or records related to the Underlying Subject Matter or Subject Matter Information.
  - Taking custody of or storing the data or records related to the Underlying Subject Matter or Subject Matter Information such that the Assurance Client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the Assurance Client's data or records related to the Underlying Subject Matter or Subject Matter Information.
- Operates, maintains, or monitors an Assurance Client's IT systems, network or website related to the Underlying Subject Matter or Subject Matter Information.

900.13 A5 The collection, receipt, transmission and retention of data provided by an Assurance Client in the course of an Assurance Engagement or to enable the provision of a permissible non-assurance service to the Assurance Client does not result in an assumption of management responsibility.

900.13 A6 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an Assurance Client in discharging its responsibilities is not assuming a management responsibility.

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.

900.14 A1 When technology is used in performing a Professional Activity for an Assurance Client, the requirements in paragraphs R900.13 and R900.14 apply regardless of the nature or extent of such use of the technology.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.15 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

R900.16 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.

900.16 A1 Network Firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.17 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.

[Paragraphs 900.18 to 900.29 are intentionally left blank]

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.**

900.30 A1 The Engagement Period starts when the Engagement Team begins to perform assurance services with respect to the particular engagement. The Engagement Period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

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 Engagement 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.**

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not Assurance Team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.

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.**

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material that is relevant to communications with a party engaging the Firm or Those Charged with Governance of the Assurance Client.

900.34 A2 Communication with a party engaging the Firm or Those Charged with Governance of the Assurance Client might be appropriate when significant judgements are made, and conclusions reached, to address threats to Independence in relation to an Assurance Engagement because the Subject Matter Information of that engagement is the outcome of a previously performed non-assurance service.

[Paragraphs 900.35 to 900.39 are intentionally left blank]

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.

900.40 A1 Documentation provides evidence of the Firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a Firm considered a particular matter or whether the Firm is independent.

[Paragraphs 900.41 to 900.49 are intentionally left blank]

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.

R900.51 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.

R900.52 **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.**

R900.53 **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.**

SECTION 905

FEES

Introduction

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

Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an Assurance Client, this creates a self-interest threat and might create an intimidation threat to Independence.

905.3 A2 The application of the conceptual framework requires that before a Firm accepts an Assurance Engagement for an Assurance Client, the Firm determines whether the threats to Independence created by the fees proposed to the client are at an Acceptable Level. The application of the conceptual framework also requires the Firm to re-evaluate such threats when facts and circumstances change during the Engagement Period.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the Assurance Client include:

- The level of the fees for the Assurance Engagement and the extent to which they have regard to the resources required, taking into account the Firm's commercial and market priorities.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the Firm or a Network Firm.
- The significance of the client to the Firm or partner.
- The nature of the client.
- The nature of the Assurance Engagement.
- The involvement of Those Charged with Governance in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed, implemented and operated by a Firm in accordance with the quality management standards issued by the AUASB) might also impact the evaluation of whether the threats to Independence are at an Acceptable Level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an Acceptable Level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an Assurance Client, whether for assurance or other services, is a business decision of the Firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an Assurance Engagement when paid by the Assurance Client include:

- The Firm's commercial rationale for the fee for the Assurance Engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the Assurance Engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the Assurance Engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the Assurance Engagement review the work performed.

Contingent Fees

905.5 A1 Contingent Fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A Contingent Fee charged through an intermediary is an example of an indirect Contingent Fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

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.

905.7 A1 Paragraphs R905.6 and R905.7 preclude a Firm from entering into certain Contingent Fee arrangements with an Assurance Client. Even if a Contingent Fee arrangement is not precluded when providing a non-assurance service to an Assurance Client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the Contingent Fee depends.
- Disclosure to intended users of the work performed by the Firm and the basis of remuneration.
- The nature of the service.

- The effect of the event or transaction on the Subject Matter Information.

905.7 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 relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees — Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the Assurance Client for the Assurance Engagement or other services are overdue during the period of the Assurance Engagement.

905.8 A2 It is generally expected that the Firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the Firm.
- The length of time the fees have been overdue.
- The Firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the Assurance Engagement review the work performed.

R905.9 When a significant part of the 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.

Total Fees — Fee Dependency

905.10 A1 When the total fees generated from an Assurance Client by the Firm expressing the conclusion in an Assurance Engagement represent a large proportion of the total fees of that Firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.

905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the Assurance Client is not responsible for negotiating or paying the fees for the Assurance Engagement.

905.10 A3 In calculating the total fees of the Firm, the Firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the Firm.
- Whether the Firm is expected to diversify such that any dependence on the Assurance Client is reduced.

905.10 A5 Examples of actions that might be a safeguard to address such threats include:

- Reducing the extent of services other than Assurance Engagements provided to the client.
- Increasing the client base of the Firm to reduce dependence on the Assurance Client.

905.10 A6 A self-interest or intimidation threat is created when the fees generated by a Firm from an Assurance Client represent a large proportion of the revenue from an individual partner's clients.

905.10 A7 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the Assurance Client to the partner.
- The extent to which the compensation of the partner is dependent upon the fees generated from the client.

905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- Having an appropriate reviewer who was not an Assurance Team member review the work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the Assurance Client.
- Increasing the client base of the partner to reduce dependence on the client.

SECTION 906

GIFTS AND HOSPITALITY

Introduction

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.

Requirement and Application Material

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.

906.3 A1 Where a Firm or Assurance Team member is offering or accepting an Inducement to or from an Assurance Client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to Independence.

906.3 A2 The requirements set out in Section 340 relating to offering or accepting Inducements do not allow a Firm or Assurance Team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 907

ACTUAL OR THREATENED LITIGATION

Introduction

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

General

907.3 A1 The relationship between client management and Assurance Team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an Assurance Client and the Firm or an Assurance Team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

907.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The materiality of the litigation.
- Whether the litigation relates to a prior Assurance Engagement.

907.3 A3 If the litigation involves an Assurance Team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the Assurance Team.

907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

SECTION 910

FINANCIAL INTERESTS

Introduction

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

General

910.3 A1 A Financial Interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that Financial Interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that Financial Interest to be indirect.

910.3 A2 This section contains references to the "materiality" of a Financial Interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a Financial Interest in an Assurance Client include:

- The role of the individual holding the Financial Interest.
- Whether the Financial Interest is direct or indirect.
- The materiality of the Financial Interest.

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.**

Financial Interests – Other Circumstances

Close Family

910.8 A1 A self-interest threat might be created if an Assurance Team member knows that a Close Family member has a Direct Financial Interest or a material Indirect Financial Interest in the Assurance Client.

910.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the Assurance Team member and the Close Family member.
- Whether the Financial Interest is direct or indirect.
- The materiality of the Financial Interest to the Close Family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

- Having the Close Family member dispose, as soon as practicable, of all of the Financial Interest or dispose of enough of an Indirect Financial Interest so that the remaining interest is no longer material.
- Removing the individual from the Assurance Team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the Assurance Team member.

Other Individuals

910.8 A5 A self-interest threat might be created if an Assurance Team member knows that a Financial Interest is held in the Assurance Client by individuals such as:

- Partners and professional employees of the Firm, apart from those who are specifically not permitted to hold such Financial Interests by paragraph R910.4, or their Immediate Family members.
- Individuals with a close personal relationship with an Assurance Team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the Assurance Team member with the personal relationship from the Assurance Team.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the Assurance Team member from any significant decision making concerning the Assurance Engagement.
- Having an appropriate reviewer review the work of the Assurance Team member.

SECTION 911

LOANS AND GUARANTEES

Introduction

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

General

911.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

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.

911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.

911.5 A2 Even if a Firm receives a loan from an Assurance Client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the Assurance Client or Firm receiving the loan.

911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an Assurance Team member, from a Network Firm that is not a beneficiary of the loan.

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.**

SECTION 920

BUSINESS RELATIONSHIPS

Introduction

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

General

920.3 A1 This section contains references to the "materiality" of a Financial Interest and the "significance" of a business relationship. In determining whether such a Financial Interest is material to an individual, the combined net worth of the individual and the individual's Immediate Family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common Financial Interest include:

- Having a Financial Interest in a joint venture with either the Assurance Client or a controlling owner, Director or Officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the Firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the Firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the Firm's products or services.
- Arrangements under which a Firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

920.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the Firm licenses products or solutions to or from the Assurance Client.

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.

920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the Assurance Client or its management and the Immediate Family of an Assurance Team member.

Buying Goods or Services

920.5 A1 The purchase of goods and services, including the licensing of technology from an Assurance Client by a Firm, or an Assurance Team member, or any of that individual's Immediate Family does not usually create a threat to Independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the Assurance Team.

Providing, Selling, Reselling or Licensing Technology

920.6 A1 Where a Firm provides, sells, resells or licenses technology:

(a) To an Assurance Client; or

(b) To an entity that provides services using such technology to Assurance Clients of the Firm,

depending on the facts and circumstances, the requirements and application material in Section 950 apply.

SECTION 921

FAMILY AND PERSONAL RELATIONSHIPS

Introduction

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

General

921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an Assurance Team member and a Director or Officer or, depending on their role, certain employees of the Assurance Client.

921.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the Assurance Team.
- The role of the family member or other individual within the Assurance Client, and the closeness of the relationship.

Immediate Family of an Assurance Team Member

921.4 A1 A self-interest, familiarity or intimidation threat is created when an Immediate Family member of an Assurance Team member is an employee in a position to exert significant influence over the Underlying Subject Matter of the Assurance Engagement.

921.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the Immediate Family member.
- The role of the Assurance Team member.

921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Assurance Team.

921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Assurance Team so that the Assurance Team member does not deal with matters that are within the responsibility of the Immediate Family 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.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a Close Family member of an Assurance Team member 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.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the Assurance Team member and the Close Family member.
- The position held by the Close Family member.
- The role of the Assurance Team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Assurance Team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Assurance Team so that the Assurance Team member does not deal with matters that are within the responsibility of the Close Family member.

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.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

- The nature of the relationship between the individual and the Assurance Team member.
- The position the individual holds with the client.
- The role of the Assurance Team member.

921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the Assurance Team.

921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the Assurance Team so that the Assurance Team member does not deal with matters that are within the responsibility of the individual with whom the Assurance Team member has a close relationship.

Relationships of Partners and Employees of the Firm

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

(a) A partner or employee of the Firm who is not an Assurance Team member; and

(b) Any of the following individuals at the Assurance Client:

(i) A Director or Officer;

(ii) 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.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the Firm and the Director or Officer or employee of the client.
- The degree of interaction of the partner or employee of the Firm with the Assurance Team.
- The position of the partner or employee within the Firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the Assurance Engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

SECTION 922

RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

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

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.

Service Prior to the Period Covered by the Assurance Report

922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an Assurance Team member:

(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.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current Assurance Engagement.

922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the Assurance Team member.

922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the Assurance Team member.

SECTION 923

SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

Introduction

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

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.

923.4 A1 The position of company secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers), to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the Firm serves as company secretary for an Assurance Client. (More information on providing non-assurance services to an Assurance Client is set out in Section 950, *Provision of Non-Assurance Services to Assurance Clients*.)

SECTION 924

EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

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

General

924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an Assurance Team member or partner of the Firm:

- A Director or Officer of the Assurance Client.
- 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.

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.

924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the Assurance Client in such a position and does not continue to participate in the Firm's business or Professional Activities, a familiarity or intimidation threat might still be created.

924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the Firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an Assurance Client of the Firm.

924.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the Assurance Team.
- The length of time since the individual was an Assurance Team member or partner of the Firm.

- The former position of the individual within the Assurance Team or Firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or Those Charged with Governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the Firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the Firm.
- Modifying the plan for the Assurance Engagement.
- Assigning to the Assurance Team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former Assurance Team member.

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.

924.5 A1 A self-interest threat is created when an Assurance Team member participates in the Assurance Engagement while knowing that the Assurance Team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the Assurance Engagement.

924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that Assurance Team member while on the team.

SECTION 940

LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

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

General

940.3 A1 A familiarity threat might be created as a result of an individual's long association with:

(a) The Assurance Client;

(b) The Assurance Client's senior management; or

(c) The Underlying Subject Matter or, in an Attestation Engagement, Subject Matter Information of the Assurance Engagement.

940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a long-standing Assurance Client or an interest in maintaining a close personal relationship with a member of senior management or Those Charged with Governance. Such a threat might influence the individual's judgement inappropriately.

940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- The nature of the Assurance Engagement.
- How long the individual has been an Assurance Team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior Firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the Assurance Engagement, for example, by making key decisions or directing the work of other Engagement Team members.
- The closeness of the individual's personal relationship with the Assurance Client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the Assurance Client.
- Whether the nature or complexity of the Underlying Subject Matter or Subject Matter Information has changed.

- Whether there have been any recent changes in the individual or individuals at the Assurance Client who are responsible for the Underlying Subject Matter or, in an Attestation Engagement, the Subject Matter Information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an Assurance Team member and an individual at the Assurance Client who is in a position to exert significant influence over the Underlying Subject Matter or, in an Attestation Engagement, the Subject Matter Information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the Assurance Team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the Assurance Team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an Assurance Team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

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) Perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the 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.

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

Introduction

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.

950.3 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 Assurance Clients.

950.4 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 might provide to an Assurance 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.

950.5 The requirements and application material in this section apply where a Firm:

(a) Uses technology to provide a non-assurance service to an Assurance Client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the Firm:

(i) To an Assurance Client; or

(ii) To an entity that provides services using such technology to Assurance Clients of the Firm.

Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

950.6 A1 When a Firm provides a non-assurance service to an Assurance Client, there is a risk that a Firm will assume a management responsibility in relation to the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of the Assurance Engagement unless the Firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R950.7 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.

Identifying and Evaluating Threats

950.8 A1 A description of the categories of threats that might arise when a Firm provides a non-assurance service to an Assurance Client is set out in paragraph 120.6 A3.

950.8 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an Assurance Client include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a Public Interest Entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the Underlying Subject Matter and, in an Attestation Engagement, matters reflected in the Subject Matter Information of the Assurance Engagement, and, if so:
    - The extent to which the outcome of the service will have a material effect on the Underlying Subject Matter and, in an Attestation Engagement, the Subject Matter Information of the Assurance Engagement.
    - The extent to which the Assurance Client determines significant matters of judgement. (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the Assurance Engagement.
- The fee relating to the provision of the non-assurance service.

Materiality in Relation to an Assurance Client's Information

950.9 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an Assurance Client. The concept of materiality in relation to an Assurance Client's Subject Matter Information is addressed in *Standard on Assurance Engagements (ASAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-Assurance Services Provided to the Same Assurance Client

950.10 A1 A Firm might provide multiple non-assurance services to an Assurance Client. In these circumstances the combined effect of threats created by providing those services is relevant to the Firm's evaluation of threats.

Self-Review Threats

950.11 A1 A self-review threat might be created if, in an Attestation Engagement, the Firm is involved in the preparation of Subject Matter Information which subsequently becomes the Subject Matter Information of an Assurance Engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the Subject Matter Information of an Assurance Engagement include:

(a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.

(b) Performing a valuation that is related to or forms part of the Subject Matter Information of an Assurance Engagement.

(c) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems or IT controls and subsequently undertaking an Assurance Engagement on a statement or report prepared about the IT systems or IT controls.

(d) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems and subsequently issuing an assurance report on Subject Matter Information, such as elements of non-financial information, that is prepared from information generated by such IT systems.

Assurance Clients that are Public Interest Entities

950.12 A1 Expectations about a Firm's Independence are heightened when an Assurance Engagement is undertaken by a Firm for a Public Interest Entity and the results of that engagement will be:

(a) Made available publicly, including to shareholders and other stakeholders; or

(b) Provided to an entity or organisation established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an Assurance Client.

950.12 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.12 A1 (b), the Firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the Firm or Those Charged with Governance of the Assurance Client and to the entity or organisation established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

Addressing Threats

950.13 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to Independence, including a description of safeguards.

950.13 A2 Threats to Independence created by providing a non-assurance service or multiple services to an Assurance Client vary depending on facts and circumstances of the Assurance Engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

950.13 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not Assurance Team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the assurance work or service performed.

950.13 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an Assurance Client to an Acceptable Level. In such a situation, the application of the conceptual framework requires the Firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threat;

(b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an Acceptable Level; or

(c) End the Assurance Engagement.

SECTION 990

REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

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

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.

990.3 A1 The intended users of the report might obtain an understanding of the purpose, Subject Matter Information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the Firm to communicate with intended users about Independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the Firm to obtain the agreement of the intended users to the modified Independence requirements.

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.

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the Firm might describe the modified Independence requirements in an engagement letter to the representative of the lenders. The representative might then make the Firm's engagement letter available to the members of the group of lenders to meet the requirement for the Firm to make such users aware of the modified Independence requirements agreed to by the 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 perform an Engagement Quality Review, or a review consistent with the objective of an Engagement Quality Review, for the engagement; 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.**

990.7 A1 Others within the Firm who can directly influence the outcome of the Assurance Engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the Assurance Engagement Partner in connection with the performance of the Assurance Engagement.

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.

Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

8. Revisions to the Code Relating to the Definition of Engagement Team and Group Audits have effective dates as set out below.

- Changes to the Glossary will be effective for:
  - audits and reviews of Financial Statements and Group Financial Statements for periods beginning on or after 1 January 2024; and
  - Assurance Engagements other than Audit or Review Engagements with respect to Underlying Subject Matter covering periods beginning on or after 1 January 2024, otherwise, as of 1 January 2024.
- Changes to Section 400 relating to the revision of the definition of Engagement Team and the new provisions in Section 405 relating to Group Audits will be effective for audits and reviews of the Financial Statements and audits of Group Financial Statements for periods beginning on or after 1 January 2024.
- Conforming and consequential amendments to Sections 360, 510, 540, 600 - 800, 900, 940 and 990 and paragraphs 400.30 A1 to 400.31 A1 will be effective as of 1 January 2024.
- For non-assurance services engagements a Component Auditor Firm outside the Group Auditor Firm's Network has entered into with a Component Audit Client before 1 January 2024 and for which work has already commenced, the Component Auditor Firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

Revisions to the Code for the Definitions of Listed Entity, Publicly Traded Entity and Public Interest Entity

9. Revisions to the Code for the definitions of listed entity, Publicly Traded Entity and Public Interest Entity will be effective for audits of Financial Statements for periods beginning on or after 1 January 2025. Early adoption will be permitted.

Technology-related Revisions to the Code

10. Technology-related Revisions to the Code have effective dates as set out below.

- Revisions to Parts 1 to 3 will be effective as of 1 January 2025.
- Revisions to Part 4A will be effective for audits and reviews of Financial Statements for periods beginning on or after 1 January 2025.
- The conforming and consequential amendments to Part 4B 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 2025; otherwise, these amendments will be effective as of 1 January 2025.

Early adoption will be permitted.

Revisions to the Code for Tax Planning and Related Services

11. Revisions to the Code addressing Tax Planning and Related Services have effective dates as set out below.

- Section 280 will be effective for tax planning activities beginning on or after 1 July 2025.
- Section 380 and the consequential amendments to Section 321 will be effective for tax planning services beginning on or after 1 July 2025.

Tax planning services or activities commenced before 1 July 2025 may be continued and be completed under the extant provisions of the Code.

CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

APES 110 and the IESBA Code

APES 110 incorporates the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to April 2024~~3~~.

Compliance with the IESBA Code

The principles and requirements of APES 110 and the IESBA Code are consistent except for the following:

- The title of APES 110 does not include the term 'International';
- The addition of a Scope and Application section in APES 110;
- Requirement paragraphs in APES 110 are in **bold-type** font;
- APES 110 generally refers to Members whereas the IESBA Code refers to professional accountants;
- Defined terms are in title case in APES 110;
- The addition of definitions prefixed as AUST in APES 110. The additional definitions are of AASB, Administration, ASQM 1, AUASB, Auditing and Assurance Standards, Australian Accounting Standards, Member, Professional Bodies and Professional Standards;
- The addition of paragraphs prefixed as AUST are to deal with applicable Australian laws and regulations, Australian Accounting Standards, Auditing and Assurance Standards, Accounting Professional & Ethical Standards, or to address specific matters in the Australian environment;
- APES 110 tailors the following IESBA defined terms to the Australian environment: Assurance Engagement, Audit Engagement, Director or Officer, Engagement Team, Financial Statements, Firm, Member in Public Practice, Public Interest Entity, and Review Engagement;
- The definition of Engagement Team in APES 110 does not exclude individuals within the client's internal audit function who provide direct assistance on an Audit Engagement as the AUASB has prohibited the use of direct assistance in Auditing and Assurance Standard ASA 610 *Using the Work of Internal Auditors* (*Compiled*) (April 2022);
- APES 110 uses the term 'NOCLAR' whereas the IESBA Code refers to 'non-compliance';
- APES 110 includes additional text in the section heading of Part 2 to indicate that the section includes employment relationships of Members in Public Practice;
- APES 110 mandates documentation of work performed for tax planning and related services in paragraphs AUST R280.23 and AUST R380.26.
- The defined term 'Engagement Team' in Part 3 of APES 110 is consistent with other APESB pronouncements, including APES 320 *Quality Management for Firms that provide Non-Assurance Services*;
- For quality management of non-assurance services, APES 110 refers to APES 320 *Quality Management for Firms that provide Non-Assurance Services*;
- APES 110 does not include paragraph 325.8 A4 of the IESBA Code to eliminate any confusion on the application of the cooling-off periods required by Section 540 of the Code and ASQM 2 *Engagement Quality Reviews*;
- Enhancing the clarity of provisions in Sections 320 and 360 by replacing some of the references to the Proposed Accountant, Existing Accountant or Predecessor Accountant with the term Member in Public Practice in APES 110;

- Paragraph AUST R400.24 in APES 110 mandates Firms to determine whether additional entities are Public Interest Entities;
- The international requirement for audit partners not to be incentivised for selling non-assurance services to their Audit Clients has been broadened in paragraph AUST R411.4 of APES 110 to ensure that audit partners are not incentivised for selling non-assurance services to any Audit Client of the Firm; and
- Subsection 604 of APES 110 mandates the documentation of factors considered and conclusions reached in determining that a tax service (including a tax advisory and tax planning service) provided by the Firm that performs the Audit Engagement is permissible (paragraphs AUST R604.4.1 and AUST R604.12.1) and provides guidance that the Firm will need a high level of confidence that the tax treatment has a basis in tax law that is likely to prevail (paragraphs AUST 604.4 A1.1 and AUST 604.12 A2.1).