

Potential 'Guidebook' Paragraphs

[Editorial Note: Yellow Highlight indicates text from APES 110 (2006 version)]

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.41.2	AUST 280.2.1	Independence is potentially affected by self-interest, self-review, advocacy, familiarity and intimidation threats.
AUST 290.41.3	AUST 280.2.2	<p>“Self-Interest Threat” occurs when a Firm or a member of the Assurance Team could benefit from a Financial Interest in, or other self-interest conflict with, an Assurance Client.</p> <p>Examples of circumstances that may create this threat include, but are not limited to:</p> <ul style="list-style-type: none"> • A Direct Financial Interest or material Indirect Financial Interest in an Assurance Client; • A loan or guarantee to or from an Assurance Client or any of its Directors or Officers; • Undue dependence on total fees from an Assurance Client; • Concern about the possibility of losing the Engagement; • Having a close business relationship with an Assurance Client; • Potential employment with an Assurance Client; and <p>Contingent Fees relating to Assurance Engagements.</p>
AUST 290.41.4	AUST 280.2.3	<p>Self-Review Threat” occurs when (1) any product or judgment of a previous Assurance Engagement or non-Assurance Engagement needs to be re-evaluated in reaching conclusions on the Assurance Engagement or (2) when a member of the Assurance Team was previously a Director or Officer of the Assurance Client or was an employee in a position to exert direct and significant influence over the subject matter of the Assurance Engagement.</p> <p>Examples of circumstances that may create this threat include, but are not limited to:</p> <ul style="list-style-type: none"> • A member of the Assurance Team being, or having recently been, a Director or Officer of the Assurance Client; • A member of the Assurance Team being, or having recently been, an employee of the Assurance Client in a position to exert direct and significant influence over the subject matter of the Assurance Engagement; • Performing services for an Assurance Client that directly affect the subject matter of the Assurance Engagement; and <p>Preparation of original data used to generate a financial report or preparation of other records that are the subject matter of the Assurance Engagement.</p>

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AUST 290.41.5	AUST 280.2.4	<p>“Advocacy Threat” occurs when a Firm, or a member of the Assurance Team, promotes, or may be perceived to promote an Assurance Client's position or opinion to the point that objectivity may, or may be perceived to be, compromised. Such may be the case if a Firm or a member of the Assurance Team were to subordinate their judgment to that of the Client.</p> <p>Examples of circumstances that may create this threat include, but are not limited to:</p> <ul style="list-style-type: none"> • Dealing in, or being a promoter of, shares or other securities in an Assurance Client; and • Acting as an advocate on behalf of an Assurance Client in litigation or in resolving disputes with third parties.
AUST 290.41.6	AUST 280.2.5	<p>“Familiarity Threat” occurs when, by virtue of a close relationship with an Assurance Client, its Directors, Officers or employees, a Firm or a member of the Assurance Team becomes too sympathetic to the Client's interests.</p> <p>Examples of circumstances that may create this threat include, but are not limited to:</p> <ul style="list-style-type: none"> • A member of the Assurance Team having an Immediate Family member or Close Family member who is a Director or Officer of the Assurance Client; • A member of the Assurance Team having an Immediate Family member or Close Family member who, as an employee of the Assurance Client, is in a position to exert direct and significant influence over the subject matter of the Assurance Engagement; • A former Partner of the Firm being a Director or Officer of the Assurance Client or an employee in a position to exert direct and significant influence over the subject matter of the Assurance Engagement; • Long association of a senior member of the Assurance Team with the Assurance Client; and • Acceptance of gifts or hospitality, unless the value is trivial, from the Assurance Client, its Directors, Officers or employees.
AUST 290.41.7	AUST 280.2.6	<p>“Intimidation Threat” occurs when a member of the Assurance Team may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the Directors, Officers or employees of an Assurance Client.</p> <p>Examples of circumstances that may create this threat include, but are not limited to:</p> <ul style="list-style-type: none"> • Threat of replacement over a disagreement with the application of an accounting principle; and • Pressure to reduce inappropriately the extent of work

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		performed in order to reduce fees.
AUST 290.41.8	AUST 280.2.7	The Firm and members of the Assurance Team have a responsibility to remain independent by taking into account the context in which they practice, the threats to Independence and the safeguards available to eliminate the threats or reduce them to an Acceptable Level.
AUST 290.41.9	AUST 280.2.8	When threats are identified, other than those that are trivial, a Member in Public Practice shall identify appropriate safeguards and apply them to eliminate the threats or reduce them to an Acceptable Level. The Member shall document this decision. The nature of the safeguards to be applied will vary depending upon the circumstances. The consideration will be affected by matters such as the significance of the threat, the nature of the Assurance Engagement, the intended users of the assurance report and the structure of the Firm.
AUST 290.41.10	AUST 280.2.9	<p>Safeguards fall into three broad categories:</p> <ul style="list-style-type: none"> • Safeguards created by the profession, legislation or regulation; • Safeguards within the Assurance Client; and • Safeguards within the Firm's own systems and procedures. <p>The Firm and the members of the Assurance Team should select appropriate safeguards to eliminate or reduce threats to Independence to an Acceptable Level.</p>
AUST 290.41.11	AUST 280.2.10	<p>Safeguards created by the profession, legislation or regulation, include the following:</p> <ul style="list-style-type: none"> • Educational, training and experience requirements for entry into the profession; • Continuing education requirements; • Professional standards and monitoring and disciplinary processes; • External review of a Firm's quality control system; • Legislation governing the Independence requirements of the Firm; and <p>Recommendations on Independence from relevant regulators.</p>

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.41.12	AUST 280.2.11	<p>Safeguards within the Assurance Client, include the following:</p> <ul style="list-style-type: none"> • When the Assurance Client's management appoints the Firm, persons other than management ratify or approve the appointment; • The Assurance Client has competent employees to make managerial decisions; • Policies and procedures that emphasise the Assurance Client's commitment to fair financial reporting; • Internal procedures that ensure objective choices in commissioning non-Assurance Engagements; and • A corporate governance structure, such as an audit committee, that provides appropriate oversight and communications regarding a Firm's services.

Comment 38

Nature of Amendment/Source: Additional guidance inserted in 2006 by the APESB about the application of the threats and safeguards model to independence.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.45.1	AUST 290.31.1	<p>In the case of an engagement conducted for the purposes of the Corporations Act, the engagement period includes the period covered by the subject matter reported on by the Firm. When an entity becomes an Audit Client during or after the period covered by the subject matter that the Firm will report on, the Firm shall consider whether any threats to Independence may be created by:</p> <ul style="list-style-type: none"> • Financial or business relationships with the Audit Client during or after the period covered by the subject matter, but prior to the acceptance of the Audit Engagement; or • Previous services provided to the Audit Client.

Comment 39

Paragraph AUST290.31.1 is broader than paragraph 290.31 in that it also applies to non-financial statement engagements. The requirements mirror the requirements in paragraph 290.31. For example, sections 601HG-HI of the Corporations Act requires audits of compliance plans and registered schemes and section 313 contains specific requirements in relation to audits of debenture issuers and guarantors.

Nature of Amendment/Source: Corporations Act (ss 601HG-HI, also S313).

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.134.1	AUST 290.126.1	<p>In the case of a corporate Audit Client, that is not a small proprietary company for the relevant financial year, where the Firm or a partner appoints as a consultant for reward:</p> <ul style="list-style-type: none"> (a) a Director of the Audit Client; or (b) an Officer of the Audit Client; or (c) an employee of the Audit Client in a position to exert direct and significant influence over the subject matter of the Audit Engagement, or the conduct or efficacy of the audit; <p>the threat created would be so significant, no safeguards could reduce the threat to an Acceptable Level.</p> <p>Consequently, in the case of a corporate Audit Client, that is not a small proprietary company for the relevant financial year, the only possible courses of action are to:</p> <ul style="list-style-type: none"> • Terminate the consultancy arrangement; or • Refuse to perform the Audit Engagement.

Comment 43

Nature of Amendment/Source: Australian context – Corporations Act. [F1, Appendix 2, para 2.43] Corporations Act – s324CH(1) item 7, s324CF(5) items 1-3. This section was based on an equivalent paragraph 2.43 in F.1 – the ‘professional’ requirement was first introduced in December 2004 which preceded the CLERP independence reform provisions.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.145.1	AUST 290.138.1	<p>If a former partner of the Firm:</p> <p>(a) becomes an Officer or Director of a corporate Audit Client, that is not a small proprietary company, within a period of five years after the individual ceased (or last ceased) to be a partner of the Firm; and</p> <p>(b) at the same time another former partner of the Firm, who was a partner of the Firm at the time when the Firm undertook an audit of the corporate Audit Client, is an Officer or Director of the corporate Audit Client;</p> <p>the threat created would be so significant no safeguard could reduce the threat to an Acceptable Level.</p> <p>This provision applies to a former partner only if the former partner was at 1 July 2004, or became after that date a partner of the audit Firm and becomes an Officer or Director of the corporate Audit Client concerned on or after 1 July 2004.</p>

Comment 46

Retain – provides specific context of application arising from the Corporations Act.

Nature of Amendment/Source: Corporations Act – s324CK.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.147.1	AUST 290.144.1	<p>If, during the period covered by the audit report, a member of the Audit Team is:</p> <ul style="list-style-type: none"> (a) a partner of; or (b) an employer of; or (c) an employee of; or (d) a partner of an employee of; or (e) an employee of an employer of: <ul style="list-style-type: none"> • an Officer of the corporate Audit Client; or • a person who is in a position to exert direct and significant influence over the subject matter of the Audit Engagement, or the conduct or efficacy of the audit, of the corporate Audit Client; <p>the threat created would be so significant no safeguard could reduce the threat to an Acceptable Level, unless the Audit Client is a small proprietary company.</p> <p>Consequently, such individuals shall not be assigned to the Audit Team.</p>

Comment 48

Nature of Amendment/Source: [F1, Appendix 2, para 2.57], Corporations Act – s324CH(1), s9 definition of “audit critical employee”.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.148.1	AUST 290.145.1	<p>If, during the twelve month period immediately preceding the beginning of the period to which the audit relates;</p> <ul style="list-style-type: none"> (a) A partner; or (b) A member of the Audit Team; <p>served as an Officer or Director of the Audit Client, or had been an employee in a position to exert direct and significant influence over the subject matter of the Audit Engagement, or the conduct or efficacy of the audit, the threat created would be so significant no safeguard could reduce the threat to an Acceptable Level.</p>

Comment 49

Nature of Amendment/Source: [F1, Appendix 2, para 2.59], Corporations Act – s324CF(5) items 3, 4, 5 & 9, s324CH(1) item 8 & 9.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
290.155	AUST 290.154.1	When a Financial Statement Audit Client becomes a Listed Entity the length of time the lead Engagement Partner, audit review partner (if any) or engagement quality control reviewer have served the Audit Client in that capacity should be considered in determining when the individual should be rotated. However, the person may continue to serve as the Lead Engagement, or audit review partner (if any) or engagement quality control reviewer for two additional years before rotating off the engagement, provided this does not exceed seven years as at 1 July 2006.

Comment 53

Nature of Amendment/Source: [F1, Appendix 2, para 2.63, 2.64 and 2.66] Corporations Act – ss324DA and 324DC.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
290.157	290.155	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 may not be an available safeguard. In these circumstances the Firm shall apply other safeguards including the obtaining of an extension under the <i>Corporations Act 2001</i> , to reduce the threat to an Acceptable Level. Such safeguards would include involving an additional professional accountant who was not otherwise associated with the Audit Team to review the work done or otherwise advise as necessary. This individual could be someone from outside the Firm or someone within the Firm who was not otherwise associated with the Audit Team.

Comment 53

Nature of Amendment/Source: [F1, Appendix 2, para 2.63, 2.64 and 2.66] Corporations Act – ss324DA and 324DC.

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.206.1 (similar)	AUST 290.220.1	<p>In all cases where the fees generated by an Audit Client exceed 15% of the Firm's total fees the following safeguards are necessary to reduce the threat to an Acceptable Level:</p> <ul style="list-style-type: none"> • Involving an additional Member who was not part of the Audit Team to carry out reviews of the work done, or otherwise advise as necessary; • provide documentation of such review to the applicable professional body, during quality review. <p>Where an Audit Client provides a Firm with an unduly large proportion of its total fees, the only course of action is to refuse to perform, or to withdraw from, the Audit Engagement.</p>

Comment - 2006 insertion?

Current APES 110 Paragraph	ED 03-10, v.1.10 Paragraph	Requirement/Guidance
AUST 290.47.1	AUST 291.32.1	<p>Because of the changing status of businesses, potential services that can be provided to an Assurance Client and changes in personnel engaged on Assurance Engagements the review and assessment of Independence is an ongoing process. Firms should ensure that they have established rigorous quality control systems to monitor changes in client business activities and the services provided to Assurance Clients so as to ensure Independence is assured at all times.</p>

Comment 41

The additional guidance in this paragraph reminds Members of the need to establish and maintain quality control systems to aid their assessment of independence.

Nature of Amendment/Source: Additional guidance.