



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

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Section 290 Independence—Assurance Engagements

[Paragraphs 290.1 – 290.116 of extant Section 290 remain unchanged]

290.117 If other Partners, including Partners who do not perform Assurance Engagements, or their Immediate Family, in the Office in which the Engagement Partner practices in connection with the audit, hold a Direct Financial Interest, or a material Indirect Financial Interest, in that Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level.

Accordingly, such Partners or their Immediate Family should not hold any such Financial Interests in such an Audit Client.

290.118 The Office in which the Engagement Partner practices in connection with the audit 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 Assurance Team, judgment should be used to determine in which Office the Partner practices in connection with that audit.

290.119 If other Partners and Managerial Employees who provide non-assurance services to the Audit Client, except those whose involvement is Clearly Insignificant, or their Immediate Family, hold a Direct Financial Interest or a material Indirect Financial Interest in the Audit Client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their Immediate Family should not hold any such financial interests in such an Audit Client.

290.120 A Financial Interest in an Audit Client that is held by (a) an Immediate Family member of a Partner located in the Office in which the Lead Engagement Partner practises in connection with the audit, or (b) an Immediate Family member of a Partner or Managerial Employee who provides non-assurance services to the Audit Client, is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g. superannuation plan rights or share options) and, where necessary, appropriate safeguards are applied to reduce any threat to Independence to an acceptable level.

[Paragraphs 290.121 – 290.143 of extant Section 290 remain unchanged]

290.144 If a member of the Assurance Team, Partner or former Partner of the Firm has joined the Assurance Client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) The position the individual has taken at the Assurance Client;
- (b) The amount of any involvement the individual will have with the Assurance Team;
- (c) The length of time that has passed since the individual was a member of the Assurance Team or Firm; and
- (d) The former position of the individual within the Assurance Team or Firm.

The significance of the threat should be evaluated and, if the threat is other than Clearly Insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the Assurance Engagement;
- Assigning an Assurance Team to the subsequent Assurance Engagement that is of sufficient experience in relation to the individual who has joined the Assurance Client;
- Involving an additional professional accountant who was not a member of the Assurance Team to review the work done or otherwise advise as necessary; or
- Quality control review of the Assurance Engagement.

In all cases all of the following safeguards are necessary to reduce the threat to an acceptable level:

- the individual concerned does not influence the operations or financial policies of the accounting and audit practice conducted by the Firm; and
- the individual does not participate, or appear to participate, in the business or professional activities of the accounting and audit practice conducted by the Firm; and

- the individual does not have any rights against the Firm, or the members of the Firm, in relation to the accounting and audit practice conducted by the Firm in relation to the termination of, or the value of, the individual's former partnership interest in the Firm; and
- the individual has no financial arrangements with the Firm in relation to the accounting and audit practice conducted by the Firm, other than:
 - an arrangement providing for regular payments of a fixed pre-determined dollar amount which is not dependent, directly or indirectly, on the revenues, profits or earnings of the Firm; or
 - an arrangement providing for regular payments of a dollar amount where the method of calculating the dollar amount is fixed and is not dependent, directly or indirectly, on the revenues, profits or earnings of the Firm; and
- without limiting the above, the individual has no financial arrangement with the Firm to receive a commission or similar payment in relation to business generated by the individual for the accounting and audit practice conducted by the Firm; and
- where a former Partner of the Firm, who was directly involved in the audit, has become an Officer or Director of an Audit Client, at least two years has elapsed since the date of the last annual or half-year audit report in respect of which the individual was a member of the Audit Team.

290.145 A self-interest threat is created when a member of the Assurance Team participates in the Assurance Engagement while knowing, or having reason to believe, that he or she is to, or may, join the Assurance Client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) Policies and procedures to require the individual to notify the Firm when entering serious employment negotiations with the Assurance Client.
- (b) Removal of the individual from the Assurance Engagement.

In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the Engagement.

AUST290.145.1

If a former Partner of the Firm:

- (a) becomes an Officer or Director of a corporate Audit Client, that is not a small proprietary company, within a period of five years after the individual ceased (or last ceased) to be a Partner of the Firm ; and
- (b) at the same time another former Partner of the Firm, who was a Partner of the Firm at the time when the Firm undertook an audit of the corporate Audit Client, is an Officer or Director of the corporate Audit Client;

the threat created would be so significant no safeguard could reduce the threat to an acceptable level.

This provision applies to a former Partner only if the former Partner was at 1 July 2004, or became after that date a Partner of the audit Firm and becomes an Officer or Director of the corporate Audit Client concerned on or after 1 July 2004.

[Paragraphs 290.146 – End of Section 290 remain unchanged]