

## **Amendments to the Definitions and Auditor Independence Requirements in APES 110 *Code of Ethics for Professional Accountants***

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## Contents

	<b>Sections</b>
Definitions.....	2
[AUST] Preface: Sections 290 and 291	
Independence – Audit and Review Engagements.....	290

## Section 2 Definitions

*Immediate Family* means a spouse (or equivalent) or ~~dependent~~ dependant.

### [AUST] Preface: SECTIONS 290 and 291 Section 290 Independence – Audit and Review Engagements and Section 291 independence – Other Assurance Engagements

Section 290 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.

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

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

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

While this difference in approach makes precise comparisons to specific legislation difficult, such as the *Corporations Act 2001*, ~~difficult~~, 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 ~~the~~ 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 Sections 290 and 291, it is not possible to ~~give~~ provide a definition ~~which~~ 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.

## Section 290 Independence – Audit and Review Engagements

[Paragraphs 290.1 – 290.219 of extant Section 290 remain unchanged.]

### Fees

#### Fees—Relative Size

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

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

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

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

AUST 290.220.1 In certain circumstances another party or Firm may refer multiple Audit Clients to a Firm. In these circumstances, when the total fees in respect of multiple Audit Clients referred from one source represent a large proportion of the total fees of the Firm expressing the audit opinions, the dependence on that source and concern about losing those Audit Clients creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Paragraph 290.220 provides examples of factors that may affect the significance of the threat and potential safeguards. Examples of such safeguards include:

- Reducing the dependency on the referring source;
- External quality control reviews; or
- Consulting a third party, such as a professional body or another Member in Public Practice, on key audit judgments.

[Paragraph 290.221 – 290.514 of extant Section 290 remains unchanged.]

#### **Effective Date:**

The revisions are effective from 1 July 2013.