APESB

Accounting Professional & Ethical Standards Board

Compiled APES 110 Code of Ethics for Professional Accountants

[Supersedes APES 110 Code of Ethics for Professional Accountants (Issued in June 2006 and subsequently amended in February 2008)]

Compiled as at: November 2013

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COMPILATION DETAILS

APES 110 *Code of Ethics for Professional Accountants* 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 (December 2010) as amended or added to by subsequent APESB Standards, which are listed in the tables below.

APES 110 (December 2010) is effective from 1 July 2011 and supersedes the previous APES 110 issued in June 2006 (amended February 2008). The amendments listed in the Tables below and reflected in this compiled Standard are effective from 1 January 2013, 1 July 2013 and 1 July 2014, with early adoption permitted. The compiled Standard takes into account amendments up to and including November 2013 and was prepared by the Technical Staff of APESB.

Table of Standards

Standard	Month issued	Operative date
Amendment to the Definition of Public Interest Entity in APES 110 *Code of Ethics for Professional Accountants* (issued December 2011)	December 2011	1 January 2013 with early adoption permitted
Amendments to the Definitions and Auditor Independence Requirements in APES 110 *Code of Ethics for Professional Accountants* (issued May 2013)	May 2013	1 July 2013
Amendments to APES 110 *Code of Ethics for Professional Accountants* due to revisions to IESBA's *Code of Ethics for Professional Accountants* (issued November 2013)	November 2013	1 July 2014 with early adoption permitted

Table of Amendments

Paragraphs affected	How affected	Amending Standard
1.1	amended	Paragraph amended due to renumbering of the Code
1.2	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
1.3	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
2	amended	Definition of Public Interest Entity

Paragraphs affected	How affected	Amending Standard
2	amended	Amendments to the Definitions and Auditor Independence Requirements
2	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
100.5	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
100.10	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
120.2	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
130.1	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
130.2	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
130.6	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
220.1 – 220.6	replaced	Revisions to IESBA's *Code of Ethics for Professional Accountants*
[AUST] Preface: SECTIONS 290 and 291	amended	Amendments to the Definitions and Auditor Independence Requirements
290.25 – 290.26	amended	Definition of Public Interest Entity
290.28	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
290.39	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
290.100 – 290.101	amended	Paragraphs amended due to renumbering of the Code
290.139	amended	Paragraph amended due to renumbering of the Code
290.146	amended	Paragraph amended due to renumbering of the Code

Paragraphs affected	How affected	Amending Standard
290.150	amended	Paragraph amended due to renumbering of the Code
290.170	amended	Paragraph amended due to renumbering of the Code
290.175	amended	Paragraph amended due to renumbering of the Code
290.188	amended	Paragraph amended due to renumbering of the Code
290.205	amended	Paragraph amended due to renumbering of the Code
290.503	amended	Paragraph amended due to renumbering of the Code
290.505	amended	Paragraph amended due to renumbering of the Code
290.508 – 290.509	amended	Paragraphs amended due to renumbering of the Code
290.513 – 290.514	amended	Paragraphs amended due to renumbering of the Code
291.23	amended	Paragraph amended due to renumbering of the Code
291.25 – 291.26	amended	Paragraphs amended due to renumbering of the Code
291.33	replaced	Revisions to IESBA's *Code of Ethics for Professional Accountants*
291.100	amended	Paragraph amended due to renumbering of the Code
291.103	amended	Paragraph amended due to renumbering of the Code
291.129 (renumbered as 291.127)	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
291.135	amended	Paragraph amended due to renumbering of the Code
310.1 – 310.3	replaced	Revisions to IESBA's *Code of Ethics for Professional Accountants*
320.4	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
320.5 – 320.6 (Previously 320.5)	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*

Paragraphs affected	How affected	Amending Standard
320.7 (Previously 320.6)	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
340.1	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
340.4 (previously 340.2)	amended	Revisions to IESBA's *Code of Ethics for Professional Accountants*
Transitional Provisions	amended	Definition of Public Interest Entity Revisions to IESBA's *Code of Ethics for Professional Accountants*
Conformity with International Pronouncements	amended	Definition of Public Interest Entity Revisions to IESBA's *Code of Ethics for Professional Accountants*

Table of Additions

Paragraphs added	Amending Standard
2	Revisions to IESBA's Code of Ethics for Professional Accountants
100.17 – 100.18	Revisions to IESBA's Code of Ethics for Professional Accountants
100.25	Revisions to IESBA's Code of Ethics for Professional Accountants
220.7 – 220.14	Revisions to IESBA's Code of Ethics for Professional Accountants
AUST 290.26.1	Definition of Public Interest Entity
290.40 – 290.49	Revisions to IESBA's Code of Ethics for Professional Accountants
AUST 290.220.1 (renumbered as AUST 290.217.1)	Amendments to the Definitions and Auditor Independence Requirements
291.34 – 291.37	Revisions to IESBA's *Code of Ethics for Professional Accountants*
310.4 – 310.11	Revisions to IESBA's *Code of Ethics for Professional Accountants*
340.2 – 340.3	Revisions to IESBA's *Code of Ethics for Professional Accountants*

Table of Deletions

Paragraphs deleted	**Amending Standard**
AUST 290.39.1	Revisions to IESBA's *Code of Ethics for Professional Accountants*
290.117	Revisions to IESBA's *Code of Ethics for Professional Accountants*
AUST 290.117.1	Revisions to IESBA's *Code of Ethics for Professional Accountants*
290.133	Revisions to IESBA's *Code of Ethics for Professional Accountants*
AUST 290.133.1	Revisions to IESBA's *Code of Ethics for Professional Accountants*
290.159	Revisions to IESBA's *Code of Ethics for Professional Accountants*
AUST 291.33.1	Revisions to IESBA's *Code of Ethics for Professional Accountants*
291.112	Revisions to IESBA's *Code of Ethics for Professional Accountants*
AUST 291.112.1	Revisions to IESBA's *Code of Ethics for Professional Accountants*
291.127	Revisions to IESBA's *Code of Ethics for Professional Accountants*

The following paragraphs have been renumbered following the amendments to the Code:

Existing paragraphs	**New paragraphs**
100.17 – 100.22	100.19 – 100.24
290.118 – 290.132	290.117 – 290.131
290.134 – 290.158	290.132 – 290.156
290.160 – 290.231	290.157 – 290.228
291.113 – 291.126	291.112 – 291.125
291.128 – 291.159	291.126 – 291.157

APES 110 *CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS*

Accounting Professional & Ethical Standards Board Limited (APESB) issued APES 110 *Code of Ethics for Professional Accountants* in December 2010.

This compiled version of APES 110 incorporates amendments contained in subsequent APESB Standards issued by the APESB up to and including November 2013 (see Compilation Details).

1 SCOPE AND APPLICATION

1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 *Code of Ethics for Professional Accountants* (this Code). This Code is operative from 1 July 2011 and supersedes APES 110 *Code of Ethics for Professional Accountants* (issued in June 2006 and subsequently amended in February 2008). Earlier adoption of this Code is permitted. Transitional provisions relating to Public Interest Entities, partner rotation, non-assurance services, Fees – relative size, compensation and evaluation policies apply from the date specified in the respective transitional provisions (refer page 141).

1.2 Subject to paragraph 1.4, all Members in Australia shall comply with APES 110 including when providing Professional Services in an honorary capacity.

1.3 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.

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

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

1.6 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.

2 DEFINITIONS

In this *Code of Ethics for Professional Accountants* the following expressions have the following meanings assigned to them:

[AUST] ***AASB*** means 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 means a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the Member at that time, that compliance with the fundamental principles is not compromised.

[AUST] ***Administration*** means an insolvency arrangement arising from an appointment, other than a members' voluntary liquidation, under which an insolvent entity operates.

Advertising means 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.

Assurance Client means the responsible party that is the person (or persons) who:

(a) In a direct reporting engagement, is responsible for the subject matter; or

(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.

Assurance Engagement means an engagement in which a Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

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.

Assurance Team means:

(a) All members of the Engagement Team for the Assurance Engagement;

(b) All others within a 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 provide quality control for the Assurance Engagement, including those who perform the Engagement Quality Control Review for the Assurance Engagement.

[AUST] ***AuASB*** means the Auditing and Assurance Standards Board which issued Australian auditing and assurance standards up to 30 June 2004, under the auspices of the Australian Accounting Research Foundation, a joint venture of CPA Australia and the Institute of Chartered Accountants in Australia.

[AUST] ***AUASB*** means 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 Client means an entity in respect of which a Firm conducts an Audit Engagement. When the client is a Listed Entity, Audit Client will always include its Related Entities. When the Audit Client is not a Listed Entity, Audit Client includes those Related Entities over which the client has direct or indirect control.

Audit Engagement means 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.

Audit Team means:

(a) All members of the Engagement Team for the Audit Engagement;

(b) All others within a 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 Audit Engagement; and

  (iii) those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review for the Audit Engagement; and

(c) All those within a Network Firm who can directly influence the outcome of the Audit Engagement.

[AUST] ***Auditing and Assurance Standards*** means:

(a) the AUASB standards, as described in ASA 100 *Preamble to AUASB Standards,* ASA 101 *Preamble to Australian Auditing Standards* and the *Foreword to AUASB Pronouncements*, issued by the AUASB, and operative from the date specified in each standard; and

(b) those standards issued by the AuASB which have not been revised and reissued (whether as standards or as guidance) by the AUASB, to the extent that they are not inconsistent with the AUASB standards.

[AUST] ***Australian Accounting Standards*** means the Accounting Standards (including Australian Accounting Interpretations) promulgated by the AASB.

Close Family means a parent, child or sibling who is not an Immediate Family member.

Contingent Fee means 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.

Direct Financial Interest means a Financial Interest:

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- 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 means those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title.

Engagement Partner means 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 Quality Control Review means a process designed to provide an objective evaluation, on or before the report is issued, of the significant judgements the Engagement Team made and the conclusions it reached in formulating the report.

Engagement Team[1] means all partners and staff performing the engagement, and any individuals engaged by the Firm or a Network Firm who perform procedures on the engagement. This excludes External Experts engaged by the Firm or a Network Firm.

Existing Accountant means a Member in Public Practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar Professional Services for a client.

External Expert means 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 means 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.

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1 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* (November 2013).

Financial Statements mean 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 Standard financial report is considered to be an equivalent term to Financial Statements.

Financial Statements on which the Firm will express an Opinion means 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 means:

(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.

Historical Financial Information means 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 means a spouse (or equivalent) or dependant.

Independence is:

(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, weighing all the specific facts and circumstances, that a Firm's, or a member of the Audit or Assurance Team's, integrity, objectivity or professional scepticism has been compromised.

Indirect Financial Interest means 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.

Key Audit Partner means the Engagement Partner, the individual responsible for the Engagement Quality Control 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" may include, for example, audit partners responsible for significant subsidiaries or divisions.

Listed Entity means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

[AUST] ***Member*** means a member of a professional body that has adopted this Code as applicable to their membership, as defined by that professional body.

Member in Business means a Member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a Member contracted by such entities.

Member in Public Practice means a Member, irrespective of functional classification (e.g., 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.

Network means a larger structure:

(a) That is aimed at co-operation; and

(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network Firm means a Firm or entity that belongs to a Network.

Office means a distinct sub-group, whether organised on geographical or practice lines.

Professional Activity means an activity requiring accountancy or related skills undertaken by a Member, including accounting, auditing, taxation, management consulting, and financial management.

Professional Services means Professional Activities performed for clients.

Public Interest Entity means:

(a) A Listed Entity; or

(b) An entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities.

Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Related Entity means 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) above, 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.

Review Client means an entity in respect of which a Firm conducts a Review Engagement.

Review Engagement means an Assurance Engagement in which a Member in Public Practice expresses a conclusion 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 attention of the Member 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 such as an engagement conducted in accordance with Auditing and Assurance Standards on Review Engagements.

Review Team means:

(a) All members of the Engagement Team for the Review Engagement; and

(b) All others within a 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 provide quality control for the engagement, including those who perform the Engagement Quality Control Review for the engagement; and

(c) All those within a Network Firm who can directly influence the outcome of the Review Engagement.

Special Purpose Financial Statements means Financial Statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Those Charged with Governance means 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 may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

PART A—GENERAL APPLICATION OF THE CODE

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SECTION 100

Introduction and Fundamental Principles

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a Member's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a Member shall observe and comply with this Code. If a Member is prohibited from complying with certain parts of this Code by law or regulation, the Member shall comply with all other parts of this Code.

100.2 This Code contains three parts. Part A establishes the fundamental principles of professional ethics for Members and provides a conceptual framework that Members shall apply to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the significance of the threats identified; and

(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an Acceptable Level. Safeguards are necessary when the Member determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the Member at that time, that compliance with the fundamental principles is not compromised.

A Member shall use professional judgement in applying this conceptual framework.

100.3 Parts B and C describe how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles. They also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to Members in Public Practice. Part C applies to Members in Business. Members in Public Practice may also find Part C relevant to their particular circumstances.

100.4 The use of the word "shall" in this Code imposes a requirement on the Member or Firm to comply with the specific provision in which "shall" has been used. Compliance is required unless an exception is permitted by this Code.

Fundamental Principles

100.5 A Member shall comply with the following fundamental principles:

(a) *Integrity* – to be straightforward and honest in all professional and business relationships.

(b) *Objectivity* – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

(c) *Professional competence and due care* – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent Professional Activities based on current developments in practice, legislation and techniques and 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 and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the Member or third parties.

(e) *Professional behaviour* – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110–150.

Conceptual Framework Approach

100.6 The circumstances in which Members operate may create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates threats to compliance with the fundamental principles and specify the appropriate action. In addition, the nature of engagements and work assignments may differ and, consequently, different threats may be created, requiring the application of different safeguards. Therefore, this Code establishes a conceptual framework that requires a Member to identify, evaluate, and address threats to compliance with the fundamental principles. The conceptual framework approach assists a Member in complying with the ethical requirements of this Code and meeting their responsibility to act in the public interest. It accommodates many variations in circumstances that create threats to compliance with the fundamental principles and can deter a Member from concluding that a situation is permitted if it is not specifically prohibited.

100.7 When a Member identifies threats to compliance with the fundamental principles and, based on an evaluation of those threats, determines that they are not at an Acceptable Level, the Member shall determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an Acceptable Level. In making that determination, the Member shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at the time, would be likely to conclude that the threats would be eliminated or reduced to an Acceptable Level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.

100.8 A Member shall evaluate any threats to compliance with the fundamental principles when the Member knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.

100.9 A Member shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a Member may encounter situations in which threats cannot be eliminated or reduced to an Acceptable Level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the Member shall decline or discontinue the specific Professional Service involved or, when necessary, resign from the engagement (in the case of a Member in Public Practice) or the employing organisation (in the case of a Member in Business).

100.10 Sections 290 and 291 contain provisions with which a Member shall comply if the Member identifies a breach of an Independence provision of the Code. If a Member identifies a breach of any other provision of this Code, the Member shall evaluate the significance of the breach and its impact on the Member's ability to comply with the fundamental principles. The Member shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The Member shall determine whether to report the breach, for example, to those who may have been affected by the breach, a member body, relevant regulator or oversight authority.

100.11 When a Member encounters unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the Member consult with a member body or the relevant regulator.

Threats and Safeguards

100.12 Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a Member's compliance with the fundamental principles. A circumstance or relationship may create more than one threat, and a threat may affect compliance with more than one fundamental principle. Threats fall into one or more of the following categories:

(a) Self-interest threat ─ the threat that a financial or other interest will inappropriately influence the 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 service 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 providing a current service;

(c) Advocacy threat ─ the threat that a Member will promote a client's or employer'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 employer, 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.

Parts B and C of this Code explain how these categories of threats may be created for Members in Public Practice and Members in Business, respectively. Members in Public Practice may also find Part C relevant to their particular circumstances.

100.13 Safeguards are actions or other measures that may eliminate threats or reduce them to an Acceptable Level. They fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

100.14 Safeguards created by the profession, legislation or regulation include:

- Educational, training and experience requirements for entry into the profession.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.
- External review by a legally empowered third party of the reports, returns, communications or information produced by a Member.

100.15 Parts B and C of this Code discuss safeguards in the work environment for Members in Public Practice and Members in Business, respectively.

100.16 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, which may be created by the accounting profession, legislation, regulation, or an employing organisation, include:

- Effective, well-publicised complaint systems operated by the employing organisation, the profession or a regulator, which enable colleagues, employers and members of the public to draw attention to unprofessional or unethical behaviour.
- An explicitly stated duty to report breaches of ethical requirements.

Conflicts of Interest

100.17 A Member may be faced with a conflict of interest when undertaking a Professional Activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The 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
- The interests of the 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.

100.18 Parts B and C of this Code discuss conflicts of interest for Members in Public Practice and Members in Business, respectively.

Ethical Conflict Resolution

100.19 A Member may be required to resolve a conflict in complying with the fundamental principles.

100.20 When initiating either a formal or informal conflict resolution process, the following factors, either individually or together with other factors, may be relevant to the resolution process:

(a) Relevant facts;

(b) Ethical issues involved;

(c) Fundamental principles related to the matter in question;

(d) Established internal procedures; and

(e) Alternative courses of action.

Having considered the relevant factors, a Member shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the Member may wish to consult with other appropriate persons within the Firm or employing organisation for help in obtaining resolution.

100.21 Where a matter involves a conflict with, or within, an organisation, a Member shall determine whether to consult with Those Charged with Governance of the organisation, such as the board of Directors or the audit committee.

100.22 It may be in the best interests of the Member to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

100.23 If a significant conflict cannot be resolved, a Member may consider obtaining professional advice from the relevant professional body or from legal advisors. The Member generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the Member may consider obtaining legal advice vary. For example, a Member may have encountered a fraud, the reporting of which could breach the Member's responsibility to respect confidentiality. The Member may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a Member shall, where possible, refuse to remain associated with the matter creating the conflict. The Member shall determine whether, in the circumstances, it is appropriate to withdraw from the Engagement Team or specific assignment, or to resign altogether from the engagement, the Firm or the employing organisation.

Communicating with Those Charged with Governance

100.25 When communicating with Those Charged with Governance in accordance with the provisions of this Code, the Member or Firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the Member or Firm communicates with a subgroup of Those Charged with Governance, for example, an audit committee or an individual, the Member or Firm shall determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

SECTION 110

Integrity

110.1 The principle of integrity imposes an obligation on all Members to be straightforward and honest in all professional and business relationships. Integrity also implies fair dealing and truthfulness.

110.2 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 furnished recklessly; or

(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

When a Member becomes aware that the Member has been associated with such information, the Member shall take steps to be disassociated from that information.

110.3 A Member will be deemed not to be in breach of paragraph 110.2 if the Member provides a modified report in respect of a matter contained in paragraph 110.2.

SECTION 120

Objectivity

120.1 The principle of objectivity imposes an obligation on all Members not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

120.2 A Member may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A Member shall not perform a Professional Activity if a circumstance or relationship biases or unduly influences the Member's professional judgement with respect to that service.

SECTION 130

Professional Competence and Due Care

130.1 The principle of professional competence and due care imposes the following obligations on all Members:

(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent Professional Activity; and

(b) To act diligently in accordance with applicable technical and professional standards when providing Professional Activities.

130.2 Competent Professional Activity requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

(a) Attainment of professional competence; and

(b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a Member to develop and maintain the capabilities to perform competently within the professional environment.

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

130.5 A Member shall take reasonable steps to ensure that those working under the Member's authority in a professional capacity have appropriate training and supervision.

130.6 Where appropriate, a Member shall make clients, employers or other users of the Member's Professional Activities aware of the limitations inherent in the services.

SECTION 140

Confidentiality

140.1 The principle of confidentiality imposes an obligation on all Members to refrain from:

(a) Disclosing outside the Firm or employing organisation confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

140.2 A Member shall maintain confidentiality, including in a social environment, being alert to the possibility of inadvertent disclosure, particularly to a close business associate or a Close or Immediate Family member.

140.3 A Member shall maintain confidentiality of information disclosed by a prospective client or employer.

140.4 A Member shall maintain confidentiality of information within the Firm or employing organisation.

140.5 A Member shall take reasonable steps to ensure that staff under the Member's control and persons from whom advice and assistance is obtained respect the Member's duty of confidentiality.

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a Member and a client or employer. When a Member changes employment or acquires a new client, the Member is entitled to use prior experience. The Member shall not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

140.7 The following are circumstances where Members are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorised by the client or the employer;

(b) Disclosure is required by law, for example:

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

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

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

(i) To comply with the quality review of a member body or professional body;

(ii) To respond to an inquiry or investigation by a member body or regulatory body;

(iii) To protect the professional interests of a Member in legal proceedings; or

(iv) To comply with technical standards and ethics requirements.

AUST140.7.1 The circumstances described in paragraph 140.7 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 strongly advised to first obtain legal advice.

140.8 In deciding whether to disclose confidential information, relevant factors to consider include:

(a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the Member;

(b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement shall be used in determining the type of disclosure to be made, if any;

(c) The type of communication that is expected and to whom it is addressed; and

(d) Whether the parties to whom the communication is addressed are appropriate recipients.

SECTION 150

Professional Behaviour

150.1 The principle of professional behaviour imposes an obligation on all Members to comply with relevant laws and regulations and avoid any action or omission that the Member knows or should know may discredit the profession. This includes actions or omissions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at that time, would be likely to conclude adversely affects the good reputation of the profession.

150.2 In marketing and promoting themselves and their work, Members shall not bring the profession into disrepute. Members shall be honest and truthful and not:

(a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or

(b) Make disparaging references or unsubstantiated comparisons to the work of others.

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SECTION 200

Introduction

200.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to Members in Public Practice. This Part does not describe all of the circumstances and relationships that could be encountered by a Member in Public Practice that create or may create threats to compliance with the fundamental principles. Therefore, the Member in Public Practice is encouraged to be alert for such circumstances and relationships.

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

Threats and Safeguards

200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. The nature and significance of the threats may differ depending on whether they arise in relation to the provision of services to an Audit Client and whether the Audit Client is a Public Interest Entity, to an Assurance Client that is not an Audit Client, or to a non-assurance client.

Threats fall into one or more of the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed further in Part A of this Code.

200.4 Examples of circumstances that create self-interest threats for a Member in Public Practice include:

- A member of the Assurance Team having a Direct Financial Interest in the Assurance Client.
- A Firm having undue dependence on total fees from a client.
- A member of the Assurance Team having a significant close business relationship with an Assurance Client.
- A Firm being concerned about the possibility of losing a significant client.
- A member of the Audit Team entering into employment negotiations with the Audit Client.
- A Firm entering into a Contingent Fee arrangement relating to an Assurance Engagement.
- A Member discovering a significant error when evaluating the results of a previous Professional Service performed by a member of the Member's Firm.

200.5 Examples of circumstances that create self-review threats for a Member in Public Practice include:

- A Firm issuing an assurance report on the effectiveness of the operation of financial systems after designing or implementing the systems.
- A Firm having prepared the original data used to generate records that are the subject matter of the Assurance Engagement.
- A member of the Assurance Team being, or having recently been, a Director or Officer of the client.
- A member of the Assurance Team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the engagement.
- The Firm performing a service for an Assurance Client that directly affects the subject matter information of the Assurance Engagement.

200.6 Examples of circumstances that create advocacy threats for a Member in Public Practice include:

- The Firm promoting shares in an Audit Client.
- A Member acting as an advocate on behalf of an Audit Client in litigation or disputes with third parties.

200.7 Examples of circumstances that create familiarity threats for a Member in Public Practice include:

- A member of the Engagement Team having a Close or Immediate Family member who is a Director or Officer of the client.
- A member of the Engagement Team having a Close or Immediate Family member who is an employee of the client who is in a position to exert significant influence over the subject matter of the engagement.
- 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.
- A Member accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.
- Senior personnel having a long association with the Assurance Client.

200.8 Examples of circumstances that create intimidation threats for a Member in Public Practice include:

- A Firm being threatened with dismissal from a client engagement.
- An Audit Client indicating that it will not award a planned non-assurance contract to the Firm if the Firm continues to disagree with the client's accounting treatment for a particular transaction.
- A Firm being threatened with litigation by the client.
- A Firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

- A Member feeling pressured to agree with the judgement of a client employee because the employee has more expertise on the matter in question.
- A Member being informed by a partner of the Firm that a planned promotion will not occur unless the Member agrees with an Audit Client's inappropriate accounting treatment.

200.9 Safeguards that may eliminate or reduce threats to an Acceptable Level fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.14 of Part A of this Code.

200.10 A Member in Public Practice shall exercise judgement to determine how best to deal with threats that are not at an Acceptable Level, whether by applying safeguards to eliminate the threat or reduce it to an Acceptable Level or by terminating or declining the relevant engagement. In exercising this judgement, a Member in Public Practice shall consider whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at that time, would be likely to conclude that the threats would be eliminated or reduced to an Acceptable Level by the application of safeguards, such that compliance with the fundamental principles is not compromised. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the Firm.

200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise Firm-wide safeguards and engagement-specific safeguards.

200.12 Examples of Firm-wide safeguards in the work environment include:

- Leadership of the Firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the Firm that establishes the expectation that members of an Assurance Team will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the need to identify threats to compliance with the fundamental principles, evaluate the significance of those threats, and apply safeguards to eliminate or reduce the threats to an Acceptable Level or, when appropriate safeguards are not available or cannot be applied, terminate or decline the relevant engagement.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the Firm or members of Engagement Teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.

- Using different partners and Engagement Teams with separate reporting lines for the provision of non-assurance services to an Assurance Client.
- Policies and procedures to prohibit individuals who are not members of an Engagement Team from inappropriately influencing the outcome of the engagement.
- Timely communication of a Firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the Firm's quality control system.
- Advising partners and professional staff of Assurance Clients and Related Entities from which Independence is required.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the Firm any issue relating to compliance with the fundamental principles that concerns them.

200.13 Examples of engagement-specific safeguards in the work environment include:

- Having a Member who was not involved with the non-assurance service review the non-assurance work performed or otherwise advise as necessary.
- Having a Member who was not a member of the Assurance Team review the assurance work performed or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent Directors, a professional regulatory body or another Member.
- Discussing ethical issues with Those Charged with Governance of the client.
- Disclosing to Those Charged with Governance of the client the nature of services provided and extent of fees charged.
- Involving another Firm to perform or re-perform part of the engagement.
- Rotating senior Assurance Team personnel.

200.14 Depending on the nature of the engagement, a Member in Public Practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an Acceptable Level.

200.15 Examples of safeguards within the client's systems and procedures include:

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

SECTION 210

Professional Appointment

Client Acceptance

210.1 Before accepting a new client relationship, a Member in Public Practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or activities).

210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.

210.3 A Member in Public Practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an Acceptable Level.

Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client's commitment to improve corporate governance practices or internal controls.

210.4 Where it is not possible to reduce the threats to an Acceptable Level, the Member in Public Practice shall decline to enter into the client relationship.

210.5 It is recommended that a Member in Public Practice periodically review acceptance decisions for recurring client engagements.

Engagement Acceptance

210.6 The fundamental principle of professional competence and due care imposes an obligation on a Member in Public Practice to provide only those services that the Member in Public Practice is competent to perform. Before accepting a specific client engagement, a Member in Public Practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the Engagement Team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.7 A Member in Public Practice shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an Acceptable Level. Examples of such safeguards include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.

- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.8 When a Member in Public Practice intends to rely on the advice or work of an expert, the Member in Public Practice shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.9 A Member in Public Practice who is asked to replace another Member in Public Practice, or who is considering tendering for an engagement currently held by another Member in Public Practice, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an Acceptable Level by the application of safeguards. For example, there may be a threat to professional competence and due care if a Member in Public Practice accepts the engagement before knowing all the pertinent facts.

210.10 A Member in Public Practice shall evaluate the significance of any threats. Depending on the nature of the Engagement, this may require direct communication with the Existing Accountant to establish the facts and circumstances regarding the proposed change so that the Member in Public Practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the Existing Accountant that may influence the decision to accept the appointment.

210.11 Safeguards shall be applied when necessary to eliminate any threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the Existing Accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the Existing Accountant to provide known information on any facts or circumstances that, in the Existing Accountant's opinion, the proposed accountant needs to be aware of before deciding whether to accept the engagement; or
- Obtaining necessary information from other sources.

When the threats cannot be eliminated or reduced to an Acceptable Level through the application of safeguards, a Member in Public Practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

AUST210.11.1 A Member in Public Practice who is asked to replace an existing auditor or to accept nomination as a replacement auditor shall:

(a) Request the prospective client's permission to communicate with the existing auditor. If such permission is refused the Member shall, in the absence of exceptional circumstances, decline the Audit Engagement or the nomination; and

(b) On receipt of permission, request in writing of the existing auditor all information which ought to be available to enable the Member to make a decision as to whether the Audit Engagement or the nomination should be accepted.

210.12 A Member in Public Practice may be asked to undertake work that is complementary or additional to the work of the Existing Accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is notifying the Existing Accountant of the proposed work, which would give the Existing Accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

210.13 An Existing Accountant is bound by confidentiality. Whether that 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 on:

(a) Whether the client’s permission to do so has been obtained; or

(b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

Circumstances where the Member is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of this Code.

210.14 A Member in Public Practice will generally need to obtain the Client’s permission, preferably in writing, to initiate discussion with an Existing Accountant. Once that permission is obtained, the Existing Accountant shall comply with relevant legal and other regulations governing such requests. Where the Existing Accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the Existing Accountant, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or Those Charged with Governance of the client.

AUST210.15.1 The requirements of section 210 also apply where a Member in Public Practice is replacing or being replaced by an accountant who is not a Member.

SECTION 220

Conflicts of Interest

220.1 A Member in Public Practice may be faced with a conflict of interest when performing a Professional Service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The Member 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
- The interests of the Member 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.

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

When the Professional Service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of Assurance Clients in accordance with Sections 290 or 291 as appropriate.

220.2 Examples of situations in which conflicts of interest may arise include:

- Providing a transaction advisory service to a client seeking to acquire an Audit Client of the Firm, where the Firm has obtained confidential information during the course of the audit that may be relevant to the transaction.
- Advising two clients at the same time who are competing to acquire the same company where the advice might be relevant to the parties' competitive positions.
- Providing services to both a vendor and a purchaser 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 regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership.
- Providing an assurance report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of 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 the acquisition of a business which the Firm is also interested in acquiring.

- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service.

220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an Acceptable Level, a Member in Public Practice shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.

220.4 When addressing conflicts of interest, including making disclosures or sharing information within the Firm or Network and seeking guidance of third parties, the Member in Public Practice shall remain alert to the fundamental principle of confidentiality.

220.5 If the threat created by a conflict of interest is not at an Acceptable Level, the Member in Public Practice shall apply safeguards to eliminate the threat or reduce it to an Acceptable Level. If safeguards cannot reduce the threat to an Acceptable Level, the Member shall decline to perform or shall discontinue Professional Services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an Acceptable Level.

220.6 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, including identification of:

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

The nature of the services and the relevant interests and relationships may change during the course of the engagement. This is particularly true when a Member is asked to conduct an engagement in a situation that may become adversarial, even though the parties who engage the Member may not initially be involved in a dispute. The Member shall remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

220.7 For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a Member in Public Practice to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes 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 apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an Acceptable Level. The process to identify actual or potential conflicts of interest will depend on such factors 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.

220.8 If the Firm is a member of a Network, conflict identification shall include any conflicts of interest that the Member in Public Practice has reason to believe may exist or might arise due to interests and relationships of a Network Firm. Reasonable steps to identify such interests and relationships involving a Network Firm will depend on factors such as the nature of the Professional Services provided, the clients served by the Network and the geographic locations of all relevant parties.

220.9 If a conflict of interest is identified, the Member in Public Practice shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by performing the Professional Service or services. In general, the more direct the connection between the Professional Service and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

220.10 The Member in Public Practice shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an Acceptable Level. Examples of safeguards include:

- Implementing mechanisms to 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. This could include:
    - Using separate Engagement Teams who are provided with clear policies and procedures on maintaining confidentiality.
    - Creating separate areas of practice for specialty functions within the Firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a Firm.
    - Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the Firm and/or the physical and electronic separation of confidential information.
- Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements.
- Having a Member 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.
- Consulting with third parties, such as a professional body, legal counsel or another Member.

220.11 In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an Acceptable Level, to obtain their consent to the Member in Public Practice performing the Professional Services.

Disclosure and consent may take different forms, for example:

- General disclosure to clients of circumstances where the Member, in keeping with common commercial practice, does not provide services exclusively for

any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the Member's standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.
- In certain circumstances, consent may be implied by the client's conduct where the Member 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.

The Member shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the Member shall exercise professional judgement in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

220.12 Where a Member in Public Practice has requested explicit consent from a client and that consent has been refused by the client, the Member shall decline to perform or shall discontinue Professional Services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an Acceptable Level, such that consent can be obtained, after applying any additional safeguards if necessary.

220.13 When disclosure is verbal, or consent is verbal or implied, the Member in Public Practice is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an Acceptable Level and the consent obtained.

220.14 In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:

- Performing a transaction-related service for a client in connection with a hostile takeover of another client of the Firm.
- Performing a forensic investigation for a client in connection with a suspected fraudulent act where the Firm has confidential information obtained through having performed a Professional Service for another client who might be involved in the fraud.

The Firm shall not accept or continue an engagement under such circumstances unless the following conditions are met:

- The Firm does not act in an advocacy role for one client where this requires the Firm to assume an adversarial position against the other client with respect to the same matter;
- Specific mechanisms are in place to prevent disclosure of confidential information between the Engagement Teams serving the two clients; and

- The Firm is satisfied that a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member in Public Practice at the time, 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 service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

The Member shall document the nature of the circumstances, including the role that the Member is to undertake, the specific mechanisms in place to prevent disclosure of information between the Engagement Teams serving the two clients and the rationale for the conclusion that it is appropriate to accept the engagement.

SECTION 230

Second Opinions

230.1 Situations where a Member in Public Practice is asked to provide a second opinion on the application of Australian Accounting Standards, Auditing or Assurance Standards, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may create threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the Existing Accountant or is based on inadequate evidence. The existence and significance of any threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgement.

230.2 When asked to provide such an opinion, a Member in Public Practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an Acceptable Level. Examples of such safeguards include seeking client permission to contact the Existing Accountant, describing the limitations surrounding any opinion in communications with the client and providing the Existing Accountant with a copy of the opinion.

230.3 If the company or entity seeking the opinion will not permit communication with the Existing Accountant, a Member in Public Practice shall determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

SECTION 240

Fees and Other Types of Remuneration

240.1 When entering into negotiations regarding services, a Member in Public Practice may quote whatever fee is deemed appropriate. The fact that one Member in Public Practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

240.2 The existence and significance of any threats created will depend on factors such as the level of fee quoted and the services to which it applies. The significance of any 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:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
- Assigning appropriate time and qualified staff to the task.

Contingent Fees

240.3 Contingent Fees are widely used for certain types of non-assurance engagements.[2] They may, however, create threats to compliance with the fundamental principles in certain circumstances.[3] They may create a self-interest threat to objectivity. The existence and significance of such threats will depend on factors including:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether the outcome or result of the transaction is to be reviewed by an independent third party.

240.4 The significance of any such threats shall be evaluated and safeguards applied when necessary to eliminate or reduce them to an Acceptable Level. Examples of such safeguards include:

- An advance written agreement with the client as to the basis of remuneration.

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2 Contingent Fees for non-assurance services provided to Audit Clients and other Assurance Clients are discussed in Sections 290 and 291 of this Code.

3 APESB has prohibited the use of Contingent Fees in certain circumstances. These circumstances are described in the following APESB Standards:

APES 215 *Forensic Accounting Services*;

APES 225 *Valuation Services*;

APES 330 *Insolvency Services*;

APES 345 *Reporting on Prospective Financial Information Prepared in Connection with a Disclosure Document*; and

APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document.*

- Disclosure to intended users of the work performed by the Member in Public Practice and the basis of remuneration.
- Quality control policies and procedures.
- Review by an independent third party of the work performed by the Member in Public Practice.

Referral fees and commissions

240.5 In certain circumstances, a Member in Public Practice may receive a referral fee or commission relating to a client. For example, where the Member in Public Practice does not provide the specific service required, a fee may be received for referring a continuing client to another Member in Public Practice or other expert. A Member in Public Practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.

240.6 A Member in Public Practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another Member in Public Practice but requires specialist services not offered by the Existing Accountant. The payment of such a referral fee also creates a self-interest threat to objectivity and professional competence and due care.

240.7 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:

- Disclosing to the client any arrangements to pay a referral fee to another Member in Public Practice for the work referred.
- Disclosing to the client any arrangements to receive a referral fee for referring the client to another Member in Public Practice.
- Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

AUST240.7.1 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.

AUST240.7.2 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. Accordingly, a Member in Public Practice shall not accept such a fee arrangement in respect of an Assurance Engagement.

240.8 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 regarded as commissions or referral fees for the purpose of paragraphs 240.5–240.7 above.

SECTION 250

Marketing Professional Services

250.1 When a Member in Public Practice solicits new work through Advertising or other forms of marketing, there may be a threat to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behaviour is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

250.2 A Member in Public Practice shall not bring the profession into disrepute when marketing Professional Services. The Member in Public Practice shall be honest and truthful and not:

(a) Make exaggerated claims for services offered, qualifications possessed, or experience gained; or

(b) Make disparaging references or unsubstantiated comparisons to the work of another.

If the Member in Public Practice is in doubt about whether a proposed form of Advertising or marketing is appropriate, the Member in Public Practice shall consider consulting with the relevant professional body.

SECTION 260

Gifts and Hospitality

260.1 A Member in Public Practice, or an Immediate or Close Family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.

260.2 The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and inconsequential, a Member in Public Practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the Member in Public Practice may generally conclude that any threat to compliance with the fundamental principles is at an Acceptable Level.

260.3 A Member in Public Practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an Acceptable Level. When the threats cannot be eliminated or reduced to an Acceptable Level through the application of safeguards, a Member in Public Practice shall not accept such an offer.

SECTION 270

Custody of client Assets

270.1 A Member in Public Practice shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a Member in Public Practice holding such assets.

270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behaviour and may be a self-interest threat to objectivity arising from holding client assets. A Member in Public Practice entrusted with money (or other assets) belonging to others shall therefore:

(a) Keep such assets separately from personal or Firm assets;

(b) Use such assets only for the purpose for which they are intended;

(c) At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and

(d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a Member in Public Practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the Member may consider seeking legal advice.

SECTION 280

Objectivity—All Services

280.1 A Member in Public Practice shall determine when providing any Professional Service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its Directors, Officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.

280.2 A Member in Public Practice who provides an assurance service shall be independent of the Assurance Client. Independence of mind and in appearance is necessary to enable the Member in Public Practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Sections 290 and 291 provide specific guidance on Independence requirements for Members in Public Practice when performing Assurance Engagements.

280.3 The existence of threats to objectivity when providing any Professional Service will depend upon the particular circumstances of the engagement and the nature of the work that the Member in Public Practice is performing.

280.4 A Member in Public Practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an Acceptable Level. Examples of such safeguards include:

- Withdrawing from the Engagement Team.
- Supervisory procedures.
- Terminating the financial or business relationship giving rise to the threat.
- Discussing the issue with higher levels of management within the Firm.
- Discussing the issue with Those Charged with Governance of the client.

If safeguards cannot eliminate or reduce the threat to an Acceptable Level, the Member shall decline or terminate the relevant engagement.

[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*, 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 Sections 290 and 291, 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.

SECTION 290

INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

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Structure of Section

290.1 This section addresses the Independence requirements for Audit Engagements and Review Engagements, which are Assurance Engagements in which a Member in Public Practice expresses a conclusion on Financial Statements**.** Such engagements comprise Audit and Review Engagements to report on a complete set of Financial Statements and a single Financial Statement. Independence requirements for Assurance Engagements that are not Audit or Review Engagements are addressed in Section 291.

290.2 In certain circumstances involving Audit Engagements where the audit report includes a restriction on use and distribution and provided certain conditions are met, the Independence requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit of Financial Statements required by law or regulation.

290.3 In this section, the term(s):

- "audit," "Audit Team," "Audit Engagement," "Audit Client" and "audit report" includes review, Review Team, Review Engagement, Review Client and review report; and
- "Firm" includes Network Firm, except where otherwise stated.

A Conceptual Framework Approach to Independence

290.4 In the case of Audit Engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of Audit Teams, Firms and, Network Firms shall be independent of Audit Clients.

290.5 The objective of this section is to assist Firms and members of Audit Teams in applying the conceptual framework approach described below to achieving and maintaining Independence.

290.6 Independence comprises:

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.

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, weighing all the specific facts and circumstances, that a Firm's, or a member of the Audit Team's, integrity, objectivity or professional scepticism has been compromised.

290.7 The conceptual framework approach shall be applied by Members to:

(a) Identify threats to Independence;

(b) Evaluate the significance of the threats identified; and

(c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an Acceptable Level.

When the Member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an Acceptable Level, the Member shall eliminate the circumstance or relationship creating the threats or decline or terminate the Audit Engagement.

A Member shall use professional judgement in applying this conceptual framework.

290.8 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to Independence. It is impossible to define every situation that creates threats to Independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires Firms and members of Audit Teams to identify, evaluate, and address threats to Independence. The conceptual framework approach assists Members in Public Practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to Independence and can deter a Member from concluding that a situation is permitted if it is not specifically prohibited.

290.9 Paragraphs 290.100 and onwards describe how the conceptual framework approach to Independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to Independence.

290.10 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the Audit Team, a Firm shall identify and evaluate threats to Independence. If the threats are not at an Acceptable Level, and the decision is whether to accept an engagement or include a particular individual on the Audit Team, the Firm shall determine whether safeguards are available to eliminate the threats or reduce them to an Acceptable Level. If the decision is whether to continue an engagement, the Firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an Acceptable Level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to Independence comes to the attention of the Firm during the engagement, the Firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

290.11 Throughout this section, reference is made to the significance of threats to Independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.

AUST290.11.1 Where a Member in Public Practice identifies multiple threats to Independence, which individually may 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.

290.12 This section does not, in most cases, prescribe the specific responsibility of individuals within the Firm for actions related to Independence because responsibility may differ depending on the size, structure and organisation of a Firm. The Firm is required by APES 320 *Quality Control for Firms* to establish policies and procedures designed to provide it with reasonable assurance that Independence is maintained when required by relevant ethical requirements. In addition, Auditing and Assurance Standards require the Engagement Partner to form a conclusion on compliance with the Independence requirements that apply to the engagement.

Networks and Network Firms

290.13 If a Firm is deemed to be a Network Firm, the Firm shall be Independent of the Audit Clients of the other Firms within the Network (unless otherwise stated in this Code). The Independence requirements in this section that apply to a Network Firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a Network Firm irrespective of whether the entity itself meets the definition of a Firm.

290.14 To enhance their ability to provide Professional Services, Firms frequently form larger structures with other Firms and entities. Whether these larger structures create a Network depends on the particular facts and circumstances and does not depend on whether the Firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a Network. Alternatively, a larger structure might be such that it is aimed at co-operation and the Firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a Network.

290.15 The judgement as to whether the larger structure is a Network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a Network exists. This judgement shall be applied consistently throughout the Network.

290.16 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a Network. However, 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 to jointly provide a service or develop a product does not in itself create a Network.

290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a Network. This could be achieved by contract or other means.

290.18 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a Network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.

290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a Network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a Network Firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a Professional Service.

290.20 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a Network. A common brand name includes common initials or a common name. A Firm is deemed to be 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.

290.21 Even though a Firm does not belong to a Network and does not use a common brand name as part of its Firm name, it may give the appearance that it belongs to a Network if it makes reference in its stationery or promotional materials to being a member of an association of Firms. Accordingly, if care is not taken in how a Firm describes such memberships, a perception may be created that the Firm belongs to a Network.

290.22 If a Firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the Firm, or an element of the name, even though it is no longer connected to the Firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not Network Firms. Those entities shall determine how to disclose that they are not Network Firms when presenting themselves to outside parties.

290.23 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is deemed to be a Network. Professional resources include:

- Common systems that enable Firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments that consult on technical or industry specific issues, transactions or events for Assurance Engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

290.24 The determination of whether the professional resources shared are significant, and therefore the Firms are Network Firms, shall be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating Firms with technical advice that the Firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Public Interest Entities

290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, a Public Interest Entity is:

(a) A Listed Entity*; or

(b) Any entity (a) defined by regulation or legislation as a public interest entity; or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

290.26 Firms shall determine whether to treat additional entities, or certain categories of entities, as Public Interest Entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies and pension funds;
- Size; and
- Number of employees.

AUST 290.26.1 The following entities in Australia will generally satisfy the conditions in paragraph 290.26 as having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees:

- Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*;
- Authorised insurers and authorised NOHCs regulated by APRA under Section 122 of the *Insurance Act 1973*;
- Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
- Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;

** Includes a listed entity as defined in Section 9 of the Corporations Act 2001.*

- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and
- Other issuers of debt and equity instruments to the public.

Related Entities

290.27 In the case of an Audit Client that is a Listed Entity, references to an Audit Client in this section include Related Entities of the client (unless otherwise stated). For all other Audit Clients, references to an Audit Client in this section 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 another 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 and evaluating threats to Independence and applying appropriate safeguards.

Those Charged with Governance

290.28 Even when not required by the Code, applicable Auditing and Assurance Standards, law or regulation, regular communication is encouraged between the Firm and Those Charged with Governance of the Audit 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 to Independence;

(b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an Acceptable Level; and

(c) take appropriate action.

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

In complying with requirements in this section to communicate with Those Charged with Governance, the Firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the Firm communicates with a subgroup of Those Charged with Governance, for example, an audit committee or an individual, the Firm shall determine whether communication with all of Those Charged with Governance is also necessary so that they are adequately informed.

Documentation

290.29 Documentation provides evidence of the Member's judgements in forming conclusions regarding compliance with Independence requirements. The absence of documentation is not a determinant of whether a Firm considered a particular matter nor whether it is Independent.

The Member shall document conclusions regarding compliance with Independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

(a) When safeguards are required to reduce a threat to an Acceptable Level, the Member shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an Acceptable Level; and

(b) When a threat required significant analysis to determine whether safeguards were necessary and the Member concluded that they were not because the threat was already at an Acceptable Level, the Member shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

290.30 Independence from the Audit Client is required both during the engagement period and the period covered by the Financial Statements. The engagement period starts when the Audit Team begins to perform audit services. 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 terminated or the issuance of the final audit report.

290.31 When 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:

- 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
- Previous services provided to the Audit Client.

290.32 If a non-assurance service was provided to the Audit Client during or after the period covered by the Financial Statements but before the Audit Team begins to perform audit services and the service would not be permitted during the period of the Audit Engagement, the Firm shall evaluate any threat to Independence created by the service. If a threat is not at an Acceptable Level, the Audit Engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- Not including personnel who provided the non-assurance service as members of the Audit Team;
- Having a Member review the audit and non-assurance work as appropriate; or
- 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 it to take responsibility for the service.

Mergers and Acquisitions

290.33 When, as a result of a merger or acquisition, an entity becomes a Related Entity of an Audit Client, the Firm shall identify and evaluate previous and current interests and relationships with the Related Entity that, taking into account available safeguards, could affect its Independence and therefore its ability to continue the Audit Engagement after the effective date of the merger or acquisition.

290.34 The Firm shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the Related Entity is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the Firm, the Firm shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the Firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:

- 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); and
- The length of time until the interest or relationship can reasonably be terminated.

The Firm shall discuss with Those Charged with Governance the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.

290.35 If Those Charged with Governance request the Firm to continue as auditor, the Firm shall do so only if:

(a) the interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of 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 under this section, will not be a member of the Engagement Team for the audit or the individual responsible for the Engagement Quality Control Review; and

(c) appropriate transitional measures will be applied, as necessary, and discussed with Those Charged with Governance. Examples of transitional measures include:

- Having a Member review the audit or non-assurance work as appropriate;
- Having a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, perform a review that is equivalent to an Engagement Quality Control Review; or
- 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 it to take responsibility for the service.

290.36 The Firm may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may 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 290.33, the Firm shall do so only if it:

(a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with Those Charged with Governance;

(b) Complies with the requirements of paragraph 290.35(b) – (c); and

(c) Ceases to be the auditor no later than the issuance of the audit report.

290.37 When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the Firm shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the Firm shall cease to be the auditor.

290.38 The Member shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with Those Charged with Governance, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Breach of a Provision of this Section

290.39 A breach of a provision of this section may occur despite the Firm having policies and procedures designed to provide it with reasonable assurance that Independence is maintained. A consequence of a breach may be that termination of the Audit Engagement is necessary.

290.40 When the Firm concludes that a breach has occurred, the Firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

290.41 When a breach is identified, the Firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The Firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

290.42 When a breach is identified, the Firm shall, in accordance with its policies and procedures, promptly communicate the breach to the Engagement Partner, those with responsibility for the policies and procedures relating to Independence, other relevant personnel in the Firm, and, where appropriate, the Network, and those subject to the Independence requirements who need to take appropriate action. The Firm shall evaluate the significance of that breach and its impact on the Firm's objectivity and ability to issue an audit report. The significance of the breach 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 a member of the Audit Team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the Audit Team or another individual for whom there are independence requirements;
- If the breach relates to a member of the Audit Team, the role of that individual;
- If the breach was caused by the provision of 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; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

290.43 Depending upon the significance of the breach, it may be necessary to terminate the Audit Engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The Firm shall determine 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, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the Member at that time, would be likely to conclude that the Firm's objectivity would be compromised and therefore the Firm is unable to issue an audit report.

290.44 Examples of actions that the Firm may consider include:

- Removing the relevant individual from the Audit Team;
- Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel;
- Recommending that the Audit Client engage another Firm to review or re-perform the affected audit work to the extent necessary; and
- Where the breach relates to a non-assurance service that affects the accounting records or an amount that is 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 it to take responsibility for the service.

290.45 If the Firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the Firm shall inform Those Charged with Governance as soon as possible and take the steps necessary to terminate the Audit Engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the Audit Engagement. Where termination is not permitted by law or regulation, the Firm shall comply with any reporting or disclosure requirements.

290.46 If the Firm determines that action can be taken to satisfactorily address the consequences of the breach, the Firm shall discuss the breach and the action it has

taken or proposes to take with Those Charged with Governance. The Firm shall discuss the breach and the action as soon as possible, unless Those Charged with Governance have specified an alternative timing for reporting less significant breaches. The matters to be discussed shall include:

- The significance of the breach, including its nature and duration;
- How the breach occurred and how it was identified;
- The action taken or proposed to be taken and the Firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report;
- The conclusion that, in the Firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and
- Any steps that the Firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.

290.47 The Firm shall communicate in writing with Those Charged with Governance all matters discussed in accordance with paragraph 290.46 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. The communication shall include a description of the Firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that Independence is maintained and any steps that the Firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If Those Charged with Governance do not concur that the action satisfactorily addresses the consequences of the breach, the Firm shall take the steps necessary to terminate the Audit Engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the Audit Engagement. Where termination is not permitted by law or regulation, the Firm shall comply with any reporting or disclosure requirements.

290.48 If the breach occurred prior to the issuance of the previous audit report, the Firm shall comply with this section 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. The Firm shall also 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 discuss the matter with Those Charged with Governance.

290.49 The Firm shall document the breach, the action taken, key decisions made and all the matters discussed with Those Charged with Governance and any discussions with a member body, relevant regulator or oversight authority. When the Firm continues with the Audit Engagement, the matters to be documented shall also include the conclusion that, in the Firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the Firm could issue an audit report.

Paragraphs 290.50 to 290.99 are intentionally left blank

Application of the Conceptual Framework Approach to Independence

290.100 Paragraphs 290.102 to 290.228 describe specific circumstances and relationships that create or may create threats to Independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an Acceptable Level and identify certain situations where no safeguards could reduce the threats to an Acceptable Level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to Independence. The Firm and the members of the Audit Team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to Independence or reduce them to an Acceptable Level.

290.101 Paragraphs 290.102 to 290.125 contain references to the materiality of a Financial Interest, loan, or guarantee, or the significance of a business relationship. For the purpose of 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.

Financial Interests

290.102 Holding a Financial Interest in an Audit Client may create a self-interest threat. The existence and significance of any threat created depends on: (a) the role of the person holding the Financial Interest, (b) whether the Financial Interest is direct or indirect, and (c) the materiality of the Financial Interest.

290.103 Financial Interests may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such Financial Interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that Financial Interest to be a Direct Financial Interest. Conversely, when the beneficial owner of the Financial Interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that Financial Interest to be an Indirect Financial Interest.

290.104 If a member of the Audit Team, a member of that individual's Immediate Family, or a Firm has a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, none of the following shall have a Direct Financial Interest or a material Indirect Financial Interest in the client: a member of the Audit Team; a member of that individual's Immediate Family; or the Firm.

290.105 When a member of the Audit Team has a Close Family member who the Audit Team member knows has a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client, a self-interest threat is created. The significance of the threat will depend on factors such as:

- The nature of the relationship between the member of the Audit Team and the Close Family member; and

- The materiality of the Financial Interest to the Close Family member.

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:

- The Close Family member disposing, as soon as practicable, of all of the Financial Interest or disposing of a sufficient portion of an Indirect Financial Interest so that the remaining interest is no longer material;
- Having a Member review the work of the member of the Audit Team; or
- Removing the individual from the Audit Team.

290.106 If a member of the Audit Team, a member of that individual's Immediate Family, or a Firm has a direct or material Indirect Financial Interest in an entity that has a controlling interest in the Audit Client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, none of the following shall have such a Financial Interest: a member of the Audit Team; a member of that individual's Immediate Family; and the Firm.

290.107 The holding by a Firm's retirement benefit plan of a direct or material Indirect Financial Interest in an Audit Client creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.[4]

290.108 If other partners in the Office in which the Engagement Partner practices in connection with the Audit Engagement, or their Immediate Family members, hold a Direct Financial Interest or a material Indirect Financial Interest in that Audit Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, neither such partners nor their Immediate Family members shall hold any such Financial Interests in such an Audit Client.

290.109 The Office in which the Engagement Partner practices in connection with the Audit Engagement is not necessarily the Office to which that partner is assigned. Accordingly, when the Engagement Partner is located in a different Office from that of the other members of the Audit Team, professional judgement shall be used to determine in which Office the partner practices in connection with that engagement.

290.110 If other partners and managerial employees who provide non-audit services to the Audit Client, except those whose involvement is minimal, or their Immediate Family members, hold a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, neither such personnel nor their Immediate Family members shall hold any such Financial Interests in such an Audit Client.

290.111 Despite paragraphs 290.108 and 290.110, the holding of a Financial Interest in an Audit Client by an Immediate Family member of (a) a partner located in the Office in which the Engagement Partner practices in connection with the Audit

4 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.

Engagement, or (b) a partner or managerial employee who provides non-audit services to the Audit Client, is deemed not to compromise Independence if the Financial Interest is received as a result of the Immediate Family member's employment rights (e.g., through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to Independence or reduce it to an Acceptable Level. However, when the Immediate Family member has or obtains the right to dispose of the Financial Interest or, in the case of a stock option, the right to exercise the option, the Financial Interest shall be disposed of or forfeited as soon as practicable.

290.112 A self-interest threat may be created if the Firm or a member of the Audit Team, or a member of that individual's Immediate Family, has a Financial Interest in an entity and an Audit Client also has a Financial Interest in that entity. However, Independence is deemed not to be compromised if these interests are immaterial and the Audit Client cannot exercise significant influence over the entity. If such interest is material to any party, and the Audit Client can exercise significant influence over the other entity, no safeguards could reduce the threat to an Acceptable Level. Accordingly, the Firm shall not have such an interest and any individual with such an interest shall, before becoming a member of the Audit Team, either:

(a) Dispose of the interest; or

(b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the Audit Team, or a member of that individual's Immediate Family, or the Firm, has a Financial Interest in an entity when a Director, Officer or controlling owner of the Audit Client is also known to have a Financial Interest in that entity. The existence and significance of any threat will depend upon factors such as:

- The role of the professional on the Audit Team;
- Whether ownership of the entity is closely or widely held;
- Whether the interest gives the investor the ability to control or significantly influence the entity; and
- The materiality of the Financial Interest.

The significance of any 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:

- Removing the member of the Audit Team with the Financial Interest from the Audit Team; or
- Having a Member review the work of the member of the Audit Team.

290.114 The holding by a Firm, or a member of the Audit Team, or a member of that individual's Immediate Family, of a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when (a) a partner in the Office in which the lead Engagement Partner practices in connection with the audit, (b) other partners and managerial employees who provide non-assurance services to the Audit Client, except those whose involvement is minimal, or (c) their Immediate

Family members, hold a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client as trustee. Such an interest shall not be held unless:

(a) Neither the trustee, nor an Immediate Family member of the trustee, nor the Firm are beneficiaries of the trust;

(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) The trustee, an Immediate Family member of the trustee, or the Firm cannot significantly influence any investment decision involving a Financial Interest in the Audit Client.

290.115 Members of the Audit Team shall determine whether a self-interest threat is created by any known Financial Interests in the Audit Client held by other individuals including:

- Partners and professional employees of the Firm, other than those referred to above, or their Immediate Family members; and
- Individuals with a close personal relationship with a member of the Audit Team.

Whether these interests create a self-interest threat will depend on factors such as:

- The Firm's organisational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the Audit Team.

The significance of any 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:

- Removing the member of the Audit Team with the personal relationship from the Audit Team;
- Excluding the member of the Audit Team from any significant decision-making concerning the Audit Engagement; or
- Having a Member review the work of the member of the Audit Team.

290.116 If a Firm or a partner or employee of the Firm, or a member of that individual's Immediate Family, receives a Direct Financial Interest or a material Indirect Financial Interest in an Audit Client, for example, by way of an inheritance, gift or as a result of a merger and such interest would not 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 a sufficient amount of an Indirect Financial Interest shall be disposed of so that the remaining interest is no longer material;

(b) If the interest is received by a member of the Audit Team, or a member of that individual's Immediate Family, the individual who received the Financial Interest shall immediately dispose of the Financial Interest, or dispose of a

sufficient amount of an Indirect Financial Interest so that the remaining interest is no longer material; or

(c) If the interest is received by an individual who is not a member of the Audit Team, or by an Immediate Family member of the individual, the Financial Interest shall be disposed of as soon as possible, or a sufficient amount of an Indirect Financial Interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the Financial Interest, a determination shall be made as to whether any safeguards are necessary.

Loans and Guarantees

290.117 A loan, or a guarantee of a loan, to a member of the Audit Team, or a member of that individual's Immediate Family, or the Firm from an Audit Client that is a bank or a similar institution may create a threat to Independence. If the loan or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, neither a member of the Audit Team, a member of that individual's Immediate Family, nor a Firm, or Network Firm, shall accept such a loan or guarantee.

290.118 If a loan to a Firm from an Audit Client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the Audit Client or Firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an Acceptable Level. An example of such a safeguard is having the work reviewed by a Member from a Network Firm that is neither involved with the audit nor received the loan.

290.119 A loan, or a guarantee of a loan, from an Audit Client that is a bank or a similar institution to a member of the Audit Team, or a member of that individual's Immediate Family, does not create a threat to Independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

290.120 If the Firm or a member of the Audit Team, or a member of that individual's Immediate Family, accepts a loan from, or has a borrowing guaranteed by, an Audit Client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level, unless the loan or guarantee is immaterial to both (a) the Firm or the member of the Audit Team and the Immediate Family member, and (b) the client.

290.121 Similarly, if the Firm or a member of the Audit Team, or a member of that individual's Immediate Family, makes or guarantees a loan to an Audit Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level, unless the loan or guarantee is immaterial to both (a) the Firm or the member of the Audit Team and the Immediate Family member, and (b) the client.[5]

290.122 If a Firm or a member of the Audit Team, or a member of that individual's Immediate Family, has deposits or a brokerage account with an Audit Client that is

5 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.

a bank, broker or similar institution, a threat to Independence is not created if the deposit or account is held under normal commercial terms.

Business Relationships

290.123 A close business relationship[6] between a Firm, or a member of the Audit Team, or a member of that individual's Immediate Family, and the Audit Client or its management, arises from a commercial relationship or common Financial Interest and may create self-interest or intimidation threats. Examples of such relationships include:

- Having a Financial Interest in a joint venture with either the client or a controlling owner, Director, 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.
- Distribution or marketing arrangements under which the Firm distributes or markets the client's products or services, or the client distributes or markets the Firm's products or services.

Unless any Financial Interest is immaterial and the business relationship is insignificant to the Firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, unless the Financial Interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

In the case of a member of the Audit Team, unless any such Financial Interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the Audit Team.

If the business relationship is between an Immediate Family member of a member of the Audit Team and the Audit Client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.

290.124 A business relationship[7] involving the holding of an interest by the Firm, or a member of the Audit Team, or a member of that individual's Immediate Family, in a closely-held entity when the Audit Client or a Director or Officer of the client, or any group thereof, also holds an interest in that entity does not create threats to Independence if:

(a) The business relationship is insignificant to the Firm, the member of the Audit Team and the Immediate Family member, and the client;

(b) The Financial Interest is immaterial to the investor or group of investors; and

6 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.

7 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.

(c) The Financial Interest does not give the investor, or group of investors, the ability to control the closely-held entity.

290.125 The purchase of goods and services from an Audit Client by the Firm, or a member of the Audit Team, or a member of that individual's Immediate Family, does not generally create a threat to Independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any 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:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the Audit Team.

Family and Personal Relationships

290.126 Family and personal relationships between a member of the Audit Team and a Director or Officer or certain employees (depending on their role) of the Audit Client may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including 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.

290.127 When an Immediate Family member of a member of the Audit Team 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,

or was in such a position during any period covered by the engagement or the Financial Statements, the threats to Independence can only be reduced to an Acceptable Level by removing the individual from the Audit Team. The closeness of the relationship is such that no other safeguards could reduce the threat to an Acceptable Level. Accordingly, no individual who has such a relationship shall be a member of the Audit Team.

290.128 Threats to Independence are created when an Immediate Family member of a member of the Audit Team is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows. The significance of the threats will depend on factors such as:

- The position held by the Immediate Family member; and
- The role of the professional on the Audit Team.

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:

- Removing the individual from the Audit Team; or
- Structuring the responsibilities of the Audit Team so that the professional does not deal with matters that are within the responsibility of the Immediate Family member.

290.129 Threats to Independence are created when a Close Family member of a member of the Audit Team 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.

The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the Audit Team and the Close Family member;
- The position held by the Close Family member; and
- The role of the professional on the Audit Team.

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:

- Removing the individual from the Audit Team; or
- Structuring the responsibilities of the Audit Team so that the professional does not deal with matters that are within the responsibility of the Close Family member.

290.130 Threats to Independence are created when a member of the Audit Team has a close relationship with a person who is not an Immediate or Close Family member, but who is a Director or Officer or 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 member of the Audit Team who has such a relationship shall consult in accordance with Firm policies and procedures. The significance of the threats will depend on factors such as:

- The nature of the relationship between the individual and the member of the Audit Team;
- The position the individual holds with the client; and
- The role of the professional on the Audit Team.

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

- Removing the professional from the Audit Team; or
- Structuring the responsibilities of the Audit Team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

290.131 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the Firm who is not a member of the Audit Team and (b) a Director or Officer of the Audit Client or 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. Partners and employees of the Firm who are aware of such

relationships shall consult in accordance with Firm policies and procedures. The existence and significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the Firm and the Director or Officer or employee of the client;
- The interaction of the partner or employee of the Firm with the Audit Team;
- The position of the partner or employee within the Firm; and
- The position the individual holds with the client.

The significance of any 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:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the Audit Engagement; or
- Having a Member review the relevant audit work performed.

Employment with an Audit Client

290.132 Familiarity or intimidation threats may be created if a Director or Officer of the Audit Client, or 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, has been a member of the Audit Team or partner of the Firm.

290.133 If a former member of the Audit Team or partner of the Firm[8] has joined the Audit Client in such a position and a significant connection remains between the Firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, Independence would be deemed to be compromised if a former member of the Audit Team or partner joins the Audit Client as a Director or Officer, or as 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, unless:

(a) The individual is not entitled to any benefits or payments from the Firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the Firm; and

(b) The individual does not continue to participate or appear to participate in the Firm's business or professional activities.

290.134 If a former member of the Audit Team or partner of the Firm has joined the Audit Client in such a position, and no significant connection remains between the Firm and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

- The position the individual has taken at the client;
- Any involvement the individual will have with the Audit Team;

8 Refer to s324CK of the *Corporations Act 2001* regarding the 5 year cooling off period before a former Audit partner can be appointed as an Officer or Director of a Corporate Audit Client in circumstances where another former Partner of the Firm is already an Officer or Director of the corporate Audit Client.

- The length of time since the individual was a member of the Audit Team or partner of the Firm; and
- The former position of the individual within the Audit Team or Firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or Those Charged with Governance.

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

- Modifying the audit plan;
- Assigning individuals to the Audit Team who have sufficient experience in relation to the individual who has joined the client; or
- Having a Member review the work of the former member of the Audit Team.

290.135 If a former partner of the Firm has previously joined an entity in such a position and the entity subsequently becomes an Audit Client of the Firm, the significance of any threat to Independence shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.

290.136 A self-interest threat is created when a member of the Audit Team participates in the Audit Engagement while knowing that the member of the Audit Team will, or may, join the client some time in the future. Firm policies and procedures shall require members of an Audit Team to notify the Firm when entering employment negotiations with the client. On receiving such notification, 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:

- Removing the individual from the Audit Team; or
- A review of any significant judgements made by that individual while on the team.

Audit Clients that are Public Interest Entities

290.137 Familiarity or intimidation threats are created when a Key Audit Partner joins the Audit Client that is a Public Interest Entity as:

(a) A Director or Officer of the entity; 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 would be deemed to be compromised unless, subsequent to the partner ceasing to be a Key Audit Partner, the Public Interest Entity had issued audited Financial Statements covering a period of not less than twelve months and the partner was not a member of the Audit Team with respect to the audit of those Financial Statements.[9]

290.138 An intimidation threat is created when the individual who was the Firm's Senior or managing partner (chief executive or equivalent) joins an Audit Client that is a

9 Refer to s 324CI of the *Corporation Act 2001* for additional prohibitions on former audit Partners joining corporate Audit Clients.

Public Interest Entity as (a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its Financial Statements or (b) a Director or Officer of the entity. Independence would be deemed to be compromised unless twelve months have passed since the individual was the Senior or managing partner (chief executive or equivalent) of the Firm.[10]

290.139 Independence is deemed not to be compromised if, as a result of a business combination, a former Key Audit Partner or the individual who was the Firm's former Senior or managing partner is in a position as described in paragraphs 290.137 and 290.138, 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 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;

(c) The former partner does not continue to participate or appear to participate in the Firm's business or professional activities; and

(d) The position held by the former partner with the Audit Client is discussed with Those Charged with Governance.

Temporary Staff Assignments

290.140 The lending of staff by a Firm to an Audit Client may create a self-review threat. Such assistance may be given, but only for a short period of time and the Firm's personnel shall not be involved in:

- Providing non-assurance services that would not be permitted under this section; or
- Assuming management responsibilities.

In all circumstances, the Audit Client shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any 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:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff audit responsibility for any function or activity that the staff performed during the temporary staff assignment; or
- Not including the loaned staff as a member of the Audit Team.

Recent Service with an Audit Client

290.141 Self-interest, self-review or familiarity threats may be created if a member of the Audit Team has recently served as a Director, Officer, or employee of the Audit Client. This would be the case when, for example, a member of the Audit Team has to evaluate elements of the Financial Statements for which the member of the Audit Team had prepared the accounting records while with the client.

10 Refer to s 324CI of the *Corporation Act 2001* for additional prohibitions on former Partners joining corporate Audit Clients.

290.142 If, during the period covered by the audit report, a member of the Audit Team had served as a Director or Officer of the Audit Client, or was an employee in a position to exert significant influence[11] over the preparation of the client's accounting records or the Financial Statements on which the Firm will express an Opinion, the threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Consequently, such individuals shall not be assigned to the Audit Team.

290.143 Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit report, a member of the Audit Team had served as a Director or Officer of the Audit Client, or 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.[12] For example, such threats 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. The existence and significance of any threats will depend on factors such as:

- The position the individual held with the client;
- The length of time since the individual left the client; and
- The role of the professional on the Audit Team.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an Acceptable Level. An example of such a safeguard is conducting a review of the work performed by the individual as a member of the Audit Team.

Serving as a Director or Officer of an Audit Client

290.144 If a partner or employee of the Firm serves as a Director or Officer of an Audit Client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. Accordingly, no partner or employee shall serve as a Director or Officer of an Audit Client.[13]

AUST290.144.1 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, the threats created would be so significant no safeguard could reduce the threats to an Acceptable Level. Consequently, if such an individual were to accept such a position the only course of action is for the Firm to refuse to perform, or to withdraw from, the Audit Engagement.

290.145 The position of company secretary has different implications in different jurisdictions. Duties may 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

11 Refer to s9 Definition for 'Audit-critical employee' of the *Corporations Act 2001*.

12 Refer to s324CH(1) Items 8& 9 and s324CF(5) Items 3,4,5& 9 of the *Corporations Act 2001* regarding cooling-off period of 12 months immediately preceding the beginning of the audited period for a corporate Audit Client

13 Refer to s 324CI of the *Corporation Act 2001* regarding prohibitions on Partners or employees serving as a Director or Officer of a corporate Audit Client.

on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

290.146 If a partner or employee of the Firm serves as company secretary for an Audit Client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an Acceptable Level. Despite paragraph 290.144, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level.

AUST290.146.1 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 the company secretary of an Audit Client. If such an individual were to accept such a position the only course of action is for the Firm to refuse to perform, or withdraw from, the Audit Engagement.

290.147 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to Independence, as long as client management makes all relevant decisions.

Long association of senior personnel (including partner rotation) with an Audit Client

General Provisions

290.148 Familiarity and self-interest threats are created by using the same senior personnel on an Audit Engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the Audit Team;
- The role of the individual on the Audit Team;
- The structure of the Firm;
- The nature of the Audit Engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

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

- Rotating the senior personnel off the Audit Team;
- Having a Member who was not a member of the Audit Team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Audit Clients that are Public Interest Entities

290.149 In respect of an audit of a Public Interest Entity, an individual shall not be a Key Audit Partner for more than seven years.[14] After such time, the individual shall not be a member of the Engagement Team or be a Key Audit Partner for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the Engagement Team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

290.150 Despite paragraph 290.149, Key Audit Partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the Firm's control, be permitted an additional year on the Audit Team as long as the threat to Independence can be eliminated or reduced to an Acceptable Level by applying safeguards. For example, a Key Audit Partner may remain 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.

290.151 The long association of other partners with an Audit Client that is a Public Interest Entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner has been associated with the Audit Client;
- The role, if any, of the individual on the Audit Team; and
- The nature, frequency and extent of the individual's interactions with the client's management or Those Charged with Governance.

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

- Rotating the partner off the Audit Team or otherwise ending the partner's association with the Audit Client; or
- Regular independent internal or external quality reviews of the engagement.

290.152 When an Audit Client becomes a Public Interest Entity, the length of time the individual has served the Audit Client as a Key Audit Partner before the client becomes a Public Interest Entity shall be taken into account in determining the timing of the rotation.[15] If the individual has served the Audit Client as a Key Audit Partner for five 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. If the individual has served the Audit Client as a Key Audit Partner for six or more years when the client becomes a Public Interest Entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

14 Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

15 Refer to s324DA of the *Corporations Act 2001* which has more restrictive Audit Partner rotation requirements for Listed Entities in Australia.

290.153 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 may not be an available safeguard. If an independent regulator[16] 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 regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Provision of Non-assurance Services to Audit Clients

290.154 Firms have traditionally provided to their Audit Clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the Independence of the Firm or members of the Audit Team. The threats created are most often self-review, self-interest and advocacy threats.

290.155 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an Audit Client. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

290.156 Before the Firm accepts an engagement to provide a non-assurance service to an Audit Client, a determination shall be made as to whether providing such a service would create a threat to Independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the Audit Team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an Acceptable Level by the application of safeguards, the non-assurance service shall not be provided.

290.157 A Firm may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the Audit Client:

(a) An entity, which is not an Audit Client, that has direct or indirect control over the Audit Client;

(b) An entity, which is not an Audit Client, 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 not an Audit Client, that is under common control with the Audit Client.

If it is reasonable to conclude that (a) the services do not create a self-review threat because the results of the services will not be subject to audit procedures and (b) any threats that are created by the provision of such services are eliminated or reduced to an Acceptable Level by the application of safeguards.

16 Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investment Commission may grant extensions.

290.158 A non-assurance service provided to an Audit Client does not compromise the Firm's Independence when the client becomes a Public Interest Entity if:

(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) Services that are not permitted under this section for Audit Clients that are public interest entities are terminated before or as soon as practicable after the client becomes a Public Interest Entity; and

(c) The Firm applies safeguards when necessary to eliminate or reduce to an Acceptable Level any threats to Independence arising from the service.

Management Responsibilities

290.159 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

290.160 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;
- Deciding which recommendations of the Firm or other third parties to implement;
- Taking responsibility for the preparation and fair presentation of the Financial Statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

290.161 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an Audit Client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.162 If a Firm were to assume a management responsibility for an Audit Client, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. For example, deciding which recommendations of the Firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the Firm becomes too closely aligned with the views and interests of management.

Therefore, the Firm shall not assume a management responsibility for an Audit Client.

290.163 To avoid the risk of assuming a management responsibility when providing non-assurance services to an Audit Client, the Firm shall be satisfied that a member of management is responsible for making the significant judgements and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the Firm inadvertently making any significant judgements or decisions on behalf of management. The risk is further reduced when the Firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.

Preparing Accounting Records and Financial Statements

General Provisions

290.164 Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

290.165 Providing an Audit Client with accounting and bookkeeping services, such as preparing accounting records or Financial Statements, creates a self-review threat when the Firm subsequently audits the Financial Statements.

290.166 The audit process, however, necessitates dialogue between the Firm and management of the Audit Client, which may involve (a) the application of accounting standards or policies and Financial Statement disclosure requirements, (b) the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or (c) proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, create threats to Independence.

290.167 Similarly, the client may request technical assistance from the Firm on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing Financial Statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to Independence provided the Firm does not assume a management responsibility for the client.

Audit Clients that are Not Public Interest Entities

290.168 The Firm may provide services related to the preparation of accounting records and Financial Statements to an Audit Client that is not a Public Interest Entity where

the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an Acceptable Level. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing Financial Statements based on information in the trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the Audit Team; or
- If such services are performed by a member of the Audit Team, using a partner or senior staff member with appropriate expertise who is not a member of the Audit Team to review the work performed.

Audit Clients that are Public Interest Entities

290.169 A Firm shall not provide to an Audit Client that is a Public Interest Entity accounting and bookkeeping services, including payroll services, or prepare Financial Statements on which the Firm will express an Opinion or financial information which forms the basis of the Financial Statements.

290.170 Despite paragraph 290.169, a Firm may provide accounting and bookkeeping services, including payroll services and the preparation of Financial Statements or other financial information, of a routine or mechanical nature for divisions or Related Entities of an Audit Client that is a Public Interest Entity if the personnel providing the services are not members of the Audit Team and:

(a) The divisions or Related Entities for which the service is provided are collectively immaterial to the Financial Statements on which the Firm will express an Opinion; or

(b) The services relate to matters that are collectively immaterial to the Financial Statements of the division or Related Entity.

Emergency Situations – Audit Clients that are not Public Interest Entities

290.171 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to Audit Clients that are not Public Interest Entities in emergency or other unusual situations when it is impractical for the Audit Client to make other arrangements. This may be the case when (a) only the Firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and Financial Statements, and (b) a restriction on the Firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

(a) Those who provide the services are not members of the Audit Team;

(b) The services are provided for only a short period of time and are not expected to recur; and

(c) The situation is discussed with Those Charged with Governance.

Valuation Services

General Provisions

290.172 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 a business as a whole.

290.173 Performing valuation services for an Audit Client may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- Whether the valuation will have a material effect on the Financial Statements.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.
- The availability of established methodologies and professional guidelines.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the Financial Statements.

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

- Having a Member who was not involved in providing the valuation service review the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the Audit Engagement.

290.174 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted and 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.

290.175 If a 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 will not have a direct effect on the Financial Statements, the provisions included in paragraph 290.188 apply.

Audit Clients that are Not Public Interest Entities

290.176 In the case of an Audit Client that is not a Public Interest Entity, if the valuation service has a material effect on the Financial Statements on which the Firm will express an Opinion and the valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an Acceptable Level. Accordingly a Firm shall not provide such a valuation service to an Audit Client.

Audit Clients that are Public Interest Entities

290.177 A Firm shall not provide valuation services to an Audit Client that is a Public Interest Entity if the valuations would have a material effect, separately or in the aggregate, on the Financial Statements on which the Firm will express an Opinion.

Taxation Services

290.178 Taxation services comprise a broad range of services, including:

- Tax return preparation;
- Tax calculations for the purpose of preparing the accounting entries;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes.

While taxation services provided by a Firm to an Audit Client are addressed separately under each of these broad headings; in practice, these activities are often interrelated.

290.179 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as (a) the system by which the tax authorities assess and administer the tax in question and the role of the Firm in that process, (b) the complexity of the relevant tax regime and the degree of judgement necessary in applying it, (c) the particular characteristics of the engagement, and (d) the level of tax expertise of the client's employees.

Tax Return Preparation

290.180 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the Audit Client to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services does not generally create a threat to Independence if management takes responsibility for the returns including any significant judgements made.

Tax Calculations for the Purpose of Preparing Accounting Entries

Audit Clients that are Not Public Interest Entities

290.181 Preparing calculations of current and deferred tax liabilities (or assets) for an Audit Client for the purpose of preparing accounting entries that will be subsequently audited by the Firm creates a self-review threat. The significance of the threat will depend on (a) the complexity of the relevant tax law and regulation and the degree of judgement necessary in applying them, (b) the level of tax expertise of the client's personnel, and (c) the materiality of the amounts to the Financial Statements. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:

- Using professionals who are not members of the Audit Team to perform the service;
- If the service is performed by a member of the Audit Team, using a partner or senior staff member with appropriate expertise who is not a member of the Audit Team to review the tax calculations; or
- Obtaining advice on the service from an external tax professional.

Audit Clients that are Public Interest Entities

290.182 In the case of an Audit Client that is a Public Interest Entity, a Firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the Financial Statements on which the Firm will express an Opinion.

Emergency Situations – Audit Clients that are not Public Interest Entities

290.183 The preparation of calculations of current and deferred tax liabilities (or assets) for an Audit Client that is not a Public Interest Entity for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to Audit Clients in emergency or other unusual situations when it is impractical for the Audit Client to make other arrangements. This may be the case when (a) only the Firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the Firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

(a) Those who provide the services are not members of the Audit Team;

(b) The services are provided for only a short period of time and are not expected to recur; and

(c) The situation is discussed with Those Charged with Governance.

Tax Planning and Other Tax Advisory Services

290.184 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

290.185 A self-review threat may be created where the advice will affect matters to be reflected in the Financial Statements. The existence and significance of any threat will depend on factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the Financial Statements;
- The extent to which the outcome of the tax advice will have a material effect on the Financial Statements;
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the Financial Statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the Financial Statements.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to Independence.

290.186 The significance of any 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:

- Using professionals who are not members of the Audit Team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the Audit Team on the service and review the Financial Statement treatment;
- Obtaining advice on the service from an external tax professional; or
- Obtaining pre-clearance or advice from the tax authorities.

290.187 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the Financial Statements and:

(a) The Audit Team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the tax advice will have a material effect on the Financial Statements on which the Firm will express an Opinion;

The self-review threat would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm shall not provide such tax advice to an Audit Client.

290.188 In providing tax services to an Audit Client, a Firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the Financial Statements, the provisions included in paragraphs 290.172 to 290.177 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the Financial Statements (i.e. the Financial Statements are only affected through accounting entries related to tax), this would not generally create threats to Independence if such effect on the Financial Statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the Financial Statements, the existence and significance of any threat created will depend upon factors such as:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

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

- Using professionals who are not members of the Audit Team to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

Assistance in the Resolution of Tax Disputes

290.189 An advocacy or self-review threat may be created when the Firm represents an Audit Client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The existence and significance of any threat will depend on factors such as:

- Whether the Firm has provided the advice which is the subject of the tax 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;
- 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; and
- The role management plays in the resolution of the dispute.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.

Examples of such safeguards include:

- Using professionals who are not members of the Audit Team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the Audit Team on the services and review the Financial Statement treatment; or
- Obtaining advice on the service from an external tax professional.

290.190 Where the taxation services involve acting as an advocate for an Audit Client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the Financial Statements on which the Firm will express an Opinion, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an Acceptable Level. Therefore, the Firm shall not perform this type of service for an Audit Client. What constitutes a "public tribunal or court" shall be determined according to how tax proceedings are heard in the particular jurisdiction.

290.191 The Firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analysing the tax issues) for the Audit Client in relation to the matter that is being heard before a public tribunal or court.

Internal Audit Services

General Provisions

290.192 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and Those Charged with Governance. Internal audit activities may include:

(a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;

(b) Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;

(c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and

(d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

290.193 Internal audit services involve assisting the Audit Client in the performance of its internal audit activities. The provision of internal audit services to an Audit Client creates a self-review threat to Independence if the Firm uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client's internal audit activities increases the possibility that Firm personnel providing internal audit services will assume a management responsibility. If the Firm's personnel assume a management responsibility when providing internal audit services to an Audit Client, the threat created would be so significant that no

safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm's personnel shall not assume a management responsibility when providing internal audit services to an Audit Client.

290.194 Examples of internal audit services that involve assuming management responsibilities include:

(a) Setting internal audit policies or the strategic direction of internal audit activities;

(b) Directing and taking responsibility for the actions of the entity's internal audit employees;

(c) Deciding which recommendations resulting from internal audit activities shall be implemented;

(d) Reporting the results of the internal audit activities to Those Charged with Governance on behalf of management;

(e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;

(f) Taking responsibility for designing, implementing and maintaining internal control; and

(g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the Firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

290.195 To avoid assuming a management responsibility, the Firm shall only provide internal audit services to an Audit Client if it is satisfied that:

(a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;

(b) The client's management or Those Charged with Governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;

(c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;

(d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

(e) The client's management reports to Those Charged with Governance the significant findings and recommendations resulting from the internal audit services.

290.196 When a Firm uses the work of an internal audit function, Auditing and Assurance Standards require the performance of procedures to evaluate the adequacy of that work. When a Firm accepts an engagement to provide internal audit services to an Audit Client, and the results of those services will be used in conducting the

external audit, a self-review threat is created because of the possibility that the Audit Team will use the results of the internal audit service without appropriately evaluating those results or 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. The significance of the threat will depend on factors such as:

- The materiality of the related Financial Statement amounts;
- The risk of misstatement of the assertions related to those Financial Statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is using professionals who are not members of the Audit Team to perform the internal audit service.

Audit Clients that are Public Interest Entities

290.197 In the case of an Audit Client that is a Public Interest Entity, a Firm shall not provide internal audit services that relate to:

(a) A significant part of the internal controls over financial reporting;

(b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or Financial Statements on which the Firm will express an Opinion; or

(c) Amounts or disclosures that are, separately or in the aggregate, material to the Financial Statements on which the Firm will express an Opinion.

IT Systems Services

General Provisions

290.198 Services related to information technology ("IT") systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting or generate information that affects the accounting records or Financial Statements, or the systems may be unrelated to the Audit Client's accounting records, the internal control over financial reporting or Financial Statements. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

290.199 The following IT systems services are deemed not to create a threat to Independence as long as the Firm's personnel do not assume a management responsibility:

(a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;

(b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or Financial Statements;

(c) Implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the Firm if the customisation required to meet the client's needs is not significant; and

(d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

Audit Clients that are Not Public Interest Entities

290.200 Providing services to an Audit Client that is not a Public Interest Entity involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or Financial Statements on which the Firm will express an Opinion creates a self-review threat.

290.201 The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:

(a) The Audit Client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The Audit Client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;

(c) The Audit Client makes all management decisions with respect to the design and implementation process;

(d) The Audit Client evaluates the adequacy and results of the design and implementation of the system; and

(e) The Audit Client is responsible for operating the system (hardware or software) and for the data it uses or generates.

290.202 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the Audit Team and who have different reporting lines within the Firm. The significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is having a Member review the audit or non-assurance work.

Audit Clients that are Public Interest Entities

290.203 In the case of an Audit Client that is a Public Interest Entity, a Firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over financial reporting or (b) generate information that is significant to the client's accounting records or Financial Statements on which the Firm will express an Opinion.

Litigation Support Services

290.204 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval. These services may create a self-review or advocacy threat.

290.205 If the Firm provides a litigation support service to an Audit Client and the service involves estimating damages or other amounts that affect the Financial Statements

on which the Firm will express an Opinion, the valuation service provisions included in paragraphs 290.172 to 290.177 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.

Legal Services

290.206 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients' internal legal departments. Providing legal services to an entity that is an Audit Client may create both self-review and advocacy threats.

290.207 Legal services that support an Audit Client in executing a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:

- The nature of the service;
- Whether the service is provided by a member of the Audit Team; and
- The materiality of any matter in relation to the client's Financial Statements.

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

- Using professionals who are not members of the Audit Team to perform the service; or
- Having a professional who was not involved in providing the legal services provide advice to the Audit Team on the service and review any Financial Statement treatment.

290.208 Acting in an advocacy role for an Audit Client in resolving a dispute or litigation when the amounts involved are material to the Financial Statements on which the Firm will express an Opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, the Firm shall not perform this type of service for an Audit Client.

290.209 When a Firm is asked to act in an advocacy role for an Audit Client in resolving a dispute or litigation when the amounts involved are not material to the Financial Statements on which the Firm will express an Opinion, the Firm shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:

- Using professionals who are not members of the Audit Team to perform the service; or

- Having a professional who was not involved in providing the legal services advise the Audit Team on the service and review any Financial Statement treatment.

290.210 The appointment of a partner or an employee of the Firm as General Counsel for legal affairs of an Audit Client would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an Acceptable Level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the Firm shall accept such an appointment for an Audit Client.

Recruiting Services

General Provisions

290.211 Providing recruiting services to an Audit Client may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:

- The nature of the requested assistance; and
- The role of the person to be recruited.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. In all cases, the Firm shall not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be left to the client.

The Firm may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the Firm may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.

Audit Clients that are Public Interest Entities

290.212 A Firm shall not provide the following recruiting services to an Audit Client that is a Public Interest Entity with respect to a Director or Officer of the entity or 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:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

Corporate Finance Services

290.213 Providing corporate finance services such as (a) assisting an Audit Client in developing corporate strategies, (b) identifying possible targets for the Audit Client to acquire, (c) advising on disposal transactions, (d) assisting finance raising transactions, and (e) providing structuring advice may create advocacy and self-review threats. The significance of any 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:

- Using professionals who are not members of the Audit Team to provide the services; or

- Having a professional who was not involved in providing the corporate finance service advise the Audit Team on the service and review the accounting treatment and any Financial Statement treatment.

290.214 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the Financial Statements on which the Firm will provide an opinion may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- 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 and the extent to which the amounts are material to the Financial Statements; and
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the Financial Statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

The significance of any 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:

- Using professionals who are not members of the Audit Team to perform the service; or
- Having a professional who was not involved in providing the corporate finance service to the client advise the Audit Team on the service and review the accounting treatment and any Financial Statement treatment.

290.215 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the Financial Statements and:

(a) The Audit Team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the corporate finance advice will have a material effect on the Financial Statements on which the Firm will express an Opinion;

The self-review threat would be so significant that no safeguards could reduce the threat to an Acceptable Level, in which case the corporate finance advice shall not be provided.

290.216 Providing corporate finance services involving promoting, dealing in, or underwriting an Audit Client's shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm shall not provide such services to an Audit Client.

Fees

Fees—Relative Size

290.217 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 judgements.

AUST 290.217.1 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 clients creates a self-interest or intimidation threat.

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 290.217 provides examples of factors that may affect the significance of the threat and potential safeguards.

290.218 A self-interest or intimidation threat is also created when the fees generated from an Audit Client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual Office of the Firm. The significance of the threat will depend upon factors such as:

- The significance of the client qualitatively and/or quantitatively to the partner or Office; and
- The extent to which the remuneration of the partner, or the partners in the Office, is dependent upon the fees generated from the client.

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 Audit Client;
- Having a Member review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

Audit Clients that are Public Interest Entities

290.219 Where an Audit Client is a Public Interest Entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.27) represent more than 15% of the total fees received by the Firm expressing the opinion on the Financial Statements of the client, the Firm shall disclose to Those Charged with Governance of the Audit Client the fact that the total of such fees represents more than 15% of the total fees received by the Firm, and discuss which of the safeguards below it will apply to reduce the threat to an Acceptable Level, and apply the selected safeguard:

- Prior to the issuance of the audit opinion on the second year's Financial Statements, a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, performs an Engagement Quality Control Review of that engagement or a professional regulatory body performs a review of that engagement that is equivalent to an Engagement Quality Control Review ("a pre-issuance review"); or
- After the audit opinion on the second year's Financial Statements has been issued, and before the issuance of the audit opinion on the third year's Financial Statements, a Member, who is not a member of the Firm expressing the opinion on the Financial Statements, or a professional regulatory body performs a review of the second year's audit that is equivalent to an Engagement Quality Control Review ("a post-issuance review").

When the total fees significantly exceed 15%, the Firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an Acceptable Level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with Those Charged with Governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the Firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an Acceptable Level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Fees—Overdue

290.220 A self-interest threat may be created if fees due from an Audit Client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the Firm is expected to require payment of such fees before such audit report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is having an additional Member who did not take part in the Audit Engagement provide advice or review the work performed. The Firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the Firm to be re-appointed or continue the Audit Engagement.

Contingent Fees

290.221 Contingent Fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the Firm. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

290.222 A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of an Audit Engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm shall not enter into any such fee arrangement.

290.223 A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of a non-assurance service provided to an Audit Client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level 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.

Accordingly, such arrangements shall not be accepted.

290.224 For other Contingent Fee arrangements charged by a Firm for a non-assurance service to an Audit Client, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the Contingent Fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the Financial Statements.

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

- Having a Member review the relevant audit work or otherwise advise as necessary; or
- Using professionals who are not members of the Audit Team to perform the non-assurance service.

Compensation and Evaluation Policies

290.225 A self-interest threat is created when a member of the Audit Team is evaluated on or compensated for selling non-assurance services to that Audit Client. The significance of the threat will depend on:

- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
- The role of the individual on the Audit Team; and
- Whether promotion decisions are influenced by the sale of such services.

The significance of the threat shall be evaluated and, if the threat is not at an Acceptable Level, the Firm shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:

- Removing such members from the Audit Team; or
- Having a Member review the work of the member of the Audit Team.

290.226 A Key Audit Partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's Audit Client. This is not intended to prohibit normal profit-sharing arrangements between partners of a Firm.

Gifts and Hospitality

290.227 Accepting gifts or hospitality from an Audit Client may create self-interest and familiarity threats. If a Firm or a member of the Audit Team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. Consequently, a Firm or a member of the Audit Team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

290.228 When litigation takes place, or appears likely, between the Firm or a member of the Audit Team and the Audit Client, self-interest and intimidation threats are created. The relationship between client management and the members of the Audit Team must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the Firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior Audit Engagement.

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

- If the litigation involves a member of the Audit Team, removing that individual from the Audit Team; or
- Having a professional review the work performed.

If such safeguards do not reduce the threats to an Acceptable Level, the only appropriate action is to withdraw from, or decline, the Audit Engagement.

Paragraphs 290.229 to 290.499 are intentionally left blank.

Reports that Include a Restriction on Use and Distribution

Introduction

290.500 The Independence requirements in Section 290 apply to all Audit Engagements. However, in certain circumstances involving Audit Engagements where the report includes a restriction on use and distribution, and provided the conditions described in 290.501 to 290.502 are met, the Independence requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These paragraphs are only applicable to an Audit Engagement on Special Purpose Financial Statements (a) that is intended to provide a conclusion in positive or negative form that the Financial Statements are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the Financial Statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and (b) where the audit report includes a restriction on use and distribution. The modifications are not permitted in the case of an audit of Financial Statements required by law or regulation.

290.501 The modifications to the requirements of Section 290 are permitted if the intended users of the report (a) are knowledgeable as to the purpose and limitations of the report, and (b) explicitly agree to the application of the modified Independence requirements. Knowledge as to the purpose and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the Firm to communicate with intended users about Independence matters, including the circumstances that are relevant to the evaluation of the threats to Independence and the applicable safeguards necessary to eliminate the threats or reduce them to an Acceptable Level, and to obtain their agreement to the modified Independence requirements that are to be applied.

290.502 The Firm shall communicate (for example, in an engagement letter) with the intended users regarding the Independence requirements that are to be applied with respect to the provision of the Audit Engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the Independence requirements agreed to by the representative (for example, by the representative making the Firm's engagement letter available to all users).

290.503 If the Firm also issues an audit report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 290.500 to 290.514 do not change the requirement to apply the provisions of paragraphs 290.1 to 290.228 to that Audit Engagement.

290.504 The modifications to the requirements of Section 290 that are permitted in the circumstances set out above are described in paragraphs 290.505 to 290.514. Compliance in all other respects with the provisions of Section 290 is required.

Public Interest Entities

290.505 When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.228 that apply to Audit Engagements for Public Interest Entities.

Related Entities

290.506 When the conditions set out in paragraphs 290.500 to 290.502 are met, references to Audit Client do not 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 and evaluating threats to Independence and applying appropriate safeguards.

Networks and Network Firms

290.507 When the conditions set out in paragraphs 290.500 to 290.502 are met, reference to the Firm does not include Network Firms. However, when the Firm knows or has reason to believe that threats are created by any interests and relationships of a Network Firm, they shall be included in the evaluation of threats to Independence.

Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships

290.508 When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.102 to 290.143 apply only to the members of the Engagement Team, their Immediate Family members and Close Family members.

290.509 In addition, a determination shall be made as to whether threats to Independence are created by interests and relationships, as described in paragraphs 290.102 to 290.143, between the Audit Client and the following members of the Audit Team:

(a) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(b) Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review.

An evaluation shall be made of the significance of 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, including those who recommend the compensation of, 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)).

290.510 An evaluation shall also be made of the significance of any threats that the Engagement Team has reason to believe are created by Financial Interests in the Audit Client held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.

290.511 Where a threat to Independence is not at an Acceptable Level, safeguards shall be applied to eliminate the threat or reduce it to an Acceptable Level.

290.512 In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the Firm, if the Firm has a material Financial Interest, whether direct or indirect, in the Audit Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, the Firm shall not have such a Financial Interest.

Employment with an Audit Client

290.513 An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.132 to 290.136. Where a threat exists that is not at an Acceptable Level, safeguards shall be applied to eliminate the threat or reduce it to an Acceptable Level. Examples of safeguards that might be appropriate include those set out in paragraph 290.134.

Provision of Non-Assurance Services

290.514 If the Firm conducts an engagement to issue a restricted use and distribution report for an Audit Client and provides a non-assurance service to the Audit Client, the provisions of paragraphs 290.154 to 290.228 shall be complied with, subject to paragraphs 290.504 to 290.507.

SECTION 291

INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

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Structure of Section

291.1 This section addresses Independence requirements for Assurance Engagements that are not Audit Engagements or Review Engagements. Additional Independence requirements for Audit and Review Engagements are addressed in Section 290. If the Assurance Client is also an Audit Client or Review Client, the requirements in Section 290 also apply to the Firm, Network Firms and members of the Audit Team or Review Team. In certain circumstances involving Assurance Engagements where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the Independence requirements in this section may be modified as provided in 291.21 to 291.27.

291.2 Assurance Engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. *Framework for Assurance Engagements* issued by the AUASB describes the elements and objectives of an Assurance Engagement and identifies engagements to which Auditing and Assurance Standards apply. For a description of the elements and objectives of an Assurance Engagement, refer to the Assurance Framework.

291.3 Compliance with the fundamental principle of objectivity requires being independent of Assurance Clients. In the case of Assurance Engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of Assurance Teams and Firms be independent of Assurance Clients and that any threats that the Firm has reason to believe are created by a Network Firm's interests and relationships be evaluated. In addition, 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 and evaluating threats to Independence and applying appropriate safeguards.

A Conceptual Framework Approach to Independence

291.4 The objective of this section is to assist Firms and members of Assurance Teams in applying the conceptual framework approach described below to achieving and maintaining Independence.

291.5 Independence comprises:

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.

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, weighing all the specific facts and circumstances, that a Firm's, or a member of the Assurance Team's, integrity, objectivity or professional scepticism has been compromised.

291.6 The conceptual framework approach shall be applied by Members to:

- Identify threats to Independence;
- Evaluate the significance of the threats identified; and
- Apply safeguards when necessary to eliminate the threats or reduce them to an Acceptable Level.

When the Member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an Acceptable Level, the Member shall eliminate the circumstance or relationship creating the threats or decline or terminate the Assurance Engagement.

A Member shall use professional judgement in applying this conceptual framework.

291.7 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to Independence. It is impossible to define every situation that creates threats to Independence and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires Firms and members of Assurance Teams to identify, evaluate, and address threats to Independence. The conceptual framework approach assists Members in Public Practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to Independence and can deter a Member from concluding that a situation is permitted if it is not specifically prohibited.

291.8 Paragraphs 291.100 and onwards describe how the conceptual framework approach to Independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to Independence.

291.9 In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the Assurance Team, a Firm shall identify and evaluate any threats to Independence. If the threats are not at an Acceptable Level, and the decision is whether to accept an engagement or include a particular individual on the Assurance Team, the Firm shall determine whether safeguards are available to eliminate the threats or reduce them to an Acceptable Level. If the decision is whether to continue an engagement, the Firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an Acceptable Level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat comes to the attention of the Firm during the engagement, the Firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

291.10 Throughout this section, reference is made to the significance of threats to Independence. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.

AUST291.10.1 Where a Member in Public Practice identifies multiple threats to Independence, which individually may 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.

291.11 This section does not, in most cases, prescribe the specific responsibility of individuals within the Firm for actions related to Independence because responsibility may differ depending on the size, structure and organisation of a Firm. The Firm is required by APES 320 *Quality Control for Firms* to establish policies and procedures designed to provide it with reasonable assurance that Independence is maintained when required by relevant ethical standards.

Assurance Engagements

291.12 As further explained in the Assurance Framework, in an Assurance Engagement the Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.

291.13 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term "subject matter information" is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO[17] or CoCo[18] (criteria), to internal control, a process (subject matter).

291.14 Assurance Engagements may be assertion-based or direct reporting. In either case, they involve three separate parties: a Member in Public Practice, a responsible party and intended users.

291.15 In an assertion-based Assurance Engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

291.16 In a direct reporting Assurance Engagement, the Member in Public Practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

AUST291.16.1 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.

17 "Internal Control – Integrated Framework" The Committee of Sponsoring Organizations of the Treadway Commission.

18 "Guidance on Assessing Control – The CoCo Principles" Criteria of Control Board, The Canadian Institute of Chartered Accountants.

Assertion-based Assurance Engagements

291.17 In an assertion-based Assurance Engagement, the members of the Assurance Team and the Firm shall be independent of the Assurance Client (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such Independence requirements prohibit certain relationships between members of the Assurance Team and (a) Directors or, Officers, and (b) individuals at the client in a position to exert significant influence over the subject matter information. Also, a determination shall be made as to whether threats to Independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall be made of the significance of any threats that the Firm has reason to believe are created by Network Firm[19] interests and relationships.

291.18 In the majority of assertion-based Assurance Engagements, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when a Member in Public Practice is engaged to perform an Assurance Engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

291.19 In assertion-based Assurance Engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the Assurance Team and the Firm shall be independent of the party responsible for the subject matter information (the Assurance Client). In addition, an evaluation shall be made of any threats the Firm has reason to believe are created by interests and relationships between a member of the Assurance Team, the Firm, a Network Firm and the party responsible for the subject matter.

Direct reporting Assurance Engagements

291.20 In a direct reporting Assurance Engagement, the members of the Assurance Team and the Firm shall be independent of the Assurance Client (the party responsible for the subject matter). An evaluation shall also be made of any threats the Firm has reason to believe are created by Network Firm interests and relationships.

19 See paragraphs 290.13 to 290.24 for guidance on what constitutes a Network Firm.

Reports that Include a Restriction on Use and Distribution

291.21 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the Independence requirements in this section may be modified. The modifications to the requirements of Section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified Independence requirements. Knowledge as to the purpose, subject matter information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the Firm to communicate with intended users about Independence matters, including the circumstances that are relevant to the evaluation of the threats to Independence and the applicable safeguards necessary to eliminate the threats or reduce them to an Acceptable Level, and to obtain their agreement to the modified Independence requirements that are to be applied.

291.22 The Firm shall communicate (for example, in an engagement letter) with the intended users regarding the Independence requirements that are to be applied with respect to the provision of the Assurance Engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the Independence requirements agreed to by the representative (for example, by the representative making the Firm's engagement letter available to all users).

291.23 If the Firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291.157 to that Assurance Engagement. If the Firm also issues an audit report, whether or not it includes a restriction on use and distribution, for the same client, the provisions of Section 290 shall apply to that Audit Engagement.

291.24 The modifications to the requirements of Section 291 that are permitted in the circumstances set out above are described in paragraphs 291.25 to 291.27. Compliance in all other respects with the provisions of Section 291 is required.

291.25 When the conditions set out in paragraphs 291.21 and 291.22 are met, the relevant provisions set out in paragraphs 291.104 to 291.132 apply to all members of the Engagement Team, and their Immediate and Close Family members. In addition, a determination shall be made as to whether threats to Independence are created by interests and relationships between the Assurance Client and the following other members of the Assurance Team:

- Those who provide consultation regarding technical or industry specific issues, transactions or events; and
- Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review.

An evaluation shall also be made, by reference to the provisions set out in paragraphs 291.104 to 291.132, of 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, including 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.

291.26 Even though the conditions set out in paragraphs 291.21 to 291.22 are met, if the Firm had a material Financial Interest, whether direct or indirect, in the Assurance Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, the Firm shall not have such a Financial Interest. In addition, the Firm shall comply with the other applicable provisions of this section described in paragraphs 291.112 to 291.157.

291.27 An evaluation shall also be made of any threats that the Firm has reason to believe are created by Network Firm interests and relationships.

Multiple Responsible Parties

291.28 In some Assurance Engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the Firm may take into account whether an interest or relationship between the Firm, or a member of the Assurance Team, and a particular responsible party would create a threat to Independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the Firm determines that the threat to Independence created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it may not be necessary to apply all of the provisions of this section to that responsible party.

Documentation

291.29 Documentation provides evidence of the Member's judgements in forming conclusions regarding compliance with Independence requirements. The absence of documentation is not a determinant of whether a Firm considered a particular matter nor whether it is independent.

The Member shall document conclusions regarding compliance with Independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

(a) When safeguards are required to reduce a threat to an Acceptable Level, the Member shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an Acceptable Level; and

(b) When a threat required significant analysis to determine whether safeguards were necessary and the Member concluded that they were not because the

threat was already at an Acceptable Level, the Member shall document the nature of the threat and the rationale for the conclusion.

Engagement Period

291.30 Independence from the Assurance Client is required both during the engagement period and the period covered by the subject matter information. 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 terminated or the issuance of the final assurance report.

291.31 When 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:

- 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
- Previous services provided to the Assurance Client.

291.32 If a non-assurance service was provided to the Assurance Client during or after the period covered by the subject matter information but before the Assurance Team begins to perform assurance services and the service would not be permitted during the period of the Assurance Engagement, the Firm shall evaluate any threat to Independence created by the service. If any threat is not at an Acceptable Level, the Assurance Engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an Acceptable Level. Examples of such safeguards include:

- Not including personnel who provided the non-assurance service as members of the Assurance Team;
- Having a Member review the assurance and non-assurance work as appropriate; or
- 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 it to take responsibility for the service.

However, if the non-assurance service has not been completed and it is not practical to complete or terminate the service before the commencement of Professional Services in connection with the Assurance Engagement, the Firm shall only accept the Assurance Engagement if it is satisfied:

- The non-assurance service will be completed within a short period of time; or
- The client has arrangements in place to transition the service to another provider within a short period of time.

During the service period, safeguards shall be applied when necessary. In addition, the matter shall be discussed with Those Charged with Governance.

Breach of a Provision of this Section

291.33 When a breach of a provision of this section is identified, the Firm shall terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the Firm's objectivity and ability to issue an assurance report. The Firm shall 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, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the Member at that time, would be likely to conclude that the Firm's objectivity would be compromised such that the Firm is unable to issue an assurance report.

291.34 If the Firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the Firm shall, as soon as possible, inform the party that engaged the Firm or Those Charged with Governance, as appropriate, and take the steps necessary to terminate the Assurance Engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the Assurance Engagement.

291.35 If the Firm determines that action can be taken to satisfactorily address the consequences of the breach, 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.

291.36 If the party that engaged the Firm or Those Charged with Governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the Firm shall take the steps necessary to terminate the Assurance Engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the Assurance Engagement.

291.37 The Firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the Firm or Those Charged with Governance. When the Firm continues with the Assurance Engagement, the matters to be documented shall also include the conclusion that, in the Firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the Firm could issue an assurance report.

Paragraphs 291.38 to 291.99 are intentionally left blank.

Application of the Conceptual Framework Approach to Independence

291.100 Paragraphs 291.104 to 291.157 describe specific circumstances and relationships that create or may create threats to Independence. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an Acceptable Level and identify certain situations where no safeguards could reduce the threats to an Acceptable Level. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to Independence. The Firm and the members of the Assurance Team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.11 to 200.15 can be applied when necessary to eliminate the threats to Independence or reduce them to an Acceptable Level.

291.101 The paragraphs demonstrate how the conceptual framework approach applies to Assurance Engagements and are to be read in conjunction with paragraph 291.28 which explains that, in the majority of Assurance Engagements, there is one responsible party and that responsible party is the Assurance Client. However, in some Assurance Engagements there are two or more responsible parties. In such circumstances, an evaluation shall be made of any threats the Firm has reason to believe are created by interests and relationships between a member of the Assurance Team, the Firm, a Network Firm and the party responsible for the subject matter. For assurance reports that include a restriction on use and distribution, the paragraphs are to be read in the context of paragraphs 291.21 to 291.27.

291.102 Interpretation 2005-01 provides further guidance on applying the Independence requirements contained in this section to Assurance Engagements.

291.103 Paragraphs 291.104 to 291.119 contain references to the materiality of a Financial Interest, loan, or guarantee, or the significance of a business relationship. For the purpose of 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.

Financial Interests

291.104 Holding a Financial Interest in an Assurance Client may create a self-interest threat. The existence and significance of any threat created depends on: (a) the role of the person holding the Financial Interest, (b) whether the Financial Interest is direct or indirect, and (c) the materiality of the Financial Interest.

291.105 Financial Interests may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such Financial Interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that Financial Interest to be a Direct Financial Interest. Conversely, when the beneficial owner of the Financial Interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that Financial Interest to be an Indirect Financial Interest.

291.106 If a member of the Assurance Team, a member of that individual's Immediate Family, or a Firm has a Direct Financial Interest or a material Indirect Financial Interest in the Assurance Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, none of the following shall have a Direct Financial Interest or a material Indirect Financial Interest in the client: a member of the Assurance Team; a member of that individual's Immediate Family member; or the Firm.

291.107 When a member of the Assurance Team has a Close Family member who the Assurance Team member knows has a Direct Financial Interest or a material Indirect Financial Interest in the Assurance Client, a self-interest threat is created. The significance of the threat will depend on factors such as

- The nature of the relationship between the member of the Assurance Team and the Close Family member; and
- The materiality of the Financial Interest to the Close Family member.

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:

- The Close Family member disposing, as soon as practicable, of all of the Financial Interest or disposing of a sufficient portion of an Indirect Financial Interest so that the remaining interest is no longer material;
- Having a Member review the work of the member of the Assurance Team; or
- Removing the individual from the Assurance Team.

291.108 If a member of the Assurance Team, a member of that individual's Immediate Family, or a Firm has a direct or material Indirect Financial Interest in an entity that has a controlling interest in the Assurance Client, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, none of the following shall have such a Financial Interest: a member of the Assurance Team; a member of that individual's Immediate Family; and the Firm.

291.109 The holding by a Firm or a member of the Assurance Team, or a member of that individual's Immediate Family, of a Direct Financial Interest or a material Indirect Financial Interest in the Assurance Client as a trustee creates a self-interest threat. Such an interest shall not be held unless:

(a) Neither the trustee, nor an Immediate Family member of the trustee, nor the Firm are beneficiaries of the trust;

(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) The trustee, an Immediate Family member of the trustee, or the Firm cannot significantly influence any investment decision involving a Financial Interest in the Assurance Client.

291.110 Members of the Assurance Team shall determine whether a self-interest threat is created by any known Financial Interests in the Assurance Client held by other individuals including:

- Partners and professional employees of the Firm, other than those referred to above, or their Immediate Family members; and
- Individuals with a close personal relationship with a member of the Assurance Team.

Whether these interests create a self-interest threat will depend on factors such as:

- The Firm's organisational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the Assurance Team.

The significance of any 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:

- Removing the member of the Assurance Team with the personal relationship from the Assurance Team;
- Excluding the member of the Assurance Team from any significant decision-making concerning the Assurance Engagement; or
- Having a Member review the work of the member of the Assurance Team.

291.111 If a Firm, a member of the Assurance Team, or an Immediate Family member of the individual, receives a Direct Financial Interest or a material Indirect Financial Interest in an Assurance Client, for example, by way of an inheritance, gift or as a result of a merger, and such interest would not 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 a sufficient amount 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 a member of the Assurance Team, or a member of that individual's Immediate Family, the individual who received the Financial Interest shall immediately dispose of the Financial Interest, or dispose of a sufficient amount of an Indirect Financial Interest so that the remaining interest is no longer material.

Loans and Guarantees

291.112 A loan, or a guarantee of a loan, to a member of the Assurance Team, or a member of that individual's Immediate Family, or the Firm from an Assurance Client that is a bank or similar institution, may create a threat to Independence. If the loan or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, neither a member of the Assurance Team, a member of that individual's Immediate Family, nor a Firm shall accept such a loan or guarantee.

291.113 If a loan to a Firm from an Assurance Client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to

the Assurance Client or Firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an Acceptable Level. An example of such a safeguard is having the work reviewed by a Member from a Network Firm that is neither involved with the Assurance Engagement nor received the loan.

291.114 A loan, or a guarantee of a loan, from an Assurance Client that is a bank or a similar institution to a member of the Assurance Team, or a member of that individual's Immediate Family, does not create a threat to Independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

291.115 If the Firm or a member of the Assurance Team, or a member of that individual's Immediate Family, accepts a loan from, or has a borrowing guaranteed by, an Assurance Client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level, unless the loan or guarantee is immaterial to both the Firm, or the member of the Assurance Team and the Immediate Family member, and the client.

291.116 Similarly, if the Firm, or a member of the Assurance Team, or a member of that individual's Immediate Family, makes or guarantees a loan to an Assurance Client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level, unless the loan or guarantee is immaterial to both the Firm, or the member of the Assurance Team and the Immediate Family member, and the client.

291.117 If a Firm or a member of the Assurance Team, or a member of that individual's Immediate Family, has deposits or a brokerage account with an Assurance Client that is a bank, broker, or similar institution, a threat to Independence is not created if the deposit or account is held under normal commercial terms.

Business Relationships

291.118 A close business relationship between a Firm, or a member of the Assurance Team, or a member of that individual's Immediate Family, and the Assurance Client or its management arises from a commercial relationship or common Financial Interest and may create self-interest or intimidation threats. Examples of such relationships 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 with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the Firm distributes or markets the client's products or services, or the client distributes or markets the Firm's products or services.

Unless any Financial Interest is immaterial and the business relationship is insignificant to the Firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Therefore, unless the Financial Interest is immaterial and the business relationship is

insignificant, the business relationship shall not be entered into, or shall be reduced to an insignificant level or terminated.

In the case of a member of the Assurance Team, unless any such Financial Interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the Assurance Team.

If the business relationship is between an Immediate Family member of a member of the Assurance Team and the Assurance Client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level.

291.119 The purchase of goods and services from an Assurance Client by the Firm, or a member of the Assurance Team, or a member of that individual's Immediate Family, does not generally create a threat to Independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any 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:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the Assurance Team.

Family and Personal Relationships

291.120 Family and personal relationships between a member of the Assurance Team and a Director or Officer or certain employees (depending on their role) of the Assurance Client, may create self-interest, familiarity or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the Assurance Team, the role of the family member or other individual within the client, and the closeness of the relationship.

291.121 When an Immediate Family member of a member of the Assurance Team is:

(a) A Director or Officer of the Assurance Client, or

(b) An employee in a position to exert significant influence over the subject matter information of the Assurance Engagement,

or was in such a position during any period covered by the engagement or the subject matter information, the threats to Independence can only be reduced to an Acceptable Level by removing the individual from the Assurance Team. The closeness of the relationship is such that no other safeguards could reduce the threat to an Acceptable Level. Accordingly, no individual who has such a relationship shall be a member of the Assurance Team.

291.122 Threats to Independence are created when an Immediate Family member of a member of the Assurance Team is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

- The position held by the Immediate Family member; and
- The role of the professional on the Assurance Team.

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:

- Removing the individual from the Assurance Team; or
- Structuring the responsibilities of the Assurance Team so that the professional does not deal with matters that are within the responsibility of the Immediate Family member.

291.123 Threats to Independence are created when a Close Family member of a member of the Assurance Team is:

- A Director or Officer of the Assurance Client; or
- An employee in a position to exert significant influence over the subject matter information of the Assurance Engagement.

The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the Assurance Team and the Close Family member;
- The position held by the Close Family member; and
- The role of the professional on the Assurance Team.

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:

- Removing the individual from the Assurance Team; or
- Structuring the responsibilities of the Assurance Team so that the professional does not deal with matters that are within the responsibility of the Close Family member.

291.124 Threats to Independence are created when a member of the Assurance Team has a close relationship with a person who is not an Immediate or Close Family member, but who is a Director or Officer or an employee in a position to exert significant influence over the subject matter information of the Assurance Engagement. A member of the Assurance Team who has such a relationship shall consult in accordance with Firm policies and procedures. The significance of the threats will depend on factors such as:

- The nature of the relationship between the individual and the member of the Assurance Team;
- The position the individual holds with the client; and
- The role of the professional on the Assurance Team.

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

- Removing the professional from the Assurance Team; or

- Structuring the responsibilities of the Assurance Team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

291.125 Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the Firm who is not a member of the Assurance Team and (b) a Director or Officer of the Assurance Client or an employee in a position to exert significant influence over the subject matter information of the Assurance Engagement. The existence and significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the Firm and the Director or Officer or employee of the client;
- The interaction of the partner or employee of the Firm with the Assurance Team;
- The position of the partner or employee within the Firm; and
- The role of the individual within the client.

The significance of any 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:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the Assurance Engagement; or
- Having a Member review the relevant assurance work performed.

Employment with Assurance Clients

291.126 Familiarity or intimidation threats may be created if a Director or Officer of the Assurance Client, or an employee who is in a position to exert significant influence over the subject matter information of the Assurance Engagement, has been a member of the Assurance Team or partner of the Firm.

291.127 If a former member of the Assurance Team or partner of the Firm has joined the Assurance Client in such a position, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

(a) The position the individual has taken at the client;

(b) Any involvement the individual will have with the Assurance Team;

(c) The length of time since the individual was a member of the Assurance Team or partner of the Firm; and

(d) The former position of the individual within the Assurance Team or Firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or Those Charged with Governance.

In all cases the individual shall not continue to participate in the Firm's business or Professional Activities.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level.

Examples of such safeguards 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 individuals to the Assurance Team who have sufficient experience in relation to the individual who has joined the client; or
- Having a Member review the work of the former member of the Assurance Team.

291.128 If a former partner of the Firm has previously joined an entity in such a position and the entity subsequently becomes an Assurance Client of the Firm, the significance of any threats to Independence shall be evaluated and safeguards applied when necessary, to eliminate the threat or reduce it to an Acceptable Level.

291.129 A self-interest threat is created when a member of the Assurance Team participates in the Assurance Engagement while knowing that the member of the Assurance Team will, or may, join the client sometime in the future. Firm policies and procedures shall require members of an Assurance Team to notify the Firm when entering employment negotiations with the client. On receiving such notification, 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:

- Removing the individual from the Assurance Team; or
- A review of any significant judgements made by that individual while on the team.

Recent Service with an Assurance Client

291.130 Self-interest, self-review or familiarity threats may be created if a member of the Assurance Team has recently served as a Director, Officer, or employee of the Assurance Client. This would be the case when, for example, a member of the Assurance Team has to evaluate elements of the subject matter information the member of the Assurance Team had prepared while with the client.

291.131 If, during the period covered by the assurance report, a member of the Assurance Team had served as Director or Officer of the Assurance Client, or was an employee in a position to exert significant influence over the subject matter information of the Assurance Engagement, the threat created would be so significant that no safeguards could reduce the threat to an Acceptable Level. Consequently, such individuals shall not be assigned to the Assurance Team.

291.132 Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the Assurance Team had served as Director or Officer of the Assurance Client, or was an employee in a position to exert significant influence over the subject matter information of the Assurance Engagement. For example, such threats 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. The existence and significance of any threats will depend on factors such as:

- The position the individual held with the client;
- The length of time since the individual left the client; and
- The role of the professional on the Assurance Team.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an Acceptable Level. An example of such a safeguard is conducting a review of the work performed by the individual as part of the Assurance Team.

Serving as a Director or Officer of an Assurance Client

291.133 If a partner or employee of the Firm serves a Director or Officer of an Assurance Client, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an Acceptable Level. Accordingly, no partner or employee shall serve as a Director or Officer of an Assurance Client.

291.134 The position of Company Secretary has different implications in different jurisdictions. Duties may 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 regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

291.135 If a Partner or employee of the Firm serves as Company Secretary for an Assurance Client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an Acceptable Level. Despite paragraph 291.133, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an Acceptable Level.

291.136 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally create threats to Independence, as long as client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients

291.137 Familiarity and self-interest threats are created by using the same senior personnel on an Assurance Engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the Assurance Team;
- The role of the individual on the Assurance Team;
- The structure of the Firm;

- The nature of the Assurance Engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the subject matter information has changed.

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

- Rotating the senior personnel off the Assurance Team;
- Having a Member who was not a member of the Assurance Team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Provision of Non-assurance Services to Assurance Clients

291.138 Firms have traditionally provided to their Assurance Clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the Independence of the Firm or members of the Assurance Team. The threats created are most often self-review, self-interest and advocacy threats.

291.139 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

291.140 Before the Firm accepts an engagement to provide a non-assurance service to an Assurance Client, a determination shall be made as to whether providing such a service would create a threat to Independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the Assurance Team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an Acceptable Level by the application of safeguards the non-assurance service shall not be provided.

Management Responsibilities

291.141 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

291.142 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;

- Deciding which recommendations of the Firm or other third parties to implement; and
- Taking responsibility for designing, implementing and maintaining internal control.

291.143 Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an Assurance Client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

291.144 Assuming a management responsibility for an Assurance Client may create threats to Independence. If a Firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. Accordingly, in providing assurance services to an Assurance Client, a Firm shall not assume a management responsibility as part of the assurance service. If the Firm assumes a management responsibility as part of any other services provided to the Assurance Client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an Assurance Engagement provided by the Firm.

291.145 To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the Assurance Engagement, the Firm shall be satisfied that a member of management is responsible for making the significant judgements and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the Firm inadvertently making any significant judgements or decisions on behalf of management. This risk is further reduced when the Firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.

Other Considerations

291.146 Threats to Independence may be created when a Firm provides a non-assurance service related to the subject matter information of an Assurance Engagement. In such cases, an evaluation of the significance of the Firm's involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an Acceptable Level can be reduced to an Acceptable Level by the application of safeguards.

291.147 A self-review threat may be created if the Firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an Assurance Engagement. For example, a self-review threat would be created if the Firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the Firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level.

291.148 When a Firm performs a valuation that forms part of the subject matter information of an Assurance Engagement, the Firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level.

Fees

Fees—Relative Size

291.149 When the total fees from an Assurance Client represent a large proportion of the total fees of the Firm expressing the conclusion, 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 assurance judgements.

291.150 A self-interest or intimidation threat is also created when the fees generated from an Assurance Client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is having an additional Member who was not a member of the Assurance Team review the work or otherwise advise as necessary.

Fees—Overdue

291.151 A self-interest threat may be created if fees due from an Assurance Client remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the Firm is expected to require payment of such fees before any such report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. An example of such a safeguard is having another Member who did not take part in the Assurance Engagement provide advice or review the work performed. The Firm shall determine whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the Firm to be re-appointed or continue the Assurance Engagement.

Contingent Fees

291.152 Contingent Fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the Firm. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.

291.153 A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of an Assurance Engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an Acceptable Level. Accordingly, a Firm shall not enter into any such fee arrangement.

291.154 A Contingent Fee charged directly or indirectly, for example through an intermediary, by a Firm in respect of a non-assurance service provided to an Assurance Client may also create a self-interest threat. 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, no safeguards could reduce the threat to an Acceptable Level. Accordingly, such arrangements shall not be accepted.

291.155 For other Contingent Fee arrangements charged by a Firm for a non-assurance service to an Assurance Client, the existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the Contingent Fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the subject matter information.

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

- Having a Member review the relevant assurance work or otherwise advise as necessary; or
- Using professionals who are not members of the Assurance Team to perform the non-assurance service.

Gifts and Hospitality

291.156 Accepting gifts or hospitality from an Assurance Client may create self-interest and familiarity threats. If a Firm or a member of the Assurance Team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level. Consequently, a Firm or a member of the Assurance Team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

291.157 When litigation takes place, or appears likely, between the Firm or a member of the Assurance Team and the Assurance Client, self-interest and intimidation threats are

created. The relationship between client management and the members of the Assurance Team must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the Firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior Assurance Engagement.

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

- If the litigation involves a member of the Assurance Team, removing that individual from the Assurance Team; or
- Having a professional review the work performed.

If such safeguards do not reduce the threats to an Acceptable Level, the only appropriate action is to withdraw from, or decline, the Assurance Engagement.

Interpretation 2005-01 (Revised July 2009 to conform to changes resulting from the IESBA's project to improve the clarity of the Code)

Application of Section 291 to Assurance Engagements that are not Financial Statement Audit Engagements

This interpretation provides guidance on the application of the Independence requirements contained in Section 291 to Assurance Engagements that are not Financial Statement Audit Engagements.

This interpretation focuses on the application issues that are particular to Assurance Engagements that are not Financial Statement Audit Engagements. There are other matters noted in Section 291 that are relevant in the consideration of Independence requirements for all Assurance Engagements. For example, paragraph 291.3 states that an evaluation shall be made of any threats the Firm has reason to believe are created by a Network Firm's interests and relationships. It also states that when the Assurance Team has reason to believe that a Related Entity of such an Assurance Client is relevant to the evaluation of the Firm's Independence of the client, the Assurance Team shall include the Related Entity when evaluating threats to Independence and when necessary applying safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, in an Assurance Engagement, the Member in Public Practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assertion-based Assurance Engagements

In an assertion-based Assurance Engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based Assurance Engagement Independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based Assurance Engagements where the responsible party is responsible for the subject matter information but not the subject matter, Independence is required from the responsible party. In addition, an evaluation shall be made of any threats the Firm has reason to believe are created by interests and relationships between a member of the Assurance Team, the Firm, a Network Firm and the party responsible for the subject matter.

Direct reporting Assurance Engagements

In a direct reporting Assurance Engagement, the Member in Public Practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting Assurance Engagement Independence is required from the responsible party, which is responsible for the subject matter.

Multiple Responsible Parties

In both assertion-based Assurance Engagements and direct reporting Assurance Engagements there may be several responsible parties. For example, a public accountant in Public Practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based Assurance Engagement where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting Assurance Engagement, where there is no assertion and there may or may not be a written representation from the newspapers.

In such engagements, when determining whether it is necessary to apply the provisions in Section 291 to each responsible party, the Firm may take into account whether an interest or relationship between the Firm, or a member of the Assurance Team, and a particular responsible party would create a threat to Independence that is not trivial and inconsequential in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the Firm determines that the threat to Independence created by any such relationships with a particular responsible party would be trivial and inconsequential it may not be necessary to apply all of the provisions of this section to that responsible party.

Example

The following example has been developed to demonstrate the application of Section 291. It is assumed that the client is not also a Financial Statement Audit Client of the Firm, or a Network Firm.

A Firm is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the Member in Public Practice determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands of barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
Total	**104,301**

The engagement could be structured in differing ways:

Assertion-based engagements

A1 Each company measures its reserves and provides an assertion to the Firm and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the Firm and to intended users.

Direct reporting engagements

D1 Each company measures the reserves and provides the Firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

D2 The Firm directly measures the reserves of some of the companies.

Application of Approach

A1 Each company measures its reserves and provides an assertion to the Firm and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the Independence provisions to all of the companies, the Firm may take into account whether an interest or relationship with a particular company would create a threat to Independence that is not at an Acceptable Level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and

- The degree of public interest associated with the engagement. (Paragraph 291.28.)

For example Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the Independence requirements apply, the Assurance Team and the Firm are required to be independent of those responsible parties that would be considered to be the Assurance Client (paragraph 291.28).

A2 An entity other than the companies measures the reserves and provides an assertion to the Firm and to intended users.

The Firm shall be independent of the entity that measures the reserves and provides an assertion to the Firm and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the Firm has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the Firm may take into account whether an interest or relationship with a particular company would create a threat to Independence that is not at an Acceptable Level.

D1 Each company provides the Firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the Independence provisions to all of the companies, the Firm may take into account whether an interest or relationship with a particular company would create a threat to Independence that is not at an Acceptable Level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28).

For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the Independence requirements apply, the Assurance Team and the Firm shall be independent of those responsible parties that would be considered to be the Assurance Client (paragraph 291.28).

D2 The Firm directly measures the reserves of some of the companies.

The application is the same as in example D1.

PART C—MEMBERS IN BUSINESS

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SECTION 300

Introduction

300.1 This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to Members in Business. This Part does not describe all of the circumstances and relationships that could be encountered by a Member in Business that create or may create threats to compliance with the fundamental principles. Therefore, the Member in Business is encouraged to be alert for such circumstances and relationships.

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

300.3 A Member in Business may be a salaried employee, a partner, Director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organisation. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the Member in Business.

300.4 A Member in Business has a responsibility to further the legitimate aims of the Member's employing organisation. This Code does not seek to hinder a Member in Business from properly fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles may be compromised.

300.5 A Member in Business may hold a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A Member in Business is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour.

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

300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances and relationships. Threats fall into one or more of the following categories:

(a) Self-interest;

(b) Self-review;

(c) Advocacy;

(d) Familiarity; and

(e) Intimidation.

These threats are discussed further in Part A of this Code.

300.8 Examples of circumstances that may create self-interest threats for a Member in Business include:

- Holding a Financial Interest in, or receiving a loan or guarantee from the employing organisation.
- Participating in incentive compensation arrangements offered by the employing organisation.
- Inappropriate personal use of corporate assets.
- Concern over employment security.
- Commercial pressure from outside the employing organisation.

300.9 An example of a circumstance that creates a self-review threat for a Member in Business is determining the appropriate accounting treatment for a business combination after performing the feasibility study that supported the acquisition decision.

300.10 When furthering the legitimate goals and objectives of their employing organisations, Members in Business may promote the organisation's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.

300.11 Examples of circumstances that may create familiarity threats for a Member in Business include:

- Being responsible for the employing organisation's financial reporting when an Immediate or Close Family member employed by the entity makes decisions that affect the entity's financial reporting.
- Long association with business contacts influencing business decisions.
- Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.

300.12 Examples of circumstances that may create intimidation threats for a Member in Business include:

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

300.13 Safeguards that may eliminate or reduce threats to an Acceptable Level fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and

(b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.14 of Part A of this Code.

300.14 Safeguards in the work environment include:

- The employing organisation's systems of corporate oversight or other oversight structures.
- The employing organisation's ethics and conduct programs.
- Recruitment procedures in the employing organisation emphasising the importance of employing high calibre competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organisation any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate Member.

300.15 In circumstances where a Member in Business believes that unethical behaviour or actions by others will continue to occur within the employing organisation, the Member in Business may consider obtaining legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an Acceptable Level, a Member in Business may conclude that it is appropriate to resign from the employing organisation.

SECTION 310

Conflicts of Interest

310.1 A Member in Business may be faced with a conflict of interest when undertaking a Professional Activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The 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
- The interests of the 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 may include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.

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

310.2 Examples of situations in which conflicts of interest may arise include:

- Serving in a management or governance position for two employing organisations and acquiring confidential information from one employing organisation that could be used by the Member to the advantage or disadvantage of the other employing organisation.
- Undertaking a Professional Activity for each of two parties in a partnership employing the Member to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the entity employing the Member who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the accountant's employing organisation when an Immediate Family member of the Member could 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 specific investments will increase the value of the personal investment portfolio of the Member or an Immediate Family member.

310.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an Acceptable Level, a Member in Business shall exercise professional judgement and be alert to all interests and relationships that a reasonable and informed third party, weighing all the specific facts and circumstances available to the Member at the time, would be likely to conclude might compromise compliance with the fundamental principles.

310.4 When addressing a conflict of interest, a Member in Business 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 disclosures or sharing information within the employing organisation and seeking guidance of third parties, the Member shall remain alert to the fundamental principle of confidentiality.

310.5 If the threat created by a conflict of interest is not at an Acceptable Level, the Member in Business shall apply safeguards to eliminate the threat or reduce it to an Acceptable Level. If safeguards cannot reduce the threat to an Acceptable Level, the Member shall decline to undertake or discontinue the Professional Activity that would result in the conflict of interest; or shall terminate the relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an Acceptable Level.

310.6 In identifying whether a conflict of interest exists or may be created, a Member in Business shall take reasonable steps to determine:

- The nature of the relevant interests and relationships between the parties involved; and
- The nature of the activity and its implication for relevant parties.

The nature of the activities and the relevant interests and relationships may change over time. The Member shall remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

310.7 If a conflict of interest is identified, the Member in Business shall evaluate:

- The significance of relevant interests or relationships; and
- The significance of the threats created by undertaking the Professional Activity or activities. In general, the more direct the connection between the Professional Activity and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be.

310.8 The Member in Business shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an Acceptable Level. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following safeguards may be appropriate:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.
- Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.
- Consulting with third parties, such as a professional body, legal counsel or another Member.

310.9 In addition, it is generally necessary to disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organisation and, when safeguards are required to reduce the threat to an Acceptable Level, to obtain their consent to the Member in Business undertaking the Professional Activity. In certain circumstances, consent may be implied by a party's conduct where the Member has sufficient evidence to conclude that 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.

310.10 When disclosure is verbal, or consent is verbal or implied, the Member in Business is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an Acceptable Level and the consent obtained.

310.11 A Member in Business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organisation or financial, business or personal relationships that Close or Immediate Family members of the Member have with the employing organisation. Guidance on managing such threats is covered by Sections 320 and 340 of the Code.

SECTION 320

Preparation and Reporting of Information

320.1 Members in Business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organisation. Such information may include financial or management information, for example, forecasts and budgets, Financial Statements, management's discussion and analysis, and the management letter of representation provided to the auditors during the audit of the entity's Financial Statements. A Member in Business shall prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.

320.2 A Member in Business who has responsibility for the preparation or approval of the general purpose Financial Statements of an employing organisation shall be satisfied that those Financial Statements are presented in accordance with the applicable financial reporting standards.

AUST320.2.1 Where a Member in Business referred to in paragraph 320.2 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.

320.3 A Member in Business shall take reasonable steps to maintain information for which the Member in Business is responsible in a manner that:

(a) Describes clearly the true nature of business transactions, assets, or liabilities;

(b) Classifies and records information in a timely and proper manner; and

(c) Represents the facts accurately and completely in all material respects.

320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to integrity, objectivity or professional competence and due care, are created where a Member in Business is pressured (either externally or by the possibility of personal gain) to prepare or report information in a misleading way or to become associated with misleading information through the actions of others.

320.5 The significance of such threats will depend on factors such as the source of the pressure and the corporate culture within the employing organisation. The Member in Business shall be alert to the principle of integrity, which imposes an obligation on all Members to be straightforward and honest in all professional and business relationships. Where the threats arise from compensation and incentive arrangements, the guidance in section 340 is relevant.

320.6 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Such safeguards include consultation with superiors within the employing organisation, the audit committee or Those Charged with Governance of the organisation, or with a relevant professional body.

320.7 Where it is not possible to reduce the threat to an Acceptable Level, a Member in Business shall refuse to be or remain associated with information the Member determines is misleading. A Member in Business may have been unknowingly associated with misleading information. Upon becoming aware of this, the Member in Business shall take steps to be disassociated from that information. In determining whether there is a requirement to report the circumstances outside the organisation, the Member in Business may consider obtaining legal advice. In addition, the Member may consider whether to resign.

SECTION 330

Acting with Sufficient Expertise

330.1 The fundamental principle of professional competence and due care requires that a Member in Business only undertake significant tasks for which the Member in Business has, or can obtain, sufficient specific training or experience. A Member in Business shall not intentionally mislead an employer as to the level of expertise or experience possessed, nor shall a Member in Business fail to seek appropriate expert advice and assistance when required.

330.2 Circumstances that create a threat to a Member in Business performing duties with the appropriate degree of professional competence and due care include having:

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

330.3 The significance of the threat will depend on factors such as the extent to which the Member in Business is working with others, relative seniority in the business, and the level of supervision and review applied to the work. 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:

- Obtaining additional advice or training.
- Ensuring that there is adequate time available for performing the relevant duties.
- Obtaining assistance from someone with the necessary expertise.
- Consulting, where appropriate, with:
    - Superiors within the employing organisation;
    - Independent experts; or
    - A relevant professional body.

330.4 When threats cannot be eliminated or reduced to an Acceptable Level, Members in Business shall determine whether to refuse to perform the duties in question. If the Member in Business determines that refusal is appropriate, the reasons for doing so shall be clearly communicated.

SECTION 340

Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making

340.1 Members in Business may have Financial Interests, including those arising from compensation or incentive arrangements, or may know of Financial Interests of Immediate or Close Family members, that, in certain circumstances, may create threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include situations where the Member in Business or an Immediate or Close Family member:

- Holds a Direct or Indirect Financial Interest in the employing organisation and the value of that Financial Interest could be directly affected by decisions made by the Member in Business.
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the Member in Business.
- Holds, directly or indirectly, deferred bonus share entitlements or share options in the employing organisation, the value of which could be directly affected by decisions made by the Member in Business.
- Otherwise participates in compensation arrangements which provide incentives to achieve performance targets or to support efforts to maximize the value of the employing organisation's shares, for example, through participation in long-term incentive plans which are linked to certain performance conditions being met.

340.2 Self-interest threats arising from compensation or incentive arrangements may be further compounded by pressure from superiors or peers in the employing organisation who participate in the same arrangements. For example, such arrangements often entitle participants to be awarded shares in the employing organisation at little or no cost to the employee provided certain performance criteria are met. In some cases, the value of the shares awarded may be significantly greater than the base salary of the Member in Business.

340.3 A Member in Business shall not manipulate information or use confidential information for personal gain or for the financial gain of others. The more senior the position that the Member in Business holds, the greater the ability and opportunity to influence financial reporting and decision making and the greater the pressure there might be from superiors and peers to manipulate information. In such situations, the Member in Business shall be particularly alert to the principle of integrity, which imposes an obligation on all Members to be straightforward and honest in all professional and business relationships.

340.4 The significance of any threat created by Financial Interests, shall be evaluated and safeguards applied, when necessary, to eliminate the threat or reduce it to an Acceptable Level. In evaluating the significance of any threat, and, when necessary, determining the appropriate safeguards to be applied, a Member in Business shall evaluate the nature of the interest. This includes evaluating the significance of the

interest. What constitutes a significant interest will depend on personal circumstances. Examples of such safeguards include:

- Policies and procedures for a committee independent of management to determine the level or form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to exercise entitlements or trade in relevant shares, to those charged with the governance of the employing organisation, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organisation.
- Consultation, where appropriate, with those charged with the governance of the employing organisation or relevant professional bodies.
- Internal and external audit procedures.
- Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.

SECTION 350

Inducements

Receiving Offers

350.1 A Member in Business or an Immediate or Close Family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment, and inappropriate appeals to friendship or loyalty.

350.2 Offers of inducements may create threats to compliance with the fundamental principles. When a Member in Business or an Immediate or Close Family member is offered an inducement, the situation shall be evaluated. Self-interest threats to objectivity or confidentiality are created when an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behaviour, or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the Member in Business or an Immediate or Close Family member.

350.3 The existence and significance of any threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, weighing all the specific facts and circumstances, would consider the inducement insignificant and not intended to encourage unethical behaviour, then a Member in Business may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.

350.4 The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate them or reduce them to an Acceptable Level. When the threats cannot be eliminated or reduced to an Acceptable Level through the application of safeguards, a Member in Business shall not accept the inducement.

As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards shall be adopted. A Member in Business shall evaluate any threats created by such offers and determine whether to take one or more of the following actions:

(a) Informing higher levels of management or Those Charged with Governance of the employing organisation immediately when such offers have been made;

(b) Informing third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a Member in Business may however, consider seeking legal advice before taking such a step; and

(c) Advising Immediate or Close Family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example, as a result of their employment situation; and

(d) Informing higher levels of management or Those Charged with Governance of the employing organisation where Immediate or Close Family members are employed by competitors or potential suppliers of that organisation.

Making Offers

350.5 A Member in Business may be in a situation where the Member in Business is expected, or is under other pressure, to offer inducements to influence the judgement or decision-making process of an individual or organisation, or obtain confidential information.

350.6 Such pressure may come from within the employing organisation, for example, from a colleague or superior. It may also come from an external individual or organisation suggesting actions or business decisions that would be advantageous to the employing organisation, possibly influencing the Member in Business improperly.

350.7 A Member in Business shall not offer an inducement to improperly influence professional judgement of a third party.

350.8 Where the pressure to offer an unethical inducement comes from within the employing organisation, the Member shall follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

Public Interest Entities

1. Section 290 of the Code contains additional Independence provisions when the Audit or Review Client is a Public Interest Entity. The additional provisions that are applicable because of the new definition of a Public Interest Entity and the requirements in paragraph 290.26 are effective on January 1, 2013. For partner rotation requirements, the transitional provisions contained in paragraphs 2 and 3 below apply.

Partner Rotation

2. For a partner who is subject to the rotation provisions in paragraph 290.149 because the partner meets the definition of the new term "Key Audit Partner," and the partner is neither the Engagement Partner nor the individual responsible for the Engagement Quality Control Review, the rotation provisions are effective for the Audits or Reviews of Financial Statements for years beginning on or after January 1, 2013. For example, in the case of an Audit Client with a calendar year-end, a Key Audit Partner, who is neither the Engagement Partner nor the individual responsible for the Engagement Quality Control Review, who had served as a Key Audit Partner for seven or more years (i.e., the audits of 2005 – 2011), would be required to rotate after serving for one more year as a Key Audit Partner (i.e., after completing the 2012 audit).

3. For an Engagement Partner or an individual responsible for the Engagement Quality Control Review who immediately prior to assuming either of these roles served in another Key Audit Partner role for the client, and who, at the beginning of the first fiscal year beginning on or after January 1, 2012, had served as the Engagement Partner or individual responsible for the Engagement Quality Control Review for six or fewer years, the rotation provisions are effective for the audits or reviews of Financial Statements for years beginning on or after January 1, 2013. For example, in the case of an Audit Client with a calendar year-end, a partner who had served the client in another Key Audit Partner role for four years (i.e., the audits of 2003-2006) and subsequently as the Engagement Partner for five years (i.e., the audits of 2007-2011) would be required to rotate after serving for one more year as the Engagement Partner (i.e., after completing the 2012 audit).

Non-assurance services

4. Paragraphs 290.154-290.216 address the provision of non-assurance services to an Audit or Review Client. If, at the effective date of the Code, services are being provided to an Audit or Review Client and the services were permissible under the June 2006 Code (revised February 2008) but are either prohibited or subject to restrictions under the revised Code, the Firm may continue providing such services only if they were contracted for and commenced prior to July 1, 2012, and are completed before January 1, 2013.

Fees – Relative Size

5. Paragraph 290.219 provides that, in respect of an Audit or Review Client that is a Public Interest Entity, when the total fees from that client and its related entities (subject to the considerations in paragraph 290.27) for two consecutive years represent more than 15% of the total fees of the Firm expressing the opinion on the Financial Statements, a pre- or post-issuance review (as described in paragraph 290.219) of the second year's audit shall be performed. This requirement is effective for Audits or Reviews of Financial Statements covering years that begin on or after January 1, 2012. For example, in the case of an Audit Client with a calendar year end, if the total fees from the client exceeded the 15% threshold for 2012 and 2013, the pre- or post-issuance review would be applied with respect to the audit of the 2013 Financial Statements.

Compensation and Evaluation Policies

6. Paragraph 290.226 provides that a Key Audit Partner shall not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's Audit Client. This requirement is effective on January 1, 2013. A Key Audit Partner may, however, receive compensation after January 1, 2013 based on an evaluation made prior to January 1, 2013 of that partner's success in selling non-assurance services to the Audit Client.

CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

APES 110 and the IESBA Code

APES 110 incorporates the *Code of Ethics for Professional Accountants* (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in July 2009 and as amended.

Compliance with the IESBA Code

The principles and requirements of APES 110 and the IESBA Code are consistent except for the following:

- The addition of a Scope and Application section in APES 110;
- The addition of paragraphs and definitions prefixed as AUST in APES 110. The additional definitions are of AASB, Administration, AuASB, AUASB, Auditing and Assurance Standards, Australian Accounting Standards and Member;
- APES 110 generally refers to Members whereas the IESBA Code refers to professional accountants;
- Defined terms are in title case in APES 110;
- 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* (November 2013);
- APES 110 tailors the following IESBA defined terms to the Australian environment: Audit Engagement, Engagement Team, Financial Statements, Firm, Member in Public Practice, and Review Engagement;
- Paragraph 290.25 of APES 110 expresses Public Interest Entity in the singular form consistent with its definition in section 2;
- Paragraph 290.26 in APES 110 mandates Firms to determine whether additional entities are Public Interest Entities and the reference to member bodies has been removed; and
- Unless strict requirements are met, APES 110 prohibits Members in Public Practice from providing accounting and bookkeeping services and preparing tax calculations for Audit Clients which are Public Interest Entities, even in emergency situations (refer paragraphs 290.169 – 290.170 and 290.182).