

# **APES 110 Code Prohibitions applicable to Auditors for all Audit and Review Engagements**

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## Introduction and purpose

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[APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) (APES 110) requires auditors and audit firms to be independent when undertaking audit and review engagements. Audit engagement teams in Australia specifically exclude individuals within the client's internal audit function, as direct assistance by the internal audit function to the external auditor is prohibited.

Auditors must apply the Conceptual Framework<sup>1</sup> in APES 110 to assess whether interests, relationships, actions or the provision of non-assurance services create threats to their independence. This process involves a rigorous analysis to identify, evaluate and address threats to independence, including using a reasonable and informed third party test. [Section 600](#) of APES 110 sets out the requirements and application material relevant to applying the conceptual framework when providing non-assurance services to audit clients, including the overarching prohibition on assuming management responsibility.

The analysis of threats to independence must consider the aggregate impact of multiple threats, such as where the provision of non-assurance services to an audit client creates more than one threat or the fees in respect of multiple audit clients referred from one source represents a large proportion of total fees for the firm. If threats to independence cannot be eliminated, and if safeguards are not available to reduce the threat to an acceptable level, the firm is required to decline or end the audit or review engagement.

Some situations will always create threats that cannot be reduced to an acceptable level. These situations are, therefore, prohibited explicitly in APES 110. These **prohibitions** are either strict prohibitions or prohibitions based on specific factors such as materiality of the relevant matter to the audit client's financial statements.

APES 110 imposes more extensive prohibitions for audit clients that are Public Interest Entities (PIEs).<sup>2</sup> The prohibitions have legal enforceability for audits and reviews performed under the [Corporations Act 2001](#) and also under the [Superannuation Industry \(Supervision\) Act 1993](#) and [Superannuation Industry \(Supervision\) Regulations 1994](#).

The following tables provide high-level summaries of APES 110 prohibitions relating to audit or review engagements (refer paragraph [400.2](#) of APES 110) and include references to relevant paragraphs in APES 110.

The summaries do not amend or override APES 110, the text of which alone is authoritative. Reading this summary is not a substitute for reading APES 110. Guidance is provided in the [Independence Guide Fifth Edition, May 2020](#), to illustrate the application of the provisions of APES 110 to various examples and scenarios.

There are also restrictions and prohibitions in legislation, such as the [Corporations Act 2001](#), in addition to the prohibitions summarised below.

<sup>1</sup> Refer to [Section 120](#) in APES 110 and [Chapter 4](#) of the Independence Guide Fifth Edition, May 2020.

<sup>2</sup> PIEs are defined in the [Glossary](#) and paragraphs [400.8](#) to [AUST 400.8.1 A1](#) of APES 110.

**Table 1: Summary of APES 110 Code prohibitions relating to providing Non-Assurance Services to Audit Clients**

Prohibited Non-Assurance Services	All Audit Clients		PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Prohibited based on Materiality <sup>3</sup>	Prohibited based on Materiality	Prohibited based on specific factors
Assuming management responsibility for a client ( <a href="#">R600.7</a> ). To avoid assuming management responsibility when providing any non-assurance service, the firm must be satisfied that client management makes all judgements and decisions that are the proper responsibility of management ( <a href="#">R600.8</a> ).	●			
Accounting and bookkeeping services, including preparing accounting records or financial statements ( <a href="#">R601.5</a> & <a href="#">R601.6</a> ) subject to limited exceptions	● <sup>4</sup>			
Serving as General Counsel ( <a href="#">R608.5</a> )	●			
Performing negotiations for a client as part of a recruiting service ( <a href="#">R609.6</a> )	●			
Recruiting services relating to positions as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements ( <a href="#">R609.7</a> ) <sup>5</sup>	●			
Promoting, dealing in or underwriting a client's shares ( <a href="#">R610.4</a> )	●			
Compensating or evaluating a key audit partner based on that partner's success in selling non-assurance services to their audit client ( <a href="#">R411.4</a> )	●			
Serving as a company secretary ( <a href="#">R523.4</a> & <a href="#">AUST R523.5</a> )	●			
Managing the administration of an insolvent client ( <a href="#">AUST R523.3.1</a> )	●			

<sup>3</sup> The concept of materiality is addressed in Australian Auditing Standard [ASA 320 Materiality in Planning and Performing an Audit](#). The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors and is also affected by perceptions of the financial information needs of users.

<sup>4</sup> For PIE audit clients, the provision of services of a routine or mechanical nature is allowed in limited circumstances for immaterial divisions or related entities (conditions as per paragraph [R601.7](#) of APES 110). Providing accounting and bookkeeping services to non-PIE audit clients is prohibited unless the services are of a routine or mechanical nature and if threats are reduced to an acceptable level. Routine or mechanical services require little or no professional judgement and where the client has been involved in the process (refer to paragraph [601.4 A1](#) of APES 110 for relevant examples).

<sup>5</sup> APES 110 includes specific matters that a firm must be satisfied that the client has taken management responsibility for when providing recruiting services for other positions that are not specifically prohibited (paragraph [R609.4](#)).

Prohibited Non-Assurance Services	All Audit Clients		PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Prohibited based on Materiality <sup>3</sup>	Prohibited based on Materiality	Prohibited based on specific factors
Tax planning or other tax advisory services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubts as to its appropriateness ( <a href="#">R604.8</a> )		●		
Acting as an advocate for a client in the resolution of tax disputes before a public tribunal or court ( <a href="#">R604.11</a> )		●		
Acting as an advocate for a client in resolving a dispute or litigation ( <a href="#">R608.6</a> )		●		
Corporate finance advisory services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubts as to its appropriateness ( <a href="#">R610.5</a> )		●		
Valuation services			● ( <a href="#">R603.5</a> )	● Materiality and a significant degree of subjectivity ( <a href="#">R603.4</a> )
Litigation support services involving estimating damages or other amounts that affect the financial statements			● ( <a href="#">607.3 A4</a> & <a href="#">R603.5</a> )	● Materiality and a significant degree of subjectivity ( <a href="#">607.3 A4</a> & <a href="#">R603.4</a> )
Calculating current and deferred tax liabilities (or assets)			● ( <a href="#">R604.6</a> )	● Conceptual Framework ( <a href="#">604.5 A1</a> to <a href="#">604.5 A3</a> ) <sup>6</sup>

<sup>6</sup> Although not strictly prohibited, the auditor needs to consider whether the applicable requirements and the conceptual framework prohibit the services.

Prohibited Non-Assurance Services	All Audit Clients		PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Prohibited based on Materiality <sup>3</sup>	Prohibited based on Materiality	Prohibited based on specific factors
Internal audit services <sup>7</sup> relating to a significant part of internal controls over financial reporting, financial accounting systems, or amounts/disclosures in the financial statements			● ( <a href="#">R605.5</a> )	● Conceptual Framework ( <a href="#">605.1</a> to <a href="#">605.4 A5</a> ) <sup>6</sup>
Designing or implementing IT systems <sup>8</sup> that are a significant part of internal controls over financial reporting or that generate information significant to accounting records or financial statements			● ( <a href="#">R606.5</a> )	● Conceptual Framework ( <a href="#">606.1</a> to <a href="#">606.4 A2</a> ) <sup>6</sup>

<sup>7</sup> A firm must be satisfied that the client has taken management responsibility for the internal audit services as specified in paragraph [R605.4](#) of APES 110.

<sup>8</sup> A firm must be satisfied that the client has taken management responsibility for the information technology systems services as specified in paragraph [R606.4](#) of APES 110.

**Table 2: Summary of APES 110 Code prohibitions relating to interests, relationships and actions for all Audit Clients**

Prohibited Interests, Relationships and Actions
Acting where a conflict of interest compromises professional or business judgement ( <a href="#">R310.4</a> )
Charging contingent fees for an audit engagement ( <a href="#">R410.10</a> )
Charging contingent fees for a non-assurance service provided to the audit client where the fees are material to the firm (or network firm) or the outcome of the service is dependent on a judgment related to a material amount in the financial statements ( <a href="#">R410.11</a> )
Commissions or similar benefits for assurance services ( <a href="#">AUST R330.5.2</a> )
Direct financial interest or material indirect financial interest in the client ( <a href="#">R510.4</a> )
Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity ( <a href="#">R510.6</a> )
Acting as a trustee where the trust holds a direct financial interest or material indirect financial interest in the client unless specific requirements are met ( <a href="#">R510.7</a> )
Financial interests held in common with a client in an entity where either of the financial interests is material and the client can exert significant influence over the entity ( <a href="#">R510.8</a> )
Loans, or guarantees for a loan, to the client that are material ( <a href="#">R511.4</a> )
Loans, or guarantees for a loan, from a client that is a bank or similar institution that are not made under normal lending procedures, terms and conditions ( <a href="#">R511.5</a> )
Deposits or brokerage accounts with a client that is a bank, broker or similar institution that are not under normal commercial terms ( <a href="#">R511.6</a> )
Material loans, or guarantees for a loan, from a client that is not a bank or similar institution ( <a href="#">R511.7</a> )
Close business relationships with a client that are significant or involve a material financial interest ( <a href="#">R520.4</a> )
Business relationships involving holding common interests in a closely-held entity with a client or a director or officer of the client, or any group thereof, if the business relationship is significant, any financial interest is material or the financial interest creates control over the closely-held entity ( <a href="#">R520.5</a> )
Participating in an audit team if an immediate family member (spouse (or equivalent) or dependent) is, or was during any period covered by the engagement or financial statements, a director or officer of the client or an employee able to exert significant influence over the client's accounting records or financial statements ( <a href="#">R521.5</a> )
Participating in an audit team if, during the period covered by the audit report, the individual served as a director or officer of the audit client or was an employee able to exert significant influence over the client's accounting records or financial statements ( <a href="#">R522.3</a> )
A partner or employee acting as a director or an officer of the client ( <a href="#">R523.3</a> ). A firm must refuse/withdraw from an audit if a partner or employee were to serve as an officer or a director of the client or as an employee able to exert direct and significant influence over the subject matter of an audit ( <a href="#">AUST R523.3.1</a> )
Significant connections between a firm and a former partner or audit team member who is now employed by an audit client as a director, officer or employee in a position to exert significant influence over the client's accounting records or financial statements ( <a href="#">R524.4</a> ) Key audit partners or senior or managing partners joining <b>PIE audit clients</b> as director, officer or an employee able to exert significant influence over accounting records or financial statements unless an applicable 'cooling-off' period has passed ( <a href="#">R524.6</a> & <a href="#">R524.7</a> ) <sup>9</sup>
Loan of personnel to the client unless specific requirements are met ( <a href="#">R525.4</a> )

<sup>9</sup> Subject to limited exceptions in relation to business combinations (paragraph [R524.8](#) of APES 110).

## Prohibited Interests, Relationships and Actions

Individuals who are serving a cooling-off period due to long association ([540.1](#) to [R540.4](#)) are prohibited from:

- Being a member of the engagement team for the audit engagement;
- Providing quality control for the audit engagement; or
- Exerting direct influence on the outcome of the audit engagement.

This requirement is stricter for **PIE audit clients** with specified cooling-off periods<sup>10</sup> for engagement partner, engagement quality control reviewer or other key audit partners after serving a maximum length of time on the audit engagement ([R540.5](#) to [AUST R540.19.1](#)). In addition, key audit partners who are serving a cooling-off period due to long association ([R540.20](#)) are prohibited from:

- Being on the audit engagement team;
- Providing quality control on the audit engagement;
- Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement;
- Leading or coordinating the professional services provided to that client;
- Overseeing the relationship with the client; or
- Undertaking any other role or activity (including providing non-assurance services) involving frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement

Gifts and hospitality from the client where the value is not trivial and inconsequential ([R420.3](#))

Offering or accepting, or encouraging others to offer or accept, inducements that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual ([R340.7](#) & [R340.8](#))

<sup>10</sup> Refer to the APESB publication [Audit Partner rotation requirements in Australia Technical Staff Questions & Answers \(2019\)](#) for further details of these prohibitions.

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