

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Review of Submissions- Specific Comments
 Exposure Draft 03/21: Proposed Amendments to *Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*

Note: General comments and confidential comments from regulators relating to Exposure Draft 03/21 are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
1.	410.3 A3 (Request for specific comment)	CA ANZ	<p>APESB request for specific comments</p> <div style="border: 1px solid black; padding: 5px;"> <p>APESB is seeking respondents' specific comments and feedback on whether the intent of application material in proposed paragraph 410.3 A3 in relation to what is included and excluded in the term audit fees is clear to stakeholders.</p> <p>410.3 A3. For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of Financial Statements. Where reference is made to the fee for the audit of the Financial Statements, this does not include any fee for an audit of Special Purpose Financial Statements or a review of Financial Statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))</p> <p>Glossary: Special Purpose Financial Statements – Financial Statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p> </div> <p>We wish to highlight that the use of the term “Special Purpose Financial Statements”, and its associated definition, may need to be revisited in light of the AASB’s financial reporting framework reform project. It may be clearer if the statement was reversed to state “this includes any fee for an audit of General Purpose Financial Reports” where the definition of the term “General Purpose Financial Reports” makes reference to the AASB’s definition in the Appendix of the revised Conceptual Framework. For the avoidance of doubt, it would also be useful if proposed paragraph AUST 410.29.1 A1 included the same services as mentioned in 410.3 A3 to show how they should be categorised.</p>	Yes Para 410.3 A3
2.	410.3 A3 (Request for specific comment)	Deloitte	<p><i>Application material in paragraph 410.3 A3</i></p> <p>We consider the application material is clear. Under the Independence standards, the term “audit” includes “review” therefore the application material is clarifying that the term audit fees also include review fees, however when reference is made to the fee for the audit of the financial statements (in the referred paragraphs) that is specifically referring only to the fee for the audit engagement.</p>	Yes Para 410.3 A3

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
3.	410.3 A3 (Request for specific comment)	EY	<p>Outlined below are our specific observations and recommendations on the proposed revisions.</p> <p>Requirements and Application Material – General</p> <p>We believe that the intent of the proposed paragraph 410.3 A3 in relation to what is included and excluded in the term audit fees is clear and therefore do not have any specific comments.</p>	Yes Para 410.3 A3
4.	410.3 A3 (Request for specific comment)	PP	<p>Specific Comments</p> <p>Specifically, APESB has requested respondents' specific comments and feedback on whether the intent and application material in proposed paragraph 410.3 A3 in relation to what is included and excluded in the term audit fees is clear to stakeholders.</p> <p>410.3 A3 General</p> <p>For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of <i>Financial Statements</i>. Where reference is made to the fee for the audit of the <i>Financial Statements</i>, this does not include any fee for an audit of <i>Special Purpose Financial Statements</i> or a review of <i>Financial Statements</i>. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))</p> <p>Response: We find this section confusing and contradictory. The first sentence says 'audit fees comprise fees or other types of remuneration for an audit or review of financial statements'. The second sentence says 'this does not include any fee,..... or a review of financial statements'. So, review of financial statements is included in audit fees in the first sentence then specifically excluded in the second sentence. I am not sure what the intention is here, to include the review of financial statements or not or is it just to exclude the review of Special Purpose Financial Statements in which case it should state this ie 'does not include any fee for an audit or review of Special Purpose Financial Statements.'</p>	Yes Para 410.3 A3
5.	410.4 A3	CPAA	<p>With respect to your request for specific comments on proposed paragraph 410.03 (factors for evaluating the level of threats) , the last dot point – <i>Whether the quality of the Firm's audit work is subject to the review of an independent third party, such as an oversight body</i> – is a little unclear. That is, could the threat be considered reduced when the Firm knows that a particular audit, or set of audit files pertaining to an audit, will be subject to an independent review? Or could the threat be considered reduced merely because the Firm itself is subject to regular review by an oversight body, even if a particular audit is not chosen for explicit review?</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
6.	410.4 A3	PP	<p>Other Comments</p> <p>410.4 A3 Fees Paid by an Audit Client</p> <p>Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the Audit Client include:</p> <ul style="list-style-type: none"> • The level of the fees and the extent to which they have regard to the resources required, taking into account the Firm's commercial and market priorities. • Any linkage between fees for the audit and those for services other than audit and the relative size of both elements. • The extent of any dependency between the level of the fee for, and the outcome of, the service. • Whether the fee is for services to be provided by the Firm or a Network Firm. • The level of the fee in the context of the service to be provided by the Firm or a Network Firm. • The operating structure and the compensation arrangements of the Firm and Network Firms. • The significance of the client, or a third party referring the client, to the Firm, Network Firm, partner or Office. • The nature of the client, for example whether the client is a Public Interest Entity. • The relationship of the client to the Related Entities to which the services other than audit are provided, for example when the Related Entity is a sister entity. • The involvement of Those Charged with Governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees. • Whether the level of the fee is set by an independent third party, such as a regulatory body. • Whether the quality of the Firm's audit work is subject to the review of an independent third party, such as an oversight body. <p>Comment: The factors identified in 410.4 A3 for evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client have been clarified to include factors that are more applicable to the Australian jurisdiction.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
7.	R410.7	PP	<p>R410.7 Impact of Other Services Provided to an Audit Client</p> <p>As an exception to paragraph R410.6, when determining the audit fee, the Firm <u>may</u> take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an Audit Client.</p> <p>Comment: Requirements sections are just that – requirements. It creates confusion around the necessity to do something when the word ‘may’ is included, as is the case in this section, where it says ‘the Firm <u>may</u> take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.’ If this is going to be a requirement section the term used should be ‘shall’ or ‘must’. This same section in the IESBA code is guidance/application material, not a requirement, so it appears that the wording has been copied across from the IESBA code but it has been changed to a requirement in the Australian Code.</p>	No
8.	410.12 A3 third dot point, R410.13	CPAA	<p>410.12 A3; third dot point. Clearly, the “ability” of an audit client to pay overdue fees is a serious consideration, and directly impacts the audit that is performed. That is, if an auditor assesses that a client’s inability to pay is connected to the solvency/going concern of the client, the financial reporting framework used and the way the audit is conducted, is directly affected. While R410.13 (b) states that a Firm should consider whether to continue with an engagement in these circumstances, it may not always be possible to take that course of action. Consideration might be given to providing more guidance (and/or a reference to appropriate guidance) for Firms where this situation arises.</p>	No
9.	410.14 A3 and 410.14 A7	Joint [SMP]	<p>B. Insert AUST 410.14.1 A2 to clarify application of ‘appropriate reviewer’ safeguard in situations of referral fee dependency</p> <p>We believe it would be instructive to add a guidance paragraph AUST 410.14.1 A2, specifying an acceptable approach to applying the ‘appropriate reviewer’ safeguard. We recommend codifying:</p> <ol style="list-style-type: none"> 1. The manner in which a suitable number of referral source funds should be selected for examination by an appropriate reviewer (in terms of fund selection, we suggest that the appropriate reviewer discuss the independence threat from the referral source with the auditor. Based on their assessment of risk, the reviewer should then select an appropriate sample of funds); 	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>That in selecting engagements for review, there should be an emphasis upon both challenging judgements and audits relating to SMSFs of those partners within the referral firm. This is a responsible approach to review and should be codified to prevent a review percentage being made up of 'easy funds'.</p>	
10.	410.14 A3	SMSF Assoc.	<p>Relevant Factors to be Considered The current version of APES 110 paragraph 410.3 A2 notes that “<i>factors that are relevant in evaluating the level of such threats include:</i>”</p> <ul style="list-style-type: none"> • <i>The operating structure of the Firm.</i> • <i>Whether the Firm is well established or new.</i> • <i>The significance of the client qualitatively and/or quantitatively to the Firm.</i> <p>However, when we look to the exposure draft, the reference to new or established firms are omitted. Exposure draft paragraph 410.14 A3:</p> <ul style="list-style-type: none"> • <i>The operating structure of the Firm.</i> • <i>Whether the Firm is expected to diversify such that any dependence on the Audit Client is reduced.</i> <p>The application of the proposed standard will have different impacts and considerations where the firm is a new firm as opposed to an established firm. Regardless of the age of the firm, independence must still be appropriately considered and managed. However, consideration must be given to new firms.</p> <p>The introduction of prescriptive standards should not create a barrier to entry for new entrants to the sector.</p> <p>The Australian Office is of the view that a new firm, is a firm operating for less than two (2) years. We believe that this is a reasonable assertion.</p> <p>Specific transitional measures need to be considered for new firms, to allow them to enter the market but at the same time, ensure that they are ultimately meeting their professional and ethical obligations, in a reasonable and practical manner. Similarly, appropriate, and practical guidance will be needed to assist these firms in meeting their obligations.</p>	No
11.	410.14 A7	Joint [SMP]	<p>1. Improving Clarity in the Application of Safeguards</p> <p>The APES 110 Code of Ethics 410.14A7 provides examples of actions that may provide safeguards to address self-interest or intimidation threats that arise as a result of fee dependency.</p>	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>These are:</p> <ul style="list-style-type: none"> • Having an appropriate reviewer who was not involved in the Audit Engagement review the audit work. • Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client. • Reducing the extent of services other than audit provided by the partner or Office to the Audit Client. • Increasing the client base of the partner or the Office to reduce dependence on the Audit Client. • Increasing the extent of services provided by the partner or the Office to other clients. <p>Source: APES 110 Code of Ethics, 410.14 A7</p> <p>Our concerns in relation to clarity surrounding these safeguards relate to the first item: the appointment of an appropriate reviewer. We feel the concept of 'appropriate reviewer' is well defined by the Code (see APES 110 Code of Ethics, Glossary). The ATO further elaborates upon its understanding of an 'appropriate reviewer' and its expectations for review documentation. We feel however that the words: 'review the audit work' are ambiguous and open to interpretation.</p> <p>Does this mean, review every audit obtained by the referral source of concern? We have spoken with experienced auditors who feel this may be implied. If so, we believe this is overkill and imposes unnecessary cost upon the audit firm. We believe there should be an emphasis in review upon challenging judgments or engagements where the auditor's independence may be particularly at risk (for example, the audit of partners' funds). Please see our Recommendation below regarding clarification of this safeguard.</p> <p>We are also of the opinion that safeguards are available to SMSF auditors in addition to those mentioned above in 410.14A7. If the 20 per cent benchmark is instituted with intended application for the SMSF auditor, we feel it is also appropriate that the Code recognise safeguards that are available to this industry and are frequently used by best-practice firms to strengthen their independence. Please see our Recommendation below regarding this matter.</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
12.	410.14A7	Joint [SMP]	<p>C. Consultation an Additional Safeguard</p> <p>Many new audit firm and smaller audit practices would find it financially crippling to pay an appropriate reviewer to consider any significant number of audit engagements. Many best-practice firms habitually safeguard their independence when making challenging or difficult audit decisions by consulting with an expert – either a knowledgeable colleague or a professional body with expertise in the relevant area. Consultation is documented and outcomes are included as evidence in the audit file.</p> <p>In many situations, we feel expert consultation is an appropriate alternative to engaging an appropriate reviewer. Should the APESB proceed with instituting the 20 per cent benchmark for fee referral dependency, we strongly recommend that expert consultation be recognised as an alternative safeguard.</p>	No
13.	AUST R410.14.1	AMS [SMP]	<p>In relation to AUST R410.14.1 and from the point of view of a SMSF auditor</p> <p>I believe that the 20% benchmark should at least be raised to 30% to be consistent with Australian and international standards. Given the benchmark is based on referred fees and not individual fees then perhaps the percentage should be even higher than 30%, at 40% or 50%?</p> <p>I also would like to separately comment on self-interest and intimidation threats arising specifically applied to parcels of SMSF audits under a referral arrangement.</p> <p>Self interest</p> <p>The exposure draft makes an assumption that an entire parcel of fees may be taken away from the auditor by a referrer if just one opinion on one fund (or a small number) is disagreed with. I think this is unlikely for a number of reasons. In the case of a single client with their large fee being individually a large source of audit revenue, I can understand this, but in a referral situation I believe other factors come into play which mitigate the risk of a referrer changing auditor. These factors appear to have not been considered in the ruling and the main one being that it is not quite so simple to change auditor on an entire parcel of fees.</p> <p>For a loss of a parcel of fees to happen arising from disagreement over an audit opinion, three things must occur:</p> <ol style="list-style-type: none"> 1) The client disagrees with the audit opinion 2) The referrer sides with the client and also disagrees with the audit opinion (even after explanation from the 	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>auditor)</p> <p>3) The referrer decides that siding with their client and retaining their individual fee is important and worth disrupting their staff, incurring costs, creating uncertainty and disrupting their entire SMSF client base for, and they change auditor.</p> <p>I have set out various scenarios on the second page. Further I have spoken to my large referrers both when I started the referral arrangement, and more recently regarding these independence changes and they confirmed that they have previously done and will always accept any audit opinion which can be backed up with legislation and they also accept the risk that one of the funds may choose to find a new auditor and even new accounting firm, based on an audit opinion, but this will not impact their referring. They all understand that clients can be difficult and loss of one client from disagreement over an audit opinion is just one of the risks of doing business. Losing a parcel of fees over poor or unprofessional service is a higher risk.</p> <p>The truth is that in a referral arrangement once logistical procedures such as document transfers, turnaround times, query reporting, annual fee ranges, permanent documents etc are all in place and bedded in running efficiently, the referrer is quite reluctant to change auditor. The costs and disruption to change auditor outweigh the potential that they may lose an accounting fee over an opinion that is disagreed with. This also goes back to my first point in that independence risks from single fees are not the same as from parcels of fees. Simply, the disruption created by changing auditor is far more expensive to a referrer than the cost of losing a single client – that's if the client was even deciding to go.</p> <p>Some scenarios below explain my thoughts and conclude that it is unlikely, at least from my perspective, that loss of an entire fee parcel will occur from a disagreement over an audit opinion.</p> <p>Lastly, I would say that it is a poor auditor who is not able to sufficiently explain a contravention to another professional (the referrer) in such a way that the professional understands and accepts.</p> <p>Intimidation</p> <p>I believe the following two items add pressure to an auditor to produce a standard / favourable opinion and are key differences in the amount of pressure or perceived pressure, between the audits of SMSF vs the audits of other entities with more stakeholders.</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>1) the potential negative financial effect on all stakeholders of the entity being audited arising from a negative audit view / opinion</p> <p>2) the complexity of the entity’s operations and financial reporting where significant judgements are required (basically the key audit matters)</p> <p>In more detail:</p> <p>1) in a listed entity, a larger number of stakeholders exist (such as shareholders and management) who may put pressure on an auditor because they want to see certain results - to create or retain wealth either through their shareholdings or remuneration schemes or in the case of a smaller entity, wanting to sell, for example. A SMSF does not have such stakeholders.</p> <p>2) With regard to complexity, a listed entity may have various matters requiring professional judgement and additional work which typically a SMSF does not. A couple of pretty common examples would be impairment of goodwill, or valuation of receivables/work in progress. I find SMSF audits are much more black and white in terms of SIS and financial statement reporting and therefore the pressure on the auditor to apply "positive" or "lenient" professional judgement is simply not there. The stakeholders (Trustees) of a fund are not really creating the same pressure that stakeholders (shareholders and management) of a larger audit entity might.</p>	
14.	AUST R410.14.1 410 14 A4	CA ANZ	<p>Proposal due to specific request from regulators</p> <div style="border: 1px solid black; padding: 5px; margin: 5px 0;"> <p>[Deleted text struck through, new text underlined]</p> <p>AUST R410.14.1 When the total fees in respect of multiple Audit Clients referred from one source represent a large proportion <u>more than 20%</u> of the total fees of <u>the Engagement Partner, an Office of the Firm or the Firm</u> expressing the audit opinions, the Firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level.</p> </div> <p>We have reservations about the proposed 20% threshold in paragraph AUST R410.14.1 for firms to evaluate the threats to independence and implement appropriate safeguards, if required, created by fee dependency on a single referral source. We are concerned that the introduction of an explicit percentage may have potential unintended consequences.</p>	Yes, Revised paras AUST R410.14.2 to AUST 410.14.3 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>While we recognise this is not a prohibition, we believe the principles-based Code should be preserved where possible. Earlier this year the ATO indicated that 20% is the limit of SMSF audit fees from a single referral source at which it considered threats to independence may occur. We recognise the challenges faced by the APESB in balancing the principles-based framework which underpins the Code, with the perceived benefits of definitive thresholds. These challenges manifest in determining the role of standard setters and the role of regulators, and how these must be clearly defined and delineated.</p> <p>The proposed amendments to the Code are silent on the period of time over which the fees from one referral source should be considered. The ATO suggests two years, but fees from a single non-PIE client are proposed to be considered over five years, although you would expect single non-PIE client fee dependency to be a greater threat. It is unworkable to consider fees from referrals only at a point in time as that does not allow a firm the normal evolution in winning business, which may start with just one client or a dominant client until more business is won or to react to the loss of business from time to time.</p> <p>The proposed amendments are also silent on the impact on threats of the time elapsed since the referral of clients was made in evaluating the qualitative significance of the referral source to the audit firm. Relevant considerations may include the time elapsed and whether the referral source has ongoing involvement with or influence over the SMSF clients referred. The relationship between the referral source and the clients referred to an audit firm inevitably can change over time. The threat from that referral source does not necessarily remain indefinitely and conversely is not necessarily something to be considered only in the first year of the referral.</p> <p>When you compare proposed paragraph AUST R410.14.1 to the following similar provisions:</p> <p style="padding-left: 40px;"><i>R410.15 When for each of five consecutive years total fees from an Audit Client that is not a Public Interest Entity represent, or are likely to represent, more than 30% of the total fees received by the Firm, ...</i></p> <p style="padding-left: 40px;"><i>R410.18 When for each of two consecutive years the total fees from an Audit Client that is a Public Interest Entity represent, or are likely to represent, more than 15% of the total fees received by the Firm, ...</i></p> <ol style="list-style-type: none"> 1. The percentage itself (20%) is lower than the percentage of fees from a single non-PIE client of 30% (over five years), and just slightly higher than fees from a single PIE client of 15% (over two years). This makes the referral percentage seem onerous in comparison and somewhat inconsistent. 2. The addition of “Engagement Partner” and “an Office of the Firm” also appears overly onerous and 	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>inconsistent.</p> <p>We also urge the APESB to look at the implications that proposed paragraph AUST R410.14.1 has on the application of the appropriate reviewer safeguard in paragraph 410.14 A4. This says an appropriate reviewer cannot be a member of the firm. In our view, where there is a fee dependency at the Engagement Partner or Office level, it may be appropriate for a partner from another Office of the Firm who was not involved in the audits to be an appropriate reviewer.</p>	
15.	AUST R410.14.1	CPAA	<ul style="list-style-type: none"> AUST R410.14.1. We recommend that to be consistent with other paragraphs in the Code covering similar concepts (i.e., R410.15 and R410.18), this paragraph should be amended to read <i>“When for each of five consecutive years the total fees”</i>. Without having an appropriate timeframe specified (and whether the most appropriate timeframe is five years, or something less) it can create unnecessary challenges for newer firms that are building their client bases, or for firms that have been subject to an unusual one-off occurrence in one particular year. 	Yes, Revised para AUST R410.14.2
16.	AUST R410.14.1	CPAA	<ul style="list-style-type: none"> AUST R410.14.1. It is unclear from the wording of the paragraph when a referral is considered to have ceased to be a threat to independence. That is, once a client becomes an ongoing client of the auditor, does the initial referral by another source continue to be threat? Does it cease to be a threat after a certain number of years? Clearly, if the initial referral is considered to be part of the calculation of the 20% every year, for the purposes of this paragraph, an audit firm will reach a stage where they are unable to receive referrals from a particular source many years (maybe never) after initial referrals are made. Clarity on this point is required. 	No
17.	AUST R410.14.1	CPAA	<ul style="list-style-type: none"> AUST R410.14.1. The APESB should consider clarifying why it opted for a 20% threshold for this requirement, rather than a 15% (for audit clients that are public interest entities) or a 30% (audit clients that are not public interest entities) threshold that is used in other parts of the proposed revisions. The decision to specify 20% seems arbitrary and so should be explained in the Basis for Conclusions that is published when the revisions are finalised and issued. 	Yes, Revised Para AUST R410.14.2
18.	AUST R410.14.1	C Simpson	<p>I have a concern that the 20% fee dependency rule may create a barrier to entry. Someone looking to become a new SMSF auditor would need to start with at least 6 referral sources to ensure none over 20%. I propose a 2 year exemption for new entrants.</p> <p>Also, someone who loses a larger referral source may find that pushes one of their ongoing referral sources to being over the 20% test. I propose a 1 year concession for short term exceeding 20% from 1 referral source. An alternative idea is to have a higher percentage test for people with revenue from audits below say \$100,000.</p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
19.	AUST R410.14.1	Deed [SMP]	<p>Threats to independence when fees or referral source is an issue</p> <p>In majority of cases in audit of an SMSF, it is the administrator who appoints the auditor rather than the trustee of the fund. The below analysis points out there three major size of administrators and my comment is based on the size of the administrator.</p> <p>i. Where the administrator is medium to large - looking after 100 funds to 500 funds. Usually there is SMSF expertise in-house and the auditor is considered just a "tick off" process which must be followed. The audit fees to be paid to the auditor is generally decided by the administrator rather than the auditor. In other words, the administrator keeps looking for an auditor who will accept their offer. One fee is paid to the auditor irrespective to the complexity of the fund.</p> <p>Result: These funds prior to 1st July 2021 were getting audited internally - by the audit partner, however due to the changes in code these firms need to use an external auditor for the first time. The auditor usually required by these firms is the one who will quickly issue the audit report and does not ask too many documents to slow down their process work. Auditor cannot be independent as usually only one auditor is appointed to conduct all the audits of the firm - there is intimidation threat and pressure to complete audit work quickly.</p> <p>Solution: About 150,000 funds are expected in this group. If somehow these firms are forced to employ more than one auditor or say one auditor for each 50 funds, then it is possible that independence is achieved. The code emphasizes on 20% of the number of funds which it audits to come from one referral source and that is where I think is the problem lies.</p> <p>If the conditions were changed that if legislation could be put in place to limit the number of funds an administrator can allocate to one particular audit firm or auditor, this matter can be resolved in a much undisputed way rather than limiting the auditor which causes more confusion. This would mean that these firms would be forced to deal with multiple auditors as they will not be allowed to engage one auditor for more than 20% of their funds.</p>	No
20.	AUST R410.14.1	Deed [SMP]	<p>ii. Where the administrator is very large - looking after 500 funds or more funds. About 150,000 funds are being looked after by this group of about say 50 entities. The Trustees are charged a fee inclusive of audit. Usually the administrator will have three levels of administrative fee depending on their complexity of the fund. In some cases the work is outsourced to an overseas organization to provide accounting and audit services.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Result: The administrator either does the administration work in-house or conducts only supervisory work to an overseas accounting firm and lodges the income tax return of the fund. The auditor usually appointed is an audit firm which employs more than one SMSF Auditor. Some larger firms appoint more than one audit firms for quick turnaround time. Usually these firms give access to accounting systems to the auditor</p> <p>Solution: If the administration work is done in-house in Australia, then the solution provided (i) will apply. However if the administration work is done by an overseas organization, they should not be also supplying audit services. Since there are 50 such entities, it is quite easy to manage them individually.</p> <p>When the overseas entity offers accounting and audit work to the Australian administrator, the fee usually includes funds audit. These overseas firms then seek Australian auditors to tick off their work. A large number of funds are offered to be audited at a very low price and the auditor is expected to hand over their digital signature to be stamped on the audit report by the overseas entity. Usually no audit happens as there is a relationship between the overseas accounting firm and the Australian SMSF Auditor - at times the Australian auditor is a profit sharing partner of the Australian accounting firm.</p> <p>For example, since my name suggests that I am of Indian and I get approached on linkedin, and offered \$100 to \$125 to sign off the work done in India by an Indian outsourcing company. auditors.</p>	
21.	AUST R410.14.1	Deed [SMP]	<p>iii. Where the administrator is in-charge of less than 100 funds. This is where you will find a mixed bag of SMSF skills among the administrators and maximum risk lies. There are about half the funds or 300,000 are administered by this group.</p> <p>Result: This group of administrators usually employ known people. These known people could be old friends, relatives or ex-employees etc. Here the issue is not more about fees, rather than how quickly the auditor can complete their audit work and issue an audit report without any fuss. In my opinion, it is virtually impossible to find an auditor who is truly "independent" in this group. Many auditors visit the accountants office or get documents sent to them. Usually all the funds of a firm are audited by one single auditor. Fee dependency issue is a major concern in this group.</p> <p>Solution: By amending the APES 110 by limiting an auditor engagement by not more than 20% of audits from one referral source, the code is encouraging auditors to work in semi-reciprocal arrangements. Where Administrator of "group A" gives audit work to "B group of Auditors" who are also administrators who will then give audit work to "C group of Auditors" who will engage "group A" and so on.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>By limiting the number of audits from one referral source - say to 20%, APES 110 merely aims that the auditor is engaged by 5 or more administrators who will not give more than 20% of their work to them. This can diversify the auditors work coming from multiple sources, but in pursuit of independence, the code is ignoring the main cause of poor quality audits.</p> <p>In my opinion auditor independence can only be introduced by auditor rotation, where the auditor cannot sign off the 4th years audit or one auditor cannot be appointed for not more than 3 years for the same fund. If we increase this to 5 years, errors will remain un-reported for many years.</p>	
22.	AUST R410.14.1	Deloitte	<p><i>Fee Dependency from a Referral Source (revised para AUST R410.14.1)</i></p> <p>APESB states it has considered and accepted a request from the regulators to create a threshold to assess fee dependency on a referral source that refers multiple audit clients to a firm, partner or office. However, no rationale has been provided as to the basis for the conclusion that 20% is the appropriate threshold for this provision, which creates inconsistency with the principles based approach in paragraphs 410.14 A1 and 410.14.A5.</p>	Yes, Revised para AUST R410.14.2
23.	AUST R410.14.1	I Mckenzie [SMP]	<p>SMSF audit independence fees benchmark is too harsh, for example, other factors should be in the measurement whether or not an SMSF auditor is in breach of independence standards, or may be in at risk of same.</p> <p>such additional measurements could be included in the overall measurement when determining if an SMSF auditor has not been independent:-</p> <ol style="list-style-type: none"> 1. how many ACR's the SMSF auditor has lodged over time 2. how many management letters the SMSF auditor has written 3. how many accountants have been reported to the TPB, professional bodies or / and the ATO 4. How many SMSF trustees have been reported to the ATO 5. how many SMSF's the auditor has done in their SMSF auditor lifetime 6. look at smsf auditor rotatation by large accounting firms. <p>While some SMSF auditors may have some problems meeting the proposed 20% benchmark, other factors should and could be considered.</p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>I think 20% is unfair to smaller based SMSF auditors, the larger audit firms have more market power, and can have several registered SMSF auditors working for them, where a sole trader smsf auditor may struggle with this new proposed rule.</p> <p>Hence, I believe and feel that you could leave the proposed 20% or 30% internal standard benchmark, but introduced other additional means or measuring the independence standard and "test".</p> <p>If you had an smsf auditor that did the same audits for the same firm for 20 years, that needs to be questioned I would think. (and assuming very little ACR's lodged) The APESB need to be careful that they don't have any unintended consequences in the SMSF audit profession to avoid a similar scenario where a lot of financial planners/ advisers have left that profession because of the compliance obligations under the corporations law.</p> <p>So, I believe a list or measures would be better than having a 20% benchmark.</p>	
24.	AUST R410.14.1	IPA	<p>Total fees from a referral</p> <p>AUST R410.14.1 proposes that <i>'When the total fees in respect of multiple Audit Clients referred from one source represent more than 20% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions, the Firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level.'</i></p> <p>We note the comment made in the Board's media released dated 28 May 2021 as to a reason for this specific Australian proposed amendment: <i>'APESB has also considered and accepted a request from the regulators to create a threshold to assess fee dependency on a referral source that refers multiple audit clients to a firm and determined to extend this threshold to apply to individual partners or an office within the accounting firm.'</i></p> <p>We believe it is important for Board to reflect the views of regulators and others as proposals are developed. The basis of conclusions should refer to such views.</p> <p>We consider that the proposed amendment is consistent with the principle in paragraph 410.14 A1: <i>'When the total fees generated from an Audit Client by the Firm expressing the audit opinion represent a large proportion of the total fees of that Firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.'</i></p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>These threats also exist where a large proportion of the fees are referred from one source. Such referrals are common for self-managed superannuation fund audits. It is appropriate for APESB to address this this issue as IESBA’s Code contains no corresponding requirement.</p> <p>We note that the Board has framed AUST R410.14.1 as a standalone requirement. In doing so, the requirements of total fees from an audit client that is a not a public interest entity (R410.15-17) or public interest entity (R410.18-21) are not considered.</p> <p>We continue to have serious concerns about the approach taken by the IESBA in relation to these paragraphs:</p> <ul style="list-style-type: none"> • For a non-public interest entity – the time frame of five years is too long, the threshold of 30 per cent too high, and an assessment at firm level is inappropriate as threats are more likely to occur at the individual engagement partner and office level (it would be rare that a threat to independence would exist at higher level – the firm), and • For a public interest entity – the threshold of 15 per cent is too high, and an assessment at firm level is inappropriate as threats are also more likely to occur at the individual engagement partner and office level (it would be rare that a threat to independence would exist at the higher level – the firm). <p>Given these concerns, we do not believe that these requirements are appropriate for addressing the circumstance where a large proportion of the fees are referred from one source.</p> <p>Furthermore, we do not consider R410.15-17 and R410.18-21 to be appropriate requirements for assessing fee dependency, protecting independence and maintaining the public interest for the reasons stated.</p> <p>The additional AUST paragraph overcomes the flaws in the IESBA’s approach. It identifies a specific benchmark 20 per cent, it specifically targets the engagement partner, an office of the firm and requires an action to evaluate the threat, apply safeguards to reduce the threat to an acceptable level within this framework.</p> <p>Whilst the benchmark of 20 per cent is arbitrary, we consider it reflects ‘a large proportion’ as would 10 per cent threshold.</p> <p>Furthermore, we do not consider an evaluation of the threat(s) and application of safeguards with the context proposed to be onerous for the audit firms affected.</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			We recommend that the proposed Aust paragraph be clarified to state that this assessment is to be undertaken annually and at the same date each year.	
25.	AUST R410.14.1	Joint [SMP]	<p>1. Fee Dependency and Threats to Auditor Independence</p> <p><i>The Issue</i></p> <p>It is common in the SMSF audit industry for an audit firm to receive multiple client referrals from a single accounting firm. Where a significant proportion of the SMSF audit firm's revenue is derived from a single referral source, there is a risk that the audit firm will become dependent upon that referral source. The firm's concern regarding potential loss of clients obtained by that referral source is likely to create self-interest threats and possibly also intimidation threats for auditors within the audit firm.</p> <p>As specialist SMSF auditors, we acknowledge this risk. As owners of relatively small practices that specialise in the superannuation audit function, we have each worked with threats of this nature and implemented safeguards to ensure that our independence is not compromised.</p> <p><i>A Benchmark is a Red Flag</i></p> <p>We welcome the ATO's request to quantify a referral source fee percentage that should prompt any audit firm to assess self-interest and intimidation threats and ensure appropriate safeguards are instituted. A benchmark provides clarity. As emphasised in early stakeholder discussions with the ATO, a benchmark percentage is a highwater mark guide. It must not be assumed that auditor independence is not threatened by fee referral sources comprising a lower percentage. For example, self-interest and intimidation threats may exist where only 18 per cent of total fees are derived from a single referral source due to qualitative factors that increase the value of that referral source to the audit firm. Referral fee dependency threats are ultimately a question of professional judgement and must be assessed on a case-by-case basis.</p> <p>To put it simply: a benchmark referral fee percentage is a red flag for the purpose of clarity. It is not, and should not be regarded as, a hard line in the sand.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>2. Why a 20 Percent Fee Threshold in the Ethics Code is Not Appropriate</p> <p>We do not believe it is appropriate to codify this 20 per cent guidance benchmark within the Ethics Code.</p> <p>The 20 per cent fee threshold was initially presented as guidance by the regulator. Specifically, the ATO stated:</p> <p><i>The Code does not specify a number of referral sources, or set percentage of fees from one or more referral sources or clients, required to reduce independence threats to an acceptable level. Nor does it explain what constitutes a 'large proportion' of a firm's total fees. However, for well-established firms that generate most of their income from providing SMSF auditing services, as a guide, if the fees generated from one referral source are less than 20 per cent of the firm's total fees, we would not consider this in itself to create independence threats.</i></p> <p>Presenting the 20 per cent threshold as a shot across the bows calling for fee dependency awareness was acceptable, particularly where (as explained above) the Code was silent on an issue that is relatively unique to the SMSF audit industry, where large numbers of audit clients are obtained by referral.</p> <p>We appreciate that codification of the 20 per cent threshold was proposed due to concerns by the APESB and ATO that the international approach in this area is insufficiently robust. There is concern that a threshold of 30 per cent total audit fees with a 5-year period of grace for young and growing practices is too high. Action is proposed to reduce the Code threshold to 20 per cent of total fees where derivation is linked to the same referral source.</p> <p>We have several objections to this proposed codification.</p>	
26.	AUST R410.14.1	Joint [SMP]	<p>Objection 1: Inconsistency between Australian and International Standards</p> <p>While we appreciate the concerns of APESB and ATO in this area, we do note that the Parliamentary Joint Committee (PJC) on Regulation of Auditing in Australia (see Interim Report, published February 2020) did not identify any specific concerns relating to independence threats created by concentration of fees from a specific referral source.</p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			While this does not mean that action to tighten independence requirements in this area is inappropriate, we feel that the absence of specific recommendation by the PJC should be weighed carefully before Australia departs from the international standard in this matter of fee dependency.	
27.	AUST R410.14.1	Joint [SMP]	<p>Objection 2: Inconsistency between treatment of Australian audit firms</p> <p>We are also concerned that the proposed AUST R410.14.1 differentiates unfairly between practices that derive smaller individual fees by referral and those that derive larger audit fees on a client-by-client basis.</p> <p>As discussed above, SMSF audit firms often derive fees by a referral source, ie an accounting practice. In this sense, fee derivation for SMSF auditors is different from many other areas of audit practice in Australia. All audit firms (large or small, direct fee or referral-based) encounter the same fee dependency threats when experiencing some level of dependency upon a single revenue source. Indeed, while an individual client may exert pressure upon the auditor directly, disgruntled trustees are less able to do so in a referral-type situation. If the referring accountant attempts to influence the auditor on behalf of their client base, the risk is no higher than if that fee source represented the revenue stream from a single, large client. We do not believe that it is appropriate to differentiate between a fee dependence threshold for referral-based firms and wider audit practice. If the international standard of 30 per cent and 5-year continuity is inappropriate for SMSF auditors, we feel it is equally inappropriate for other audit firms.</p> <p>Far from being more at risk in this sense than our wider audit counterparts, it is our view that SMSF auditors already benefit from unique independence safeguards in the form of:</p> <ul style="list-style-type: none"> • Specific ATO reporting thresholds, which compel SMSF auditors to report certain contraventions, irrespective of fee source or client identity; • Rigorous review practices by ATO and professional bodies, which are continually scanning for, identifying, and correcting those auditors whose independence is compromised. <p>Both the APES 110 Code of Ethics and the International Code of Ethics have a clear existing position that where an audit firm receives more than 30 per cent of its total fees from the same audit client over a period of 5 continuous years, the audit firm must consider whether independence safeguards are required. Unless there is a</p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			clear reason to regard a referral fee source as creating independence risks different to those presented by an audit client fee source, we do not see any reason for inconsistency in the benchmarks referred to in AUST R410.14.1 and R410.15. Please see our Recommendation below regarding codification of the fee referral source benchmark.	
28.	AUST R410.14.1	Joint [SMP]	<p>Objection 3: Arbitrary figure & heavy impact upon smaller practices</p> <p>The 20 per cent threshold is an arbitrary figure. It has not been demonstrated by data or analysis to be a suitable benchmark. The SMSF audit industry has not been adequately consulted as to whether it is appropriate to incorporate this threshold in the APES 110 Code of Ethics.</p> <p>Inclusion of this percentage in the Code will require audit firms to be prepared to defend their independence in terms of the safeguards outlined in the code, some of which are ambiguous and open to interpretation. Many smaller audit practices will be impacted by the codification of a 20 per cent threshold, and possibly in ways unforeseen by the APESB.</p> <p>For example, a specialist practice known by this group has raised an interesting dilemma it may face if this threshold is to be codified. The practice in question currently has 7 different referral sources, each of which represents a similar number of engagements each year. No single referral source represents more than 20 per cent total fee revenue for the firm – but if one of those referral sources were to be lost, the audit firm would find itself with several referral sources exceeding the 20 per cent threshold.</p> <p>In this scenario, the 20 per cent benchmark could have the effect of incentivising SMSF auditors to maintain a specific number of referral sources in order to ‘pass under the radar’. Rather than lose a revenue source that will create fee dependency issues, the auditor may commit very strongly to its existing referral base. The 20 per cent threshold may itself create an independence issue for the auditor as they seek to maintain all existing referral sources.</p> <p>While smaller practices encounter the same independence threats as larger practices and should not be differentiated, it is important to acknowledge the extent smaller practices will be affected and consider:</p> <ul style="list-style-type: none"> — The necessity of using 20 per cent as a catalyst to institute safeguards in the Code; — The way in which safeguards may be implemented to address a fee dependency threat. 	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			There is no clear justification for selecting 20 per cent as a codified benchmark for referral fee dependency. Introduction of this benchmark will impose hardship upon smaller practices and should not be adopted without full consultation with the industry, particularly with smaller players that have navigated this territory and established reputations of excellence.	
29.	AUST R410.14.1 & 410.14 A3	Joint [SMP]	<p>Objection 4: No specific consideration of new firms</p> <p>We are concerned to note that the proposed AUST R410.14.1 does not consider the situation of new firms that are actively attempting to grow a client base. While 410.14 A3 notes that the intention to diversify may reduce dependence upon an audit client, building a client base takes time, usually a period of years. New firms will be challenged to finance an extensive engagement review and in practice often turn to other safeguards, such as consultation with another auditor or expert on challenging judgements. We feel that the new firm situation should be acknowledged in the Code. Please see our Recommendation below regarding new firms and a period of grace.</p>	Yes, Revised para AUST R410.14.2
30.	AUST R410.14.1	Joint [SMP]	<p>4. Recommendations:</p> <p>D. Codify 30 per cent & 5 years as a referral fee dependency benchmark</p> <p>We strongly recommend a 30 per cent threshold be adopted by the APESB in proposed AUST R410.14.1 as opposed to a 20 per cent threshold. We believe codifying 30 per cent is consistent with both R410.15 and international standards. We believe 30 per cent fee dependency upon a single referral source is an appropriate 'red zone' in which any SMSF audit practice should be prepared to defend their independence by use of appropriate safeguards as outlined in the Code.</p> <p>As specialist SMSF auditors who have each undergone the experience of growing a client base, we do not believe that 2 years is a realistic timeframe in which to resolve fee dependency issues by natural growth. We believe that a period of 5 years provides reasonable opportunity for most firms to achieve this. If 5 years has lapsed without sufficient growth to reduce the referral source fees to below 30 per cent, we believe an audit firm should be accountable to demonstrate its independence by use of relevant safeguards presented in the Code.</p> <p>It should be recalled that fee dependency is an issue that must be considered on a case-by-case basis. A codified threshold is a highwater mark only.</p>	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			Should APESB, the ATO and professional bodies believe that the 30 per cent / 5-year threshold is inappropriate, we recommend that this be adjusted consistently for both audit firms that derive fees per client and by referral.	
31.	AUST R410.14.1	PP	<p>AUST R410.14.1 Total Fees – Fee Dependency</p> <p>When the total fees in respect of multiple Audit Clients referred from one source represent more than 20% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions, the Firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level</p> <p>Comment: We note that this is an Australian only requirement. This requirement raises the following comments and questions:</p> <ul style="list-style-type: none"> • This section implies that fees from referral sources will need to be documented and monitored to ensure they do not breach the 20% limit. This adds additional administration costs to firms • Does this relate to a financial year or is it an infinite time limit ie, If a client is ongoing for many years after being referred to the firm by a particular referral source, are they still considered to be the referral source indefinitely? • Where will firms document this information and how will it be monitored, as it is not currently a requirement of the transparency report or any other annual return/public document? • What constitutes 'referred' and 'referred from one source'? Presumably it means coming from one person/client but how much of a relationship is necessary from that person/client before it is considered a referral? 	Yes, Revised paras AUST R410.14.2 and AUST 410.14.3 A1
32.	AUST R410.14.1	SMSFAO [SMP]	As a relatively new firm, I currently find myself with two clients over the 20% of total fees with a number of smaller clients making up the rest of my business. I am always looking to grow my business but the reality is that growth will likely be made up of smaller clients and therefore any re-balancing will take time. Most practices with a large number of SMSFs are participating in the 'audit exchange programmes' so we will not get any work from them. I am therefore looking at having to spend a significant amount of time and cost to get peer reviews over a sample of my audit files. I don't believe this will change any of the opinions my firm has issued.	Yes, Revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>As a smaller, audit only firm, we are more risk averse than a large accounting firm. I am unable to spread the risk of an incorrect opinion over a large fee base of audit and non audit clients. My ACR 'run rate' is well above the 2% which I understand the ATO looks at. In fact, if you were to look at our ACR profile over the life of our firm you would see that we have done significant work across our entire client base to identify and raise issues (most not picked up by previous auditors) and then to work with the clients to fix these issues. This is surely the best outcome for the regulator and the Trustees.</p> <p>The message the proposed fee referral provisions send to someone like me is that you don't want SMSF only audit firms to exist and that you want to enable large firms to continue to dominate the market by creating 'false independence' through auditor exchange programmes. I don't believe this is what was intended by the fee proposal provisions but it is the result. I hope that you value the existence of audit only firms who by their very nature are significantly more independent than other firms. They always have been and always will be.</p>	
33.	AUST R410.14.1	SMSF Auditors Assoc.	<p>1)We have concerns that the continual tampering with the current system, and the arbitrary nature of suggested limits threatens the viability of SMSF auditors.</p> <p>Independence is a state that can be influenced by familiarity, self interest, self review, advocacy or intimidation. All these are dealt by the standards already. The purpose of standards are to provide guidance to professionals so they can accomplish their duties properly (with integrity) and in an ethical manner.</p> <p>Now it appears that the standard setters' approach have shifted from guidance towards controlling the behaviour of auditors by imposing different variables as barriers in the real life audit engagement. This control may be treated, itself as interference in the overall independence of auditors.</p> <p>The 20 per cent fee limit will disadvantage smaller firms in comparison to larger firms. There is no clear justification for choosing 20 per cent as a benchmark for referral fee dependency. Introducing the 20 per cent benchmark will create more hardship on smaller firms and it should be implemented after more consultation with the industry experts, particularly smaller SMSF Audit firms who are the backbone of the SMSF audit industry.</p> <p>Additional administrative burden the proposed threshold causes, will add to costs for trustees which in turn will damage the SMSF Industry and reduce retirement savings unnecessarily.</p> <p>As an association of SMSF auditors we understand SMSF auditors do need a limit, but it is too low. It will introduce even greater overheads, and uncertainty in SMSF industry.</p>	Yes, Revised para AUST 410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Another factor is that it will increase costs in an industry that is already absorbing huge changes this year. Many SMSF Auditors are leaving the industry which will detrimentally affect the number of SMSF Auditors adding to the independence issues. The SMSF industry is seeing increasing funds annually yet our auditor numbers are reducing.</p> <p>For new entrants, the impact can be difficult to manage. It creates a barrier for new auditors entering the industry.</p> <p>As a new practice it will be difficult to meet this benchmark. For example, if you are planning on growing your firm, you would take on a new referral source even if it will represent more than 20% of your current workload because you plan on growing beyond the point where there is an independence issue. However, if it takes 3 to 5 years to achieve that growth and you need to incur costs for an appropriate reviewer over that time then it may be not commercially viable to take on that work. It is unlikely that the perfect sized referral accounting firm will come along and fit neatly into the required benchmarks. This will not make for a vibrant and healthy SMSF audit market, it will lean towards the larger audit firms controlling the market.</p> <p>It would ease tensions on auditors if we are able to monitor percentages and eliminate threats we deem appropriate without the burden of complying to a strict 20% level.</p> <p>Another consideration is that many audit firms are not exclusively audit practices. They offer other accounting and advisory services. Where the audit division is only a small part of the practice the level of fee dependence on the audit work is less. Although you may only have 2 or 3 accounting referrals the loss of audit fees may not be very significant to the practice. This would reduce independence issues so why should these firms have to further abide by the 20% benchmark.?</p> <p>A blanket 20% figure also fails to consider the unique structure and potential diversity of fees for accountants which renders the 20% limit pointless as a standalone statistic.</p> <p>For example, some principals/auditors separate their accounting and audit practices. The audit firm can be small in comparison to the accounting firm. Under this 20% limit it could appear that the auditor is unable to be independent because the company relies on the audit fees from a particular client. In reality, the accounting fees in the other company far outweigh the audit fees and render that particular audit client miniscule overall when we are combining the fee value of both practices.</p> <p>Lastly why does it matter which accountant recommends the audit services? Auditors are engaged by the Trustees of the fund not by a referring accountant. The Trustee has the ultimate choice. What is the mischief done if 90% of our audits are referred by a single accountant?. As long as there is no reciprocal arrangement then what is the issue? New independence requirement were introduced to address the situation where the same firm does the accounting and then audits</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			its own work. Surely this has been satisfactorily dealt with by the current independence requirements and no further restrictions should be necessary.	
34.	AUST R410.14.1	SMSF Assoc.	<p>Our submission is focused on the proposed paragraph AUST R410.14.1, which discusses auditor independence and the impact of referral fees, including the introduction of a 20% threshold. These measures will directly impact not only self managed superannuation fund (“SMSF”) auditors but also trustees and referral firms. We have therefore sought to widely consult with our members on the proposed changes.</p> <p>As part of our consultation process, we undertook several member engagement activities, including a series of member round tables, discussions with our Specialist SMSF Auditor Discussion Group and direct member consultation and feedback.</p> <p>Feedback from members on what would be considered an appropriate threshold has been varied. SMSF audits are conducted by ASIC registered SMSF auditors in a variety of firm types, structures, and sizes. Therefore, the impacts of a particular threshold will be varied.</p> <p>We do have concerns that the introduction of a threshold will become a dominant focus, may cause unintended consequences, will negatively impact start-up businesses and risks becoming a barrier to entry.</p> <p>The current framework requires auditors to appropriately address the referral fee income, consider the actual or perceived risks, and to apply safeguards in the context of the environment of their firm, fees and sources of fees to eliminate the threat, or reduce it to an acceptable level.</p> <p>Further, the Australian Taxation Office’s current view is that 20% threshold for referral fees is a “<i>useful guide</i>”. Utilising the current principals-based approach overlaid with industry specific regulator guidance is appropriate and practical. It eliminates the distortions and unintended consequences that emerge where standards become prescriptive.</p> <p>Current Standard – Paragraph AUST R410.3.1: When the total fees in respect of multiple Audit Clients referred from one source represent a large proportion of the total fees of the Firm expressing the audit opinions, the Firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level. [Emphasis added]</p>	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Proposed Standard – Paragraph AUST R410.14.1: When the total fees in respect of multiple Audit Clients referred from one source represent more than 20% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions, the Firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an Acceptable Level. [Emphasis added]</p> <p><u>Codifying a Threshold – Consistency</u> We note an inconsistency in how threshold percentages are positioned, and to be applied across different provisions within the exposure draft.</p> <p>When we look to the fee dependence threshold at paragraph R410.15 (ED 03/21), regarding audit clients that are not Public Interest Entities, a threshold of 30% is proposed for a single audit client. Further, these are proposed to be applied and tested after five years.</p> <p>Paragraph AUST R410.14.1 does not equally provide for a similar period over which auditors must consider audit fees from a single referral source. The period over which the standard is to be applied is not stated or defined.</p> <p>When considering fee dependency and the associated risks, it is difficult to see the difference between a parcel of fees from one referral source to a single audit client. It could be argued that the referral of a parcel of fees poses a lower risk to a single audit client.</p> <p>RECOMMENATIONS:</p> <p>The current framework and standard are to be retained and is to be supplemented by Regulator guidance to address industry specific issues and concerns.</p> <p>If a threshold test is to apply, a threshold of 30% should apply in respect of total fees from multiple audit clients referred from one source. This ensures a consistent approach.</p> <p>A period of two (2) years to be introduced over which auditors must consider audit fees from a single referral source.</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
35.	AUST R410.14.1	SMSF Assoc.	<p><u>No Test Time Defined</u></p> <p>The exposure draft does not address at what point in time the threshold test must be considered or applied. This can result in a vastly different outcome when applied at different points across a financial year.</p> <p>Concerns are held that an auditor may take genuine steps to comply with the standards, yet still fall foul of these provisions if a regulator or a court, were to apply the threshold at a different point in time.</p> <p>An auditor may in good faith, at the start of a new financial year, undertake an assessment of their likely fee income and sources for the year. Whilst fees, including referral fees, for the previous year may assist in a budgeting or planning process, there are no guarantees that the same level of work will be received the following year.</p> <p>There are a variety of external factors that will impact the referral of audits that may not be known by the auditor. An unexpected increase or decrease in referrals may occur during the year. Indeed, fluctuations are not uncommon. It is the extent or degree that often can not be determined.</p> <p>Member's also raised concerns about how they are to assess a proposed new referral of audit fees. In practice, these are not guaranteed to come to fruition. A new referral partner may indicate at the start of the relationship to submit, for example, 100 SMSFs for audit. However, only a small fraction of these (e.g. 20 or 40 audits) may be received.</p> <p>The number of audits to be received by an auditor are contingent only until the audit is physically received.</p> <p>The auditor cannot control this environment and often won't know until the end of the financial year what their actual audit program for the year looked like, or what the value and percentage of fees from various sources were.</p> <p>We understand that the threats and risks need to be appropriately considered and addressed at various points during the financial year. Whether this is at the start of a financial year when planning for the year ahead, or when the auditor is approached by a potential new referral source, or on review at the end of the financial year.</p> <p>To codify a specific percentage puts the auditor in an impossible position. At what point in time does the auditor need to comply with the threshold? Or should the auditor simply assume that the threshold will not be met and apply safeguards. This would likely involve at least annual independent audit reviews, which are costly, time consuming and increase the cost of business.</p>	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Auditors should be able to address these issues as part of their ASQC 1 <i>Quality Control for Firms that Perform Audits and Review of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements</i> issued by the Auditing and Assurance Standards Board.</p> <div style="border: 1px solid black; padding: 5px;"> <p>RECOMMENATIONS: Auditors need to reasonably consider, and appropriately apply the standards at all times.</p> <p>Auditors need to ensure that their ASQC quality control processes and procedures adequately address auditor independence and the impact of referral fees.</p> <p>Audit procedures and work papers should appropriately address auditor independence and the impact of referral fees for all audit engagements.</p> </div>	
36.	AUST R410.14.1	SMSF Assoc.	<p><u>Codifying a Threshold with Appropriate Safeguards</u> Regardless of the final threshold that is to apply, it is essential that practical and appropriate safeguards are preserved, and that auditors are able to apply those safeguards reasonably and practically.</p> <p>Any guidance through the updated <i>Independence Guide</i> that follows any future update to APES 110, needs to be reflective of industry best practice, but also be practical, easily implemented and cost effective.</p> <p>Our members are concerned that the introduction of a codified threshold will become a hard test that will require them to decline some, if not all of the audits referred to them from a particular referral source.</p> <p>The concern is that the Regulator’s intent for these proposed changes, and industry’s interpretation of them, may differ to any further interpretive guidance contained in a future version of the <i>Independence Guide</i>. Future guidance may result in any thresholds that are codified, evolving into a hard threshold test.</p> <p>Concerns were raised around the potential increase to compliance costs and the costs to SMSF trustees.</p> <p>In the current SMSF audit environment, auditors have been subject to ever increasing compliance obligations. This is largely due to the ever-evolving legislative environment and continued engagement by the Australian Taxation Office as regulator.</p>	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Concerns were also raised on what additional compliance burdens will be placed on auditors and the resulting cost to business. Many SMSF auditors operate within small businesses. They uniformly agree on the need for clear and consistent standards. However, compliance with the standards should not be onerous, either administratively, or financially.</p> <p>In an environment that has seen continued increases to compliance obligations placed on SMSF auditors, real concerns are held as to the additional cost to business, in an environment where margins are already under pressure.</p> <p>This is also of particular concern to small firms and start-ups, as there are no considerations included in the exposure draft as to how the proposed changes would apply to new firms as distinct from established firms.</p> <p>It was noted that the impact of these changes disproportionately impacts smaller firms as opposed to larger firms or those operating within large corporate businesses structures.</p>	
37.	AUST R410.14.1	SMSF Assoc.	<p><u>Threshold Test Met but Small Audit Books</u></p> <p>Strong concerns were raised by our members around auditors who may meet a codified fee threshold, due to the presence of other non-audit fee income or sources. Particularly where the auditor undertakes only a small number of audits each year. The auditor takes on these engagements each year for the sole purpose of maintaining their SMSF auditor registration with ASIC.</p> <p>Presently there are no prescribed minimum audit numbers that need to be conducted. However, ASIC has the power to cancel an auditor's registration where no audits have been completed over a period of time.</p> <p>Although the auditor complies with the codified threshold, they nonetheless encounter the same independence threats, as practitioners who undertake a greater number of audits from various sources. The risk to independence arises as the auditor would not want to lose their audit engagements in order to preserve their ASIC auditor registration.</p> <p>We are not advocating for the codification of a minimum number of audits into APES 110. This determination should be left to the regulators and where appropriate, legislative change. However, the example highlights how the introduction of a threshold does not eliminate auditor independence risks in this circumstance.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
38.	AUST R410.14.1	SMSF Assoc.	<p><u>Loss of a Referral Source</u></p> <p>A firm may have multiple referral sources, none exceeding the prescribed threshold. However, similar threats can emerge to those addressed in the exposure draft where:</p> <ul style="list-style-type: none"> • There is a risk that the firm will lose one its referral sources • The loss of those audits will cause one or more remaining referral sources to exceed the threshold. • As a result, the firm is required to undertake further work due to the additional procedures required which is a time cost to business. • Additional costs will be incurred as the scope and size of any annual reviews will be expanded. <p>Consideration on the impacts of actual or perceived independence threats should not only be applied on the acquisition of new audit clients, but also on the possible loss clients. Including where the parcel of fees itself sits below any prescribed threshold.</p>	No
39.	AUST R410.14.1	SMSF Assoc.	<p><u>Test Application to be Expanded</u></p> <p>The current framework requires auditors to consider referral fees in the context of the firm's total fees. The exposure draft is more detailed and prescriptive and is to apply to the "total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions" (AUST R410.14.1).</p> <p>For some firms, due to their size and structure, the test will need to be applied at multiple levels. If the test is applied at the firm level, accounting for firm wide income, could result in audit fees from one referral source falling well below a prescribed threshold. However, when we distil that down further to the engagement partner, the outcomes can be very different.</p> <p>This becomes further complicated when we consider the definition of an Engagement Partner:</p> <p><i>The partner or other person on the Firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body [Emphasis added]</i></p>	Yes, revised para AUST R410.14.2

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>This definition has wider application to those who are business owners or equity holders in a firm. An example from one of our members involves:</p> <ul style="list-style-type: none"> • The Firm has three (3) equity partners • None of the partners are ASIC Registered SMSF auditors • One (1) senior staff member in the firm is the sole ASIC Registered SMSF auditor <p>Clarity is needed on how the definition is intended to be applied in this type of scenario and other practice structures and arrangements.</p> <p>This scenario also highlights how the application of this exposure draft will be vastly different, depending upon the size and structure of the firm, how it operates and who undertakes audits within the firm.</p>	
40.	AUST R410.14.1	SMSF Assoc.	<p><u>Referral Source - Definitions</u> The concept of a referral source or a referrer needs to be clearly and specifically defined.</p> <p>At first instance, a referring firm such as an accountancy practice or administrator are obvious examples. However, in practice we see a range of different relationships and business activities around SMSF audits.</p> <p>These could include panel or pooling arrangements. Is the panel or the audit pool considered to be the referral source? Or are the firms contributing audit engagement to the panel or the pool the referral relationship?</p> <p>The panel or audit pool are merely the mechanism by which the referral partner seeks to engage with an independent, registered auditor. Often there is no commercial arrangement between the administrator or the audit panel or pool and the SMSF auditor. The operator merely acts as a facilitator. It then falls upon the respective parties to negotiate any commercial arrangements, fees etc.</p> <p>We would suggest that in circumstances as set out above, the referral partner should be the firm contributing the audit engagement, and not the mechanism that connects the auditor and accountant/administrator.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
41.	R410.15	CA ANZ	<p>Total Fees – Fee Dependency</p> <p>Audit Clients that are not Public Interest Entities</p> <p>We do not support the proposal in paragraph R410.15 to include a threshold and timeframe for firms to address threats created by fee dependency on a single non-PIE client. We believe this gives rise to a risk that the focus will be solely on fulfilling compliance requirements rather than the application of principles within the Code. In situations where fee dependency on a single non-PIE client continues for an extended period, in our view firms should continue to comply with the fundamental principles and apply the conceptual framework and the general provisions within the Code.</p> <p>The 30% threshold seems quite arbitrary and therefore may not be appropriate in all circumstances. The IESBA acknowledged in its ED that <i>“the thresholds proposed are not scientifically determined”</i> and there is <i>“no empirical evidence as to what [the threshold] should be”</i>. If the APESB is to prescribe specific thresholds and timeframes as criteria for assessing compliance with requirements, it should be jurisdiction specific and evidence based.</p>	No
42.	R410.20 and R410.21	CA ANZ	<p>Audit Clients that are Public Interest Entities</p> <p>It is important to consider that PIEs are not always large entities serviced by large audit firms or network firms. In Australia PIEs can be small entities, whose auditors are SMPs.</p> <p>We encourage the APESB to carefully consider the impact of these proposals on smaller firms' ability to engage with markets, particularly where they may, in effect, result in mandatory audit firm rotation. For example, the proposal in paragraph R410.20 to require a firm to cease to be the auditor if fee dependency on a single PIE client continues after five consecutive years may practically result in there being no option for a firm, other than to resign from the engagement. The potential unintended consequences of this may include concentration of audit services with larger firms, leading to further public interest concerns similar to those raised during the inquiry into the regulation of audit in Australia.</p> <p>Also, auditors of public companies who wish to resign from office under the <i>Corporations Act 2001</i> must seek ASIC's consent to resign which adds a further layer of complexity.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>We welcome the recognition that there may be compelling reasons for a firm to continue to be an auditor after five consecutive years of fee dependency on a single PIE client. However, we are concerned that the proposed exception provided in paragraph R410.21(b) may be impractical to implement due to the potential limited availability of suitably skilled auditors in certain sectors to perform a pre-issuance review. This also may have the effect of restricting market participation.</p> <p>We note that the proposed exception provided in paragraph R410.21(a) requires that <i>“the Firm consults with a regulatory or Professional Body in the relevant jurisdiction and it concurs that having the Firm continue as the auditor would be in the public interest”</i>. We highlight that CA ANZ is not intending to offer this as a service, so this proposal may not be able to be operationalised in Australia.</p>	
43.	R410.28	CPAA	<ul style="list-style-type: none"> R410.28. It is not clear that the implications of having an auditor advise the client’s Those Charged with Governance (TCWG) that they have become a client which pays them fees that amount to over 15% of the Firm’s total fees, have been fully considered and explained. Arguably, by doing so, it creates or heightens the potential intimidation threat, and may embolden the client to attempt to exert greater undue influence. Also, it potentially creates a situation where safeguards will be introduced (at a cost), that will increase the fees being paid by the client which then potentially heightens the perceived fee dependency. Firms may benefit from greater clarity – for example, the objective/purpose of the communication –and guidance with respect to how such communications with TCWG should occur, as well as the most appropriate timing of them. 	No
44.	AUST 410.29.1 A1	AUASB	<p>Consistent with the International Code¹, ED 03/21 includes a requirement for auditors of Public Interest Entities to disclose fees for the audit of the financial statements and fees for other services, to those charged with governance, and publicly if the entity does not disclose this information. However, in practice as the Australian Accounting Standards require this information to be disclosed in the financial statements, auditors would disclose this only to those charged with governance.</p> <p>To facilitate consistency of this disclosure, ED 03/21 has an additional Australian paragraph² with guidance on how to categorise services for audit and other services. This guidance is also in response to the recommendation by the PJC3 that the FRC and ASIC, by the end of the 2020-21 financial year, oversee consultation, development, and introduction of fee disclosure requirements for defined categories of audit and non-audit services.</p> <p>In principle the AUASB supports the inclusion of categories of services for auditors to facilitate consistent disclosure of this information, in ED 03/21. However, these categories must be consistent with those included in the Australian Accounting Standards. The AASB have a current project which proposes to amend AASB 1054 <i>Australian Additional Disclosures</i> to address fee disclosure requirements for defined categories of audit and non-</p>	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			audit services. The AUASB encourages the APESB and the AASB to continue to work together to ensure the categories are aligned.	
45.	AUST 410.29.1 A1	CA ANZ	<p>Proposals to address key recommendations from the inquiry into regulation of audit in Australia</p> <p>It is important to be cognisant that the Government is yet to respond to the recommendations in the final report of the parliamentary inquiry into audit regulation. As recognised in the report, the inquiry has already prompted many positive steps and enhancements in audit regulation.</p> <p>PJC Inquiry Recommendation 3: The committee recommends that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of ... defined categories and associated fee disclosure requirements in relation to audit and non-audit services.</p> <p>New paragraph inserted:</p> <div style="border: 1px solid black; padding: 5px;"> <p>AUST 410.29.1 A1 Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients:</p> <p>(a) Audit services - which includes:</p> <ul style="list-style-type: none"> ○ Audit Engagements and audits of Related Entities for Audit Clients that are Public Interest Entities; ○ Audit Engagements and audits of Related Entities for which the Audit Client has direct or indirect control; and ○ Review Engagements in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. <p>(b) dit-related services - which are services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:</p> <ul style="list-style-type: none"> ○ Reporting required to be provided by the external auditor by laws or regulations; ○ Reviews of interim financial information; ○ Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor’s report to ASIC on an Australian Financial Services licensee using Form FS 71); ○ Reporting to a regulator on client assets; </div>	Yes, deferrall of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<ul style="list-style-type: none"> ○ Reporting on government grants; ○ Reporting on internal financial controls when required by law or regulation; and ○ Additional audits or reviews performed on financial information and/or financial controls that have been authorised by Those Charged with Governance. <p>(c) Other assurance services - comprise all Assurance Engagements other than (a) and (b) above. For example:</p> <ul style="list-style-type: none"> ○ audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus; ○ services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and ○ audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor's report on the financial statements. <p>(d) Taxation Services - which comprises any Professional Activities performed by a Member relating to ascertaining a client's tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to rely on the Professional Activities. This includes:</p> <ul style="list-style-type: none"> (i) preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority's requests for further information; (ii) Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements; (iii) provision of tax planning and other tax advisory services; and (iv) assisting a client in the resolution of tax disputes; and <p>(e) Other services - which comprise any service not covered in (a) – (d) above.</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>We believe that public disclosures relating to fees charged by the entity's audit firm are best made in the entity's financial statements. We support greater disaggregation in the disclosure in financial statements of fees paid or payable to auditors. In our submission to the inquiry into the regulation of audit in Australia we suggested four categories of fee disclosures – audit, assurance, audit related, and non-audit related services.</p> <p>The Code is a sensible place to define the different categories of services that may be provided by an auditor due to the interrelation with the non-assurance services provisions in the Code. However, we recommend this is positioned in the context of proposed paragraph R410.25 which requires the firm to communicate with those charged with governance the fees charged for the provision of "other services" by the firm or a network firm, as opposed to in relation to public disclosures.</p> <p>We understand the Australian Accounting Standards Board (AASB) has an ongoing project, jointly with the New Zealand Accounting Standards Board (NZASB), to improve disclosures of fees charged by the entity's audit firm. Since financial statement disclosure requirements are more appropriately achieved through accounting standards, we encourage the APESB to work closely with the AASB to get these same definitions recognised in Australian Accounting Standards for financial statement disclosure purposes.</p>	
46.	AUST 410.29.1A1	Deloitte	<p>In relation to Australian specific paragraphs included in the ED, we have the following comments:</p> <p><i>Categories of Fee disclosures by the Auditor (proposed para AUST 410.29.A1)</i></p> <p>We understand the APESB's efforts to assess whether it can address the PJC Inquiry's recommendation that the FRC and ASIC "oversee consultation, development and introduction under Australian standards of defined categories and associated fee disclosure requirements in relation to audit and non-audit services". We also support efforts to improve the consistent categorisation and improved disclosure of information regarding fees paid to the auditors of Public interest Entities.</p> <p>However, as provided in 410.29 A1 and in accordance with Australian laws, it is the audit client that makes the fee disclosures, not the firm. We consider such fee disclosure requirements should be contained in AASB 1054, and if it is considered necessary to include such guidance in the Code, then it should be only included once aligned with the requirements contained in the Australian Accounting Standards. We urge the APESB to work with the Australian Accounting Standards Board (AASB) to agree and issue consistent fee disclosure requirements.</p>	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
47.	AUST 410.29.1 A1	EY	<p>Public Disclosure of Fee-related Information</p> <p>The proposed paragraph AUST 410.29.1 A1 states that “Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients”.</p> <p>We support transparency and communication with those charged with governance at the audit client and the public as an element of safeguarding independence. However, we believe that public disclosure of fee-related information is a financial reporting matter and accordingly is primarily the responsibility of the audit client in complying with the appropriate financial reporting framework and not the auditor. It is the auditor’s role to opine on whether the financial report complies with the financial reporting framework. Accordingly, the disclosure of audit and non-audit fee information and should be addressed by the financial reporting framework, being the <i>Corporations Act 2001</i> or an appropriate Australian Accounting Standard issued by the Australian Accounting Standards Board (AASB).</p> <p>The Parliamentary Joint Committee on Corporations and Financial Services (PJC) Inquiry into the regulation of auditing in Australia recommended the development of defined categories and associated fee disclosure requirements in relation to audit and non-audit services in Australian Accounting Standards. Whilst there is a financial reporting requirement to disclose audit and non-audit fees, the PJC noted that “current practice is that reporting entities develop their own criteria as to what constitutes the different categories of services (for example, audit-related or other assurance services) as reported in entities' financial statements”. We note that the PJC Interim Report did not recommend that auditors take responsibility for this disclosure.</p> <p>We do not believe APES110 as it applies to auditors should purport to contain financial reporting requirements or seek to impose financial reporting requirements on auditors, who are not the preparers of financial reports.</p>	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
48.	AUST 410.29.1 A1	IPA	<p>Disclosure of fees for audit and other services</p> <p>AUST 410.29.1 A1 proposed that <i>'Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients'</i>.</p> <p>We are of the opinion that mandated disclosure of fees for audit and other services in financial statements should be prescribed by the Australian Accounting Standards Board. If AASB does not mandate such disclosures, then the Auditing and Assurance Standards Board should require disclosure in the independent auditor's report.</p> <p>In the interim, we support the proposed disclosure subject to the following specific comments. When AASB or the AUASB has mandated disclosure and those disclosures have become operative, then AUST 410.29.1 A1 should be removed.</p> <p>The following comments are made on the proposed requirements:</p> <ul style="list-style-type: none"> • Disclosures of audit and other fees should be recommended to client for disclosure in the financial statements. Where such disclosure is not made, the auditor should consider disclosure in the independent auditor's report. The first sentence of AUST 410.29.1 A1 needs to be clarified in this respect • There is no reference to the amounts for the each of services listed • There is no reference to disclosure of the specific services provided. The probable default will be to boarder headings of 'audit services', 'audit-related services', 'other assurance services', 'taxation services', and 'other', rather than specific nature of service provided • We note the drafting practice of current AASB standards to contain a disclosure objective. The proposed considerations would benefit from a statement as to what objective is to be achieved and then application guidance as to how that may be achieved, and • We understand that both the AASB and AUASB have considered the nature of fee disclosures and any interim disclosure considerations proposed by APESB should be cognisant of deliberations of the other standard-setting boards. 	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
49.	AUST 410.29.1 A1	KPMG	<p><u>Paragraph AUST 410.29.1 A1</u></p> <p>1. KPMG is mindful of the Australian Accounting Standards Board's 'Auditor Remuneration Disclosures' project in relation to AASB 1054 <i>Australian Additional Disclosures</i> to enhance auditor remuneration disclosures in the financial report. KPMG understands the AASB's timeline for finalising and issuing its revised Standard is December 2021. In that context, KPMG questions the appropriateness of the APES Board revising APES 110 to standardise fee disclosures at this time. In particular, KPMG is concerned that if the AASB adopts a different position regarding auditor remuneration disclosure:</p> <ul style="list-style-type: none"> • it may result in confusion and inconsistent approaches and applications in practice; and • as guidance, the APES 110 guidance would be subordinate to the AASB's requirements. <p>In support of audit quality, the content of APES 110 should be consistent with the final AASB 1054 Standard to avoid confusion and inconsistent application in practice.</p>	Yes, deferral of AUST 410.29.1 A1
50.	AUST 410.29.1 A1 and 410.31 A3	PP	<p>Public Disclosure of fee related information</p> <p>AUST 410.29.1 A1</p> <p>Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients:</p> <p>(a) Audit Services – which includes:</p> <ul style="list-style-type: none"> • Audit Engagements and audits of Related Entities for Audit Clients that are Public Interest Entities; • Audit Engagements and audits of Related Entities for which the Audit Client has direct or indirect control; and • Review Engagements in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. <p>(b) Audit-related services - which are services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:</p> <ul style="list-style-type: none"> • Reporting required to be provided by the external auditor by laws or regulations; • Reviews of interim financial information; • Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor's report to ASIC on an Australian Financial Services licensee using Form FS 	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>71);</p> <ul style="list-style-type: none"> • Reporting to a regulator on client assets; • Reporting on government grants; • Reporting on internal financial controls when required by law or regulation; and • Additional audits or reviews performed on financial information and/or financial controlsthat have been authorised by Those Charged with Governance. <p>(c) Other assurance services - comprise all Assurance Engagements other than (a) and (b)above. For example:</p> <ul style="list-style-type: none"> • audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circularor prospectus; • services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsoror nominated advisor; and • audit and other assurance services relating to public reporting on other information issuedby the entity, such as reports on information in the front of annual reports not covered by the auditor's report on the financial statements. <p>(d) Taxation Services - which comprises any Professional Activities performed by a Memberrelating to ascertaining a client's tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to relyon the Professional Activities. This includes:</p> <ol style="list-style-type: none"> I. preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to therevenue authority's requests for further information; II. Subject to the prohibition in paragraph R604.10, preparation of tax calculations to beused as the basis for the accounting entries in the financial statements; III. provision of tax planning and other tax advisory services; and IV. assisting a client in the resolution of tax disputes; and <p>(e) Other services - which comprise any service not covered in (a) – (d) above</p>	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<p>Comment: Just a comment on the layout, Taxation services points are numbered (i –iv) and the other categories are bullet points. Consistency should be applied to the numbering.</p> <p>These categories may require firms to implement changes to their billing systems/matter codes so that totals for each of these categories can be easily pulled together. For smaller firms this may be more difficult, and come with additional costs.</p> <p>The aim of the provisions in 410.29 A1 to 410.30 A1 is to get all public interest entity clients to make the disclosure of the relevant fee information, however if they decide not to do that, the audit firm must disclose it per R410.31 and 410.31 A3 provides guidance on where this can be disclosed. We question whether it is appropriate for a professional standard setting body (APESB) to mandate disclosures in financial information for which neither they nor their members have responsibility to prepare. Inreality, not all public interest entity audit clients will agree to publicly disclosing fees inaccordance with the Code, therefore firms may need to disclose this in some situations. As the disclosure is required for each client not on a total firm basis, most of the options for disclosure by the firm as provided in 410.31 A3 (see below) don't seem appropriate. The firm website, transparency report or audit quality report would potentially be ok if it was total fees for all clients but not for individual client disclosures. We do not consider the audit report an appropriate place to disclose fees for the reasons documented in our submission from April 2020 (refer Q 11), however, if the public interest entity is not prepared to make the required disclosures, then an audit report qualification may need to be considered for non-compliance with disclosure requirements. A targeted communication to specific stakeholders, for example a letter to the shareholders, may require approval from Those Charged with Governance. We question whether a better solution might be for the APESB to lobby for a change to the laws/regulations requiring the disclosure.</p> <p>410.31 A3</p> <p>When disclosing fee-related information in compliance with paragraph R410.31, the Firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:</p> <ul style="list-style-type: none"> • On the Firm's website. 	

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
			<ul style="list-style-type: none"> In the Firm's transparency report. In an audit quality report. Through targeted communication to specific stakeholders, for example a letter to the shareholders. In the auditor's report. 	
51.	AUST 410.29.1 A1 (a)	KPMG	<p><u>Paragraph AUST 410.29.1 A1(a)</u></p> <p>2. For paragraph (a), the entities to which the categorisation of services apply is determined by the inclusion of the defined term Audit Client in the lead in to AUST 410.29.1 A1. We therefore consider that paragraph (a) can be simplified to 'Audit services – which includes Audit Engagements and Review Engagements.</p> <p>3. We consider it appropriate for 'Reporting required to be provided by the external auditor by laws or regulations' to be reclassified from 'Audit-related services' to 'Audit services'. Given the services are required by law or regulation, and are required to be provided by the external auditor, we consider it logical and appropriate that they be treated in the same manner as Audit Engagements and Review Engagements from an independence perspective and hence a fee disclosure perspective.</p>	Yes, deferral of AUST 410.29.1 A1
52.	AUST 410.29.1 A1 (b)	KPMG	<p><u>Paragraph AUST 410.29.1 A1(b)</u></p> <p>4. The wording could be revised to clearly articulate the classification captures services other than the services noted in paragraph AUST 410.29.1 A1(a).</p> <p>5. It is unclear how "Reviews of interim financial information" differ from review engagements mentioned in AUST 410.29.1.A1(a). This may result in inconsistent application in practice. We recommend further clarification is provided for users to enable them to determine the different types of review engagements being referred to in paragraph AUST 410.29.1.A1(a) and this paragraph. Alternatively, "Reviews of interim financial information" could be reclassified as Audit services</p>	Yes, deferral of AUST 410.29.1 A1
53.	AUST 410.29.1 A1 (c)	KPMG	<p><u>Paragraph AUST 410.29.1 A1(c)</u></p> <p>6. Consider including examples for other assurance services, such as those required under contractual arrangements, for example "assurance on revenue information relevant to a royalty agreement", or in relation to sustainability reporting.</p>	Yes, deferral of AUST 410.29.1 A1

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
54.	R410.31	CPAA	<ul style="list-style-type: none"> • R410.31. While CPA Australia recognises that this situation is unlikely to occur in Australia – given the reporting and disclosure requirements for most public interest entities – it is inappropriate for an auditor to disclose information about engagement fees/commercial transactions, that is the responsibility of the client to disclose. Arguably, it is tantamount to a threat by the auditor to the client: “disclose or else”. Moreover, it is not clear that it is the role of the IESBA, or the APESB, to specify reporting and disclosure requirements for companies. This is the role for financial reporting standard setters or regulators. While a discussion and encouragement by the Firm to TCWG to make such disclosures (as per R410.30) is appropriate, consideration might be given to deleting R410.31 (and the associated explanatory paragraphs). 	No
55.	410.31 A3, fifth dot point	CPAA	<ul style="list-style-type: none"> • R410.31 A3, fifth dot point. Following on from the previous point, should R410.31 remain, the auditor’s report is arguably not the right place for such a disclosure to be made. Moreover, inclusions in an auditor’s report are for the IAASB/AUASB to determine, not the IESBA/APESB. 	No
56.	AUST R411.4	CA ANZ	<p>PJC Inquiry Recommendation 5: The committee recommends that the Accounting Professional and Ethical Standards Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.</p> <p>[Deleted text struck through, new text underlined]</p> <p>AUST R411.4. A Firm shall not evaluate or compensate a Key Audit Partner, <u>either directly or indirectly</u>, based on that partner’s success in selling non-assurance services to <u>any the partner’s Audit Clients of the Firm</u>. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other services lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm’s Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.</p> <p>We support broadening the extant prohibition on audit partners being incentivised, either directly or indirectly, for selling non-assurance services to their audit clients to now prohibit incentivisation for sales of non-assurance services to all audit clients of the Firm. We understand this is consistent with many firms existing internal policies around cross-selling, so we do not believe it would present a significant change in practice.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
57.	AUST R411.4	CPAA	<ul style="list-style-type: none"> R411.4. CPA Australia recognises that this proposed paragraph effectively extends (from a partner's Audit Client to the Audit Clients of the Firm) the prohibition that currently exists in R411.4; and that it follows from a recommendation made by the recent report of Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Regulation of Auditing in Australia. While generally supportive of its inclusion, feedback from members suggests that it is important that the prohibition does not prevent a partner from fulfilling his/her responsibilities as a partner. Moreover, as an alternative to a prohibition, consideration might be given to having full disclosure and transparency requirements where a partner secures non-assurance service business from a client that is not his/her specific client. 	No
58.	AUST R411.4	IPA	<p>Compensation and evaluation policies</p> <p>The proposed amendments concerning the incentivisation of audit partners comes from Joint Committee (PJC) on the Regulation of Auditing in Australia. We support, APESB acting in a timely manner on those proposals that are relevant to the Code.</p> <p>AUST R411.4 proposes that <i>'A Firm shall not evaluate or compensate a Key Audit Partner, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the Audit Clients of the Firm. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other services lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm's Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.'</i></p> <p>There are two requirements in this paragraph as identified by 'shall', these should be addressed in separate paragraphs.</p> <p>We support the first requirement being a clarification of R411.4 with references to: 'either directly or indirectly' and the extension to any audit client of the firm rather than just those of the key audit partners.</p> <p>In relation to the second requirement, examples should be provided of 'reasonable steps'.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
59.	AUST R411.4	PP	<p>Compensation and Evaluation policies</p> <p>AUST R411.4 A Firm shall not evaluate or compensate a Key Audit Partner, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the Audit Clients of the Firm. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other services lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm's Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.</p> <p>Comment: Clarity is required in relation to the terms 'indirectly' and 'success in selling'. This section could be interpreted as no non-audit services are to be provided to audit clients. The lack of clarity as to what and how 'indirectly' is to be determined and interpreted in a partnership with a profit-sharing approach, combined with the "success in selling" concept provides no guidance as to what is or is not permissible. What does 'success in selling' mean? A client asks for tax advice and is given the name of another partner, is that success in selling or simply providing an option for service? In a profit-sharing arrangement, does a service provided by another partner constitute an incentive as more profit for the firm is more profit for the individual? We also note that this is not limited to PIE clients but all audit clients, is that the intention? The final sentence 'this does not preclude normal profit-sharing arrangements between partners of a firm' requires clarification also because firms would be of the opinion that their current profit-sharing arrangements are normal as they may be the arrangements that have been in place for many years.</p>	No
60.	Transitional Provision Para 5	IPA	<p>Operative Date</p> <p>We support the proposed operative date of the amendments of from 1 January 2023 and the encouragement for early adoption.</p>	No

Exposure Draft 03/21: Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

RESPONDENTS

1	AASB	Australian Accounting Standards Board
2	AUASB	Auditing and Assurance Standards Board
3	AMS [SMP]	Audit My Super
4	CA ANZ	Chartered Accountants Australia & New Zealand
5	CPAA	CPA Australia
6	C Simpson	Campbell Simpson
7	Deed [SMP]	Deed Dot Com Dot AU Pty Ltd (also known as 'Online SMSF Audit')
8	Deloitte	Deloitte Touche Tohmatsu
9	EY	Ernst &Young
10	I Mckenzie [SMP]	Ian Mckenzie
11	IPA	Institute of Public Accountant
12	Joint [SMP]	Elite Super, Tactical Super, Peak Super Audits, Apex Super Audits, Red Willow Super, Terri Scott Accounting
13	KPMG	KPMG
14	PP	Pitcher Partners
15	SMSFAO [SMP]	The SMSF Audit Office
16	SMSF Assoc.	SMSF Association Limited
17	SMSF Auditors Assoc.	SMSF Auditors Association of Australia Ltd