

**APESB**

Accounting  
Professional and  
Ethical Standards Board

**Basis for Conclusions: Amendments to Auditor  
Independence Requirements in Section 290:  
Independence – Assurance Engagements of APES  
110 Code of Ethics for Professional Accountants**

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

## **BASIS FOR CONCLUSIONS:**

### **Amendments to Auditor Independence Requirements in Section 290: Independence - Assurance Engagements of APES 110 Code of Ethics for Professional Accountants**

This basis for conclusions has been prepared by technical staff of the Accounting Professional & Ethical Standards Board (“APESB”). This document has been reviewed and approved by the Board of Directors of APESB and is provided to assist stakeholders understand the background to the Amendments to Auditor Independence Requirements in Section 290: Independence - Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants*.

The basis for conclusions **does not** form part of Amendments to Auditor Independence Requirements in Section 290: Independence – Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants* and is not a substitute for reading the standard.

### **Background**

APESB has amended those paragraphs that relate to auditor independence in Section 290: Independence – Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants* (“the Code”) to bring it into line with the Corporations Act amendments enacted in the *Simplified Regulatory System (SRS)* legislation of June 2007.

Previously these paragraphs were aligned with the *Corporations Act* provisions dealing with auditor independence that existed at the time. As a result, the paragraphs differed from the IFAC Code issued by the International Ethics Standards Board for Accountants (IESBA). However, the amendments to the SRS legislation noted above mean that these paragraphs no longer need to conflict with the international requirements and the tailoring previously required for the Australian environment has now been revised. This means that the Australian requirements now conform more closely to the IFAC Code.

### Main changes introduced in the revised Section 290

The following key changes have been adopted in relation to auditor independence:

- Removal of the “all partners” rule on financial investments in audit clients. The restrictions will now only apply to all partners (or their immediate family) in the office in which the engagement partner practises; to any partners and managerial employees (or their immediate family) who provide non-assurance services to the audit client; and to those persons (or their immediate family) in a position to influence the outcome of the audit.
- Amendment of the 2 year cooling off period for a former partner of the firm. The safeguard of two years since departure from the firm has been

replaced with two years since the date of the last audit report in which the individual was a member of the audit team.

- Introduction of a five-year limitation on the multiple former partner rule.

These changes ensure alignment of the Australian Code with the International Code of Ethics as well as the Corporations Act.

APESB issued an exposure draft of the proposed amendments to Auditor Independence Requirements in Section 290: Independence – Assurance Engagements, in December 2007, with a comment deadline of 18 January 2008. The APESB received comment letters from the professional bodies and four professional firms.

### **Respondents' comments**

There were no significant issues or concerns raised by respondents. The consensus view was that the revision would appropriately align the Code with the *IFAC Code of Ethics for Professional Accountants* and the *Corporations Act 2001*, as amended by the *Corporations Legislations Amendment (Simpler Regulatory System) Act*. The respondents further stated that the convergence of national and international auditor independence requirements will eliminate inconsistencies and prevent confusion for practitioners in Australia.

There was overwhelming support for the exposure draft, with most respondents highlighting the need for the amendments to be operative at the earliest possible date and welcoming the proposed effective date of 15 February 2008.