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APESB	Accounting Professional and Ethical Standards Board
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Basis for Conclusions: Amendment to Network Firms in Section 290: Independence – Assurance Engagements of APES 110 Code of Ethics for Professional Accountants

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

Amendment to Network Firms in Section 290: Independence – Assurance Engagements of APES 110 Code of Ethics for Professional Accountants

BASIS FOR CONCLUSIONS:

Amendment to Network Firms 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 Accounting Professional & Ethical Standards Board (“APESB”). This document has been reviewed and approved by the Board of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of the standard. However, the basis for conclusions **does not** form part of Amendment to Network Firms in Section 290: Independence – Assurance Engagements of APES 110 Code of Ethics for Professional Accountants (“the Code”) and is not a substitute for reading the standard.

Background

APESB proposes to amend the guidance in respect of Network Firms in Section 290: Independence – Assurance Engagements of APES 110: Code of Ethics for Professional Accountants (“the Code”) in line with the international amendments incorporated in the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants (IESBA).

According to the requirements of the Code, network firms are required to be independent of financial statement audit clients of other firms within the network. With respect to other assurance engagements, the Code states that consideration should be given to any threats to independence that a firm has reason to believe may be created by network firm interests and relationships.

The Code is mandatory for members of the professional accounting bodies in Australia. The international amendments noted above provide guidance on when a firm will be considered to be part of a Network.

In summary a firm will be considered to be part of a Network when there is a **larger structure aimed at co-operation and** one or more of the following facts and circumstances apply:

- profit or cost sharing among the entities;
- share common ownership, control or management;
- common quality control policies and procedures;
- common business strategy;
- use of common brand name; or
- sharing of a significant part of professional resources.

Amendment to Network Firms in Section 290: Independence – Assurance Engagements of APES 110 Code of Ethics for Professional Accountants

APESB issued an exposure draft of the proposed amendment to Network Firms in Section 290: Independence, in May 2007, with a comment deadline of August 31, 2007. The APESB received submissions from the professional bodies and a big four audit firm. In response to the comments received, APESB made some changes to the text of Network Firms in Section 290 of APES 110 Code of Ethics for Professional Accountants (the Code). The following summarises the more significant issues raised by respondents, and how the APESB addressed them.

Entities captured by the Firm Definition (Paragraph 290.14)

Entities such as trusts and other bodies are not captured by the current definition of “firm” in the Code. By incorporating a specific list of entities together with the phrase “or other entity of professional accountants” it is intended that structures such as trusts are captured.

One respondent also noted that in the definition of “firm”, the different components of the definition were joined by the word “and” which may have implied that **all** the conditions needed to be met. This was never the intention. Consequently APESB has changed “and” to “or” to signify that only one of the components need be satisfied to be considered a firm.

Stationery & Promotional Materials (Paragraph 290.23)

Reference to being a member of an association of firms in stationery and promotional material could suggest that a firm is a member of a network firm. When considering how a firm describes its membership of an association of firms, such firms may need to take into account the different limbs of the definition of a network.

To enhance clarity and assist in the identification of what is and what is not acceptable, one respondent recommended that provision of additional guidance be considered. The current wording is consistent with the final revised Section 290 Independence – Assurance Engagements, issued by IESBA in 2006 and APESB understands that the IESBA also considered this issue when it finalised its standard. APESB will continue to monitor this issue to ascertain whether additional Australian guidance is required in the future.