

# Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Prepared and issued by  
Accounting Professional & Ethical Standards Board Limited

**EXPOSURE DRAFT**      **02/21**  
**ISSUED:**                      **March 2021**

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## Commenting on this Exposure Draft

This Exposure Draft, *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*, was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 14 May 2021.**

Comments should be addressed to:

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APESB would prefer that respondents express a clear overall opinion on whether the proposed amendments, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed amendments.

Respondents are asked to submit their comments electronically through the APESB website, using the link <https://apesb.org.au/current-projects/>.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the APESB website, **[www.apesb.org.au](http://www.apesb.org.au)**.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties, comments can also be sent to [sub@apesb.org.au](mailto:sub@apesb.org.au) or mailed to the address noted above.

## Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: [www.apesb.org.au](http://www.apesb.org.au).

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## Reasons for issuing Exposure Draft 02/21

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to amend APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to incorporate changes made by the International Ethics Standards Board for Accountants (IESBA) to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code). These changes are aimed to provide guidance on the application of the conceptual framework in the Code when considering the objectivity of engagement quality reviewers and other appropriate reviewers.

## Key requirements and guidance in Exposure Draft 02/21

This Exposure Draft sets out proposed amendments to the current version of the Code. The proposed key changes are summarised below:

- Inclusion of a new section (Section 325) which provides guidance on identifying, evaluating and addressing threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an Engagement Quality Reviewer or an appropriate reviewer.
- A new requirement for an Engagement Partner of an audit client to undertake a two-year cooling-off period before assuming the role of engagement quality reviewer for the same audit client.
- Clarification on the interaction of the long association provisions in the Code with the requirement in [AUST R325.8.1/the proposed ASQM 2] for a Firm to establish a cooling-off period of two years before an Engagement Partner can assume the EQR role on the same engagement.
- Additional application material on familiarity threats related to appropriate reviewers.

## Proposed operative date

It is intended that the proposed amendments will be effective for engagements beginning on or after 1 January 2023.

Earlier adoption of these provisions will be permitted.

# Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Date

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# CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INDEPENDENCE STANDARDS)

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## SCOPE AND APPLICATION

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (**this Code**). This Code is operative from 1 January 2020 and supersedes APES 110 *Code of Ethics for Professional Accountants* (issued in December 2010 and subsequently amended in December 2011, May 2013, November 2013, May 2017 and April 2018). Earlier adoption of this Code is permitted. Transitional provisions relating to **Key Audit Partner** rotation, revisions to Part 4B, the role and mindset of **Members** and the objectivity of **Engagement Quality Reviewers** and other appropriate reviewers apply as specified in the respective transitional provisions on page 18.

## GLOSSARY

**Engagement Quality Review** An objective evaluation of the significant judgements made by the **Engagement Team** and the conclusions reached thereon, performed by the **Engagement Quality Reviewer** and completed before the date of the engagement report.

**Engagement Quality Reviewer** A partner, other individual in the **Firm**, or an external individual, appointed by the **Firm** to perform the **Engagement Quality Review**.

*[All other terms in the Glossary of the extant Code remain unchanged.]*

## PART 3 – MEMBERS IN PUBLIC PRACTICE

### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK - MEMBERS IN PUBLIC PRACTICE

##### Introduction

*[Paragraphs 300.1 to 300.3 of extant Section 300 remain unchanged.]*

##### Requirements and Application Material

###### General

*[Paragraphs R300.4 to 300.5 A1 of extant Section 300 remain unchanged.]*

###### Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a [Member in Public Practice](#) when undertaking a [Professional Service](#):

(a) Self-interest Threats:

- A [Member](#) having a [Direct Financial Interest](#) in a client.
- A [Member](#) quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the [Professional Service](#) in accordance with applicable technical and professional standards for that price.
- A [Member](#) having a close business relationship with a client.
- A [Member](#) having access to confidential information that might be used for personal gain.
- A [Member](#) discovering a significant error when evaluating the results of a previous [Professional Service](#) performed by a member of the [Member's Firm](#).

(b) Self-review Threats:

- A [Member](#) issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A [Member](#) having prepared the original data used to generate records that are the subject matter of the [Assurance Engagement](#).

(c) Advocacy Threats:

- A [Member](#) promoting the interests of, or shares in, a client.
- A [Member](#) acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A [Member](#) lobbying in favour of legislation on behalf of a client.

- (d) Familiarity Threats:
- A **Member** having a **Close** or **Immediate Family** member who is a **Director** or **Officer** of the client.
  - 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**.
  - An **Audit Team** member having a long association with the **Audit Client**.
  - An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.
- (e) Intimidation Threats:
- A **Member** being threatened with dismissal from a client engagement or the **Firm** because of a disagreement about a professional matter.
  - A **Member** feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
  - A **Member** being informed that a planned promotion will not occur unless the **Member** agrees with an inappropriate accounting treatment.
  - A **Member** having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

*[Paragraphs 300.7 A1 to 300.10 A1 of extant Section 300 remain unchanged.]*

## **SECTION 310**

### **CONFLICTS OF INTEREST**

*[Paragraphs 310.1 to R310.13 of extant Section 310 remain unchanged.]*

## **SECTION 320**

### **PROFESSIONAL APPOINTMENTS**

*[Paragraphs 320.1 to 320.10 A1 of extant Section 320 remain unchanged.]*

## **SECTION 321**

### **SECOND OPINIONS**

*[Paragraphs 321.1 to R321.4 of extant Section 321 remain unchanged.]*



## SECTION 325

### OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

#### Introduction

- 325.1 **Members in Public Practice** are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 325.2 Appointing an **Engagement Quality Reviewer** who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an **Engagement Quality Reviewer**.
- 325.4 An **Engagement Quality Reviewer** is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where a **Member** appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

#### Application Material

##### General

- 325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. [APES 320/proposed ASQM 1] establishes the **Firm's** responsibilities for its system of quality management and requires the **Firm** to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with [APES 320/proposed ASQM 2].
- 325.5 A2 An **Engagement Quality Reviewer** is a partner, other individual in the **Firm**, or an external individual, appointed by the **Firm** to perform the **Engagement Quality Review**.

##### Identifying Threats

- 325.6 A1 The following are examples of circumstances where threats to the objectivity of a **Member in Public Practice** appointed as an **Engagement Quality Reviewer** might be created:
- (a) Self-interest Threat:
- Two **Engagement Partners** each serving as an **Engagement Quality Reviewer** for the other's engagement.
- (b) Self-review Threat:
- A **Member** serving as an **Engagement Quality Reviewer** on an **Audit Engagement** after previously serving as the **Engagement Partner**.

- (c) Familiarity Threat:
- A **Member** serving as an **Engagement Quality Reviewer** has a close relationship with or is an **Immediate Family** member of another individual who is involved in the engagement.
- (d) Intimidation Threat:
- A **Member** serving as an **Engagement Quality Reviewer** for an engagement has a direct reporting line to the partner responsible for the engagement.

### Evaluating Threats

- 325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an **Engagement Quality Reviewer** include:
- The role and seniority of the individual.
  - The nature of the individual's relationship with others involved on the engagement.
  - The length of time the individual was previously involved with the engagement and the individual's role.
  - When the individual was last involved in the engagement prior to being appointed as **Engagement Quality Reviewer** and any subsequent relevant changes to the circumstances of the engagement.
  - The nature and complexity of issues that required significant judgement from the individual in any previous involvement in the engagement.

### Addressing Threats

- 325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the **Firm**.
- 325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an **Engagement Quality Reviewer**.

#### *Cooling-off Period*

#### **[Option 1 – retain IESBA original paragraphs]**

- 325.8 A3 **[APES 320/Proposed ASQM 2]** requires the Firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the **Engagement Partner** can assume the role of **Engagement Quality Reviewer**. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.
- 325.8 A4 The cooling-off period required by **[APES 320/Proposed ASQM 2]** is distinct from, and does not modify, the partner rotation requirements in Section 540, which are designed to address threats to **Independence** created by long association with an **Audit Client**.

**[Option 2 – add AUST provisions to clarify the IESBA proposed paragraphs]**

**AUST R325.8.1** If a **Member in Public Practice** was an **Engagement Partner** for an **Audit Client**, the **Member** shall not act in the role of an **Engagement Quality Reviewer** for that same **Audit Client** unless the **Member** has undertaken a two-year cooling-off period between finishing the role of **Engagement Partner** and commencing the role as the **Engagement Quality Reviewer**.

**AUST 325.8.1 A1** The requirement in paragraph AUST R325.8.1 aligns with the requirement in **[APES 320/Proposed ASQM 2]** for a **Firm** to establish policies and procedures that specify, as a condition for eligibility, a cooling-off period of two years before the **Engagement Partner** can assume the role of **Engagement Quality Reviewer**. The **Member in Public Practice** and the **Firm** will also need to comply with the overall **Key Audit Partner** rotation requirements in Section 540.

## PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

### SECTION 540

#### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

##### Introduction

*[Paragraphs 540.1 to 540.2 of extant Section 540 remain unchanged.]*

##### Requirements and Application Material

###### All Audit Clients

*[Paragraphs 540.3 A1 to R540.3 A6 of extant Section 540 remain unchanged.]*

**R540.4** If a **Firm** decides that the level of the threats created can only be addressed by rotating the individual off the **Audit Team**, the **Firm** shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the **Engagement Team** for the **Audit Engagement**;
- (b) Provide quality control for the **Audit Engagement**; or
- (c) Exert direct influence on the outcome of the **Audit Engagement**.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a **Public Interest Entity**, paragraphs R540.5 to R540.21 also apply.

*Audit Clients that are Public Interest Entities*

**R540.5** Subject to paragraphs R540.7 to R540.9, in respect of an audit of a **Public Interest Entity**, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years<sup>1</sup> (the “time-on” period):

- (a) The **Engagement Partner**;
- (b) The individual appointed as responsible for performing the **Engagement Quality Review**; or
- (c) Any other **Key Audit Partner** role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to AUST R540.20.1.

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<sup>1</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia.

- R540.6** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.
- 540.6 A1 For example, an individual who served as **Engagement Partner** for four years followed by three years off can only act thereafter as a **Key Audit Partner** on the same **Audit Engagement** for three further years (making a total of seven cumulative years<sup>2</sup>). Thereafter, that individual is required to cool off in accordance with paragraph R540.15.
- R540.7** As an exception to paragraph R540.5, **Key Audit Partners** whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the Firm's control, and with the concurrence of **Those Charged with Governance**, be permitted to serve an additional year as a **Key Audit Partner** as long as the threat to **Independence** can be eliminated or reduced to an **Acceptable Level**.
- 540.7 A1 For example, a **Key Audit Partner** may remain in that role 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**. In such circumstances, this will involve the Firm discussing with **Those Charged with Governance** the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.
- R540.8** If an **Audit Client** becomes a **Public Interest Entity**, a Firm shall take into account the length of time<sup>3</sup> an individual has served the **Audit Client** as a **Key Audit Partner** before the client becomes a **Public Interest Entity** in determining the timing of the rotation. If the individual has served the **Audit Client** as a **Key Audit Partner** for a period of five cumulative 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. As an exception to paragraph R540.5, if the individual has served the **Audit Client** as a **Key Audit Partner** for a period of six or more cumulative years when the client becomes a **Public Interest Entity**, the individual may continue to serve in that capacity with the concurrence of **Those Charged with Governance** for a maximum of two additional years before rotating off the engagement.

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<sup>2</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia.

<sup>3</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia. The *Corporations Act 2001* restricts the number of years that an **Engagement Partner** can serve a listed **Audit Client** (which includes all the years served by the **Engagement Partner** on that entity).

**R540.9** 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** might not be possible. As an exception to paragraph R540.5, if an independent regulatory body<sup>4</sup> 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 exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the **Key Audit Partner** may be exempted from rotation or a regular independent external review.

#### Other Considerations Relating to the Time-on Period

**R540.10** In evaluating the threats created by an individual's long association with an **Audit Engagement**, a **Firm** shall give particular consideration to the roles undertaken and the length of an individual's association with the **Audit Engagement** prior to the individual becoming a **Key Audit Partner**.

540.10 A1 There might be situations where the **Firm**, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a **Key Audit Partner** to continue in that role even though the length of time served as a **Key Audit Partner** is less than seven years.

#### Cooling-off Period

**R540.11** If the individual acted as the **Engagement Partner** for seven cumulative years,<sup>5</sup> the cooling-off period shall be five consecutive years.

**R540.12** Where the individual has been appointed as responsible for the **Engagement Quality Review** and has acted in that capacity for seven cumulative years,<sup>6</sup> the cooling-off period shall be three consecutive years.

**R540.13** If the individual has acted as a **Key Audit Partner** other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by [APES 320/proposed ASQM 2] as a condition for eligibility before the **Engagement Partner** can assume the role of **Engagement Quality Reviewer** (see paragraph 325.8A4).

#### Service in a combination of Key Audit Partner roles

**R540.15** If the individual acted in a combination of **Key Audit Partner** roles and served as the **Engagement Partner** for four or more cumulative years, the cooling-off period shall be five consecutive years.

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<sup>4</sup> Refer to s342A of the *Corporations Act 2001* which specifies that the Australian Securities and Investment Commission may grant extensions.

<sup>5</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia.

<sup>6</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia.

**R540.16** Subject to paragraph R540.17(a), if the individual acted in a combination of **Key Audit Partner** roles and served as the **Key Audit Partner** responsible for the **Engagement Quality Review** for four or more cumulative years, the cooling-off period shall be three consecutive years.

**[Option 2 – add cross-reference to AUST provision]**

**R540.17** If an individual has acted in a combination of **Engagement Partner** and **Engagement Quality Review** roles<sup>7</sup> for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.16, be five consecutive years where the individual has been the **Engagement Partner** for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.18** If the individual acted in any combination of **Key Audit Partner** roles other than those addressed in paragraphs R540.15 to R540.17, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

*[Paragraph R540.18 of extant Section 540 remains unchanged but is renumbered as R540.19.]*

Shorter Cooling-off Period Established by Law or Regulation

**R540.20** Where a legislative or regulatory body (or organisation authorised or recognised by such legislative or regulatory body) has established a cooling-off period for an **Engagement Partner** of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.15 and R540.17(a) provided that the applicable time-on period does not exceed seven years.<sup>8</sup>

*[Paragraph AUST R540.19.1 of extant Section 540 remains unchanged but renumbered as AUST R540.20.1.]*

Restrictions on Activities During the Cooling-Off Period

*[Paragraph R540.20 of extant Section 540 remains unchanged but renumbered as R540.21.]*

540.21 A1 The provisions of paragraph R540.21 are not intended to prevent the individual from assuming a leadership role in the **Firm** or a **Network Firm**, such as that of the senior or managing partner (chief executive or equivalent).

<sup>7</sup> **Members** should refer to AUST 325.8.1 which requires a **Member** to undertake a two year cooling-off period between the time they finish being an **Engagement Partner** for an **Audit Client** and then assuming the role of **Engagement Quality Reviewer** for the same **Audit Client**.

<sup>8</sup> Refer to s324DA of the *Corporations Act 2001* which has more restrictive time-on requirements for audit partners of **Listed Entities** in Australia.

## OTHER CONFORMING AND EDITORIAL AMENDMENTS

### GLOSSARY

- Assurance Team**
- (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 Review** for the **Assurance Engagement**.

- Audit Team**
- (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 engagement; and
    - (iii) Those who provide quality control for the engagement, including those who perform the **Engagement Quality Review** for the engagement; and
  - (c) All those within a **Network Firm** who can directly influence the outcome of the **Audit Engagement**.

*In Part 4A, the term "Audit Team" applies equally to "Review Team."*

**Cooling-off period**

*This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to AUST R540.20.1.*

**Key Audit Partner**

The **Engagement Partner**, the individual responsible for the **Engagement Quality 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” might include, for example, audit partners responsible for significant subsidiaries or divisions.

- Review Team**
- (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 Review** for the engagement; and
  - (c) All those within a **Network Firm** who can directly influence the outcome of the **Review Engagement**.

*[All other terms in the Glossary of the extant Code remain unchanged.]*

## **SECTION 400**

### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

*[Paragraphs 400.1 to 400.72 A2 of extant Section 400 remain unchanged.]*

- R400.73 **If, following the discussion set out in paragraph R400.72(b), **Those Charged with Governance** request the **Firm** to continue as the auditor, the **Firm** shall do so only if:**
- (a) **The interest or relationship will be ended as soon as reasonably possible but no later than six months after 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 by Section 600 and its subsections, will not be a member of the **Engagement Team** for the audit or the individual responsible for the **Engagement Quality Review**; and**
  - (c) **Transitional measures will be applied, as necessary, and discussed with **Those Charged with Governance**.**

400.73 A1 Examples of such transitional measures include:

- Having a **Member in Public Practice** review the audit or non-assurance work as appropriate.
- Having a **Member in Public Practice**, 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 Review**.
- 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 the other **Firm** to take responsibility for the service.

*[Paragraphs R400.74 to R400.89 of extant Section 400 remain unchanged.]*

## SECTION 410

### FEES

*[Paragraphs 410.1 to AUST 410.3.1 A1 of extant Section 410 remain unchanged.]*

**R410.4** Where an **Audit Client** is a **Public Interest Entity** and, for two consecutive years, the total fees from the client and its **Related Entities** 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:

- (a) 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
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the **Firm** from the client, and if so, apply it:
  - (i) Prior to the audit opinion being issued on the second year's **Financial Statements**, a **Member in Public Practice**, who is not a member of the **Firm** expressing the opinion on the **Financial Statements**, performs an **Engagement Quality Review** of that engagement; or a **Professional Body** performs a review of that engagement that is equivalent to an **Engagement Quality Review** ("a pre-issuance review"); or
  - (ii) After the audit opinion on the second year's **Financial Statements** has been issued, and before the audit opinion being issued on the third year's **Financial Statements**, a **Member in Public Practice**, who is not a member of the **Firm** expressing the opinion on the **Financial Statements**, or a **Professional Body** performs a review of the second year's audit that is equivalent to an **Engagement Quality Review** ("a post-issuance review").

*[Paragraphs R410.5 to 410.12 A3 of extant Section 410 remain unchanged.]*

## SECTION 800

### REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

*[Paragraphs 800.1 to R800.9 of extant Section 800 remain unchanged.]*

#### R800.10 When the Firm performs an eligible Audit Engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the Engagement Team, their Immediate Family members and, where applicable, Close Family members;
- (b) The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the Audit Client and the following Audit Team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the Engagement Quality Review; and
- (c) The Firm shall evaluate and address 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.

*[Paragraphs 800.10 A1 to R800.14 of extant Section 800 remain unchanged.]*

## SECTION 990

### REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

*[Paragraphs 990.1 to R990.6 of extant Section 990 remain unchanged.]*

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

#### R990.7 When the Firm performs an eligible Assurance Engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the Engagement Team, and their Immediate and Close Family members;
- (b) The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the Assurance Client and the following Assurance Team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

- (ii) Those who provide quality control for the engagement, including those who perform the **Engagement Quality Review**; and
- (c) The **Firm** shall evaluate and address 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**, as set out in Sections 910, 911, 920, 921, 922 and 924.

*[Paragraphs 990.7 A1 to R990.8 of extant Section 990 remain unchanged.]*

## TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

### *Long Association of Personnel with an Audit or Assurance Client*

1. Paragraph R540.20 shall have effect only for audits of **Financial Statements** for periods beginning prior to 31 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for **Engagement Partners** where legislation or regulation has specified a cooling-off period of less than five consecutive years.

*[Paragraphs 2 to 3 of the transitional provisions in the extant Code remain unchanged.]*

### *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*

4. Revisions to the Code Addressing the Objectivity of an **Engagement Quality Reviewer** and Other Appropriate Reviewers will be effective for engagements beginning on or after 1 January 2023.

Early adoption will be permitted.

## CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

### **APES 110 and the IESBA Code**

APES 110 incorporates the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to January 2021.

*[The list of compliance with the IESBA Code in the extant Code remains unchanged.]*