

**Exposure Draft 01/22: 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 01/22: 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 01/22 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.	AUST 410.14.1 A1	IPA	[... IPA generally supports:] <ul style="list-style-type: none"> <li>Amending the drafting of the extant guidance paragraph AUST 410.14.1 A1 to be consistent with the IESBA drafting approach.</li> </ul>	No
2.	AUST R410.14.2 [threshold]	CA ANZ	<p><b>Specific comments</b></p> <p><i>Explicit thresholds</i></p> <p>We support a principles-based Code. Principles-based standards address qualitative factors such as the behaviour of professional accountants. Standards which include requirements based on quantitative factors such as rates or percentages may result in behaviour which is inconsistent with the objectives of the Code. While we do not support arbitrary thresholds to indicate applicability of requirements, we acknowledge that the percentage proposed in AUST R410.14.2 appears to be consistent with the percentages in similar provisions proposed in paragraphs R410.15 and R410.18 of the Code which are consistent with the IESBA Code.</p>	No
3.	AUST R410.14.2 [threshold]	Deloitte	Please find below our responses to the request for specific comments in the ED: <ul style="list-style-type: none"> <li>A 30% threshold appears reasonable as it is consistent with the threshold in R410.15.</li> </ul>	No
4.	AUST R410.14.2 [threshold], [time frame]	IPA	On the key requirements and guidance in Exposure Draft 01/22, IPA generally supports: <ul style="list-style-type: none"> <li>Amending the provision regarding fee dependency on a referral source by introducing an arbitrary 30% threshold combined with a five-year cumulative period to allow existing and new firms a reasonable time period to address threats that may arise from such scenarios.</li> </ul>	No

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5.	AUST R410.14.2, [time frame]	CA ANZ	<p><i>Timing of review</i></p> <p>Proposed paragraph AUST 410.14.1 A1 states that fee dependency creates a definite self-interest or intimidation threat. Considering the definitive nature of these threats, we support a definitive response. We consider the provision of options as to the timing of the review at AUST R410.14.2(a)–(b) is inconsistent with AUST 410.14.1 A1 and possibly other requirements in the Code and may not be in the public interest. We recommend the Board determine which is the most appropriate response to the threats created and make that the requirement. In our opinion a pre-issuance review as proposed in paragraph AUST R410.14.2(a) would be a stronger response to the threats created.</p>	Yes, removal of option (b) in AUST R410.14.2
6.	AUST R410.14.2 [review options – specific comment]	CA ANZ	<p><i>Type of review</i></p> <p>Proposed paragraph AUST R410.14.2 provides three options regarding the type of review to be undertaken where fee dependency extends beyond five consecutive years. We support consistency in the application of requirements across the Code. However, we are concerned that specifying the type of review to be undertaken is inconsistent with similar requirements contained in the Code, therefore, we do not support the level of specificity proposed in options 2 and 3 of the ED. While we agree that <i>ASQM 2 Engagement Quality Reviews</i> provides an appropriate framework for members conducting such a review, we believe it would be more consistent with the Board's drafting conventions to refer to it in application material. We recommend the Board adopt option 1, to require a review by an Appropriate Reviewer, a term already defined and used in the Code.</p> <p>We appreciate that some members may require guidance as to the objectives, nature and extent of a review required under AUST R410.14.2. As a Professional Body requiring our members to comply with the Code we will undertake activities to assist our members understand this requirement</p>	Yes, AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.
7.	AUST R410.14.2 [review options – specific comment]	CPAA	<p>In terms of the APESB's request for "<i>specific comments and feedback on the action that a Member in Public Practice should undertake if, for each of five consecutive years, total fees referred from one source represents more than 30% of the total fees of the Engagement Partner, an Office of the Firm or the Firm expressing the audit opinions</i>", we offer the following comments.</p> <p>CPA Australia prefers Option 1: "have an appropriate reviewer who was not involved in the audit engagement review the audit work."</p> <p>Feedback from our members indicates that they prefer an action that does not require an external engagement. In their view, an external engagement such as a compliance engagement adds significant,</p>	Yes, AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.

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			<p>unnecessary costs and goes beyond the requirements that currently exist for other audits. For example, in ASQM 2 an audit of a public interest entity requires an engagement quality review, typically undertaken by a person(s) within the firm.</p> <p>We recognise that for sole practitioners and very small firms, there would be a need to engage an external party regardless of the action taken. However, for those smaller sized practices that have the capacity to undertake a review without engaging an external party, a compliance engagement is not considered to be the most appropriate course of action.</p>	
8.	AUST R410.14.2 [review options – specific comment]	Deloitte	<ul style="list-style-type: none"> <li>• It would seem to be an appropriate approach for the structure and safeguards in AUST R410.14.2 to be consistent with the structure and safeguards in R410.15, however the rationale for taking a different approach has not been provided.</li> <li>• We consider that the approach and wording of proposed safeguards in AUST R410.14.2 should be consistent with those already in the Code, for example those in R410.15 or 410.14 A7.</li> <li>• We also consider that the safeguards should not stipulate the type of review required. Therefore, we do not support the introduction of references to ISQM2 and the insertion of AUST 410.14.2 A1. If a review of the audit work is a potential safeguard, we consider this should be consistent with other references in the Code, for example in 400.73 A1 "...a review that is consistent with the objective of an engagement quality control review".</li> <li>• We do not support option 3 as it is not action that might be a safeguard to address or eliminate the intimidation or self-interest threats. The existence of policies and procedures established by the firm are not safeguards under the conceptual framework of the Code.</li> </ul>	Yes, AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.
9.	AUST R410.14.2 [review options – specific comment]	IPA	<p>[... IPA generally supports:]</p> <ul style="list-style-type: none"> <li>• Establishing an additional requirement to clarify actions to be taken if the fee dependency on a referral source continues past 5 years. IPA prefers option 1 (have an appropriate reviewer who was not involved in the audit engagement review the audit work) over options 2 and 3 if the fee dependency on a referral source continues beyond five years on the basis that option 1 is consistent with proposed paragraph 410.14 A7. It is hoped this requirement will act as a catalyst for professional accountants to manage the fee dependency within the five-year cumulative period.</li> </ul>	Yes, AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.

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10.	AUST R410.14.2 [review options – specific comment]	Joint SMP	<p><u>To recap:</u></p> <p>So basically, looking at the proposed revisions, in a situation where for 5 years running total fees from audit clients comprise more than 30% of total fees (re engagement partner, office or firm), there are 3 possible actions that can be taken as possible safeguard to reduce independence threats to a suitable level:</p> <ul style="list-style-type: none"> <li>• Arrange a review by an appropriate reviewer re 5th year work as per APES 110 Aust 410.14 A7 (screenshot below - pretty open ended)</li> <li>• Arrange a review of 5th year work as per ASQM 2 (compliance standard updated in 2021, relevant section attached - again fair bit of discretion)</li> <li>• Arrange for a compliance engagement regarding 5th year work (engagement would be conducted per ASAE 3100 - nothing new here).</li> </ul> <p><u>Fallout:</u></p> <p>Under any of these options, it looks like a fair bit is left to reviewer discretion re selection of jobs/number of jobs for review/audit. Reading between the lines, this should mean the reviewer (or engagement partner re 3rd option) should have a free hand in conducting the review or audit and requirements are based on characteristics of firm under review. Which sounds good, but there isn't a clear rule of thumb so we're probably going to see just about anything in terms of job selection.</p> <p><i>So it would be good if the type of review could be spelt out clearer. For the firm being reviewed itself and the appropriate reviewer too.</i></p> <p><i>The ATO have some information on their website regarding an appropriate reviewers</i></p> <p><a href="https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Auditor-Independence/?page=5#Appropriate_reviewer_requirements">https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Auditor-Independence/?page=5#Appropriate_reviewer_requirements</a>. A sampling approach is mentioned however this is not clearly stepped out. Also what we are to do with the audit findings if asked to be an appropriate reviewer?. Ie do we provide a copy of the findings and audit report to the firm being reviewed and the sampling methodology, or part of the audit file to that firm. In what situations do we report breaches of the particular framework to the ATO? What do we do if we find significant breaches of standards?</p>	<p>Yes,</p> <p>AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.</p>

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11.	AUST R410.14.2 [review options - specific comment]	Joint [SMP]	<p><b>OPTIONS:</b>                      We feel there is a place for both the audit and review safeguard.                      We're not sure though why it's necessary to include two review alternatives (ie appropriate reviewer per APES 110 Aust 410.14 A7 and review per ASQM 2). Is there a reason for both or would the review per ASQM 2 cover it?)                      We suggest the audit option be included with at least one review option.</p>	<p>Yes,                      AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.</p>
12.	AUST R410.14.2 [review options – specific comment]	SMSF Assoc.	<p>We note that this consultation seeks feedback on the "<i>potential action to be taken where the threshold and cumulative time period are met.</i>"</p> <p>The proposed AUST R410.14.2 lists three options for consideration:</p> <ol style="list-style-type: none"> <li>1. A review (performed by an appropriate reviewer as per proposed paragraph 410.14 A7);</li> <li>2. A review (as per ASQM 2); or</li> <li>3. A compliance engagement audit (as per ASAE 3100)</li> </ol> <p>The engagement partner, an office of the Firm or the Firm expressing the opinion are required to determine whether any of the actions listed above "<i>might be a safeguard to reduce the threats to an acceptable level.</i>"</p> <p>We note while the total fees in respect of multiple audit clients referred from one source may exceed the proposed threshold, this is not an absolute indication of the auditor's independence or lack thereof. It is just one factor to consider when assessing the independence risk if there is fee dependency on a referral source.</p> <p>With this in mind, we support all three options listed above being made available to the engagement partner or audit firm. This provides flexibility for the auditor to apply their professional judgement, given their own circumstances, and their need to comply with the other obligations that apply under other provisions.</p> <p>It also aligns this standard with the auditor's existing obligations under ASQM 1 and 2 (which replaces the current ASQC 1) and ASAE 3000 and 3100.</p>	<p>Yes,                      AUST R410.14.2 updated to include only option 1, and removal of proposed para AUST 410.14.2 A1.</p>

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13.	AUST R410.14.2 [reviewer]	CA ANZ	<p><i>Who can perform the review?</i></p> <p>We support the need for a review to be conducted by a qualified and objective professional accountant to address the self-interest or intimidation threat arising when a high proportion of audit fees are generated from a single referral source over a period of time. Proposed paragraph AUST R410.14.2 also sets out requirements for who can undertake the review. The last sentence states "<i>If the fee dependency is for an Engagement Partner or an Office of the Firm, the [review or compliance engagement] shall be conducted by a Member who was not involved in the Audit Engagements.</i>" In our opinion, this does not address the threat appropriately. Where the fee dependency is for an Engagement Partner or an Office of the Firm, we believe that the review should be performed by a reviewer who was not involved in the Audit Engagements <i>and</i> is from another Office of the Firm.</p>	Yes, AUST R410.14.2
14.	AUST R410.14.2 [reviewer]	IPA	<p>[... IPA generally supports:]</p> <ul style="list-style-type: none"> <li>Clarifying which Members in Public Practice can perform a review when assessing fee dependency for either the Engagement Partner, Office of a Firm or the Firm. In relation to the drafting on paragraph AUST R410.14.2, we agree that a review should be conducted by a Member who was not involved in the Audit Engagements, however the reviewer should also be from at least another office of the Firm or external to the Firm in order to appropriately address the self-interest or intimidation threat.</li> </ul>	Yes, AUST R410.14.2
15.	AUST R410.14.2	Joint [SMP]	<p><b>How to report</b></p> <p>We are unsure how / to whom the Reviewer (or Auditor in a compliance engagement) is required to report their findings to an external party. We are not aware of any such requirement in ASAE3100 or ASQM 2.</p> <p>Is there an expectation that the Reviewer/Auditor report negative findings to the ATO / another authority? If so, we suggest that this be codified.</p>	No
16.	AUST R410.14.2	Joint [SMP]	<p><b>Scope of engagement to ensure effective safeguard</b></p> <p>We are assuming that an engagement to secure a safeguard Aust R410.14.2 would restrict its scope to the auditor/audit firm's compliance with:</p>	No

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			<p>1. The auditing standards</p> <p>2. Reporting requirements regarding the SIS Act/Regs (ie reporting in line with reportable provisions/contraventions as defined by the ATO)</p> <p>We assume:</p> <ul style="list-style-type: none"> <li>Assessment of Firm quality control will only be relevant to the compliance audit safeguard, as internal controls must be assessed under ASAE3100. Quality control assessment would not be within the scope of a review under ASQM 2.</li> <li>Assessing firm/office/auditor independence would not be within scope of the review or audit. This is for the ATO to assess. The Review/Audit is only about obtaining a safeguard. It isn't intended to reach any conclusion re independence.</li> </ul> <p>If these assumptions are correct, would it be appropriate that the Code confirm this to avoid confusion?</p>	
17.	AUST R410.14.3	Joint [SMP]	<p><b>SUGGESTIONS TO CLARIFY A FEW THINGS:</b></p> <p>A couple of questions regarding the safeguard options –</p> <p><b>The audit safeguard</b></p> <p>Obviously obtaining a compliance audit opinion is a more robust safeguard than having a review performed under either APES110 Aust 410.14A7 or ASQM 2. We suggest that the Code recognise this difference and the audit safeguard's longevity under certain circumstances. We suggest including the following guidance (or something similar) regarding this safeguard in the Code:</p> <p><i>If the Audit Firm</i></p> <ul style="list-style-type: none"> <li><i>Obtains an unqualified audit opinion as a safeguard under Aust R410.14.2; and</i></li> <li><i>During the 4 yrs following this opinion, the Audit Firm utilising this independence safeguard</i> <ul style="list-style-type: none"> <li><i>- undergoes all professional body reviews without issue</i></li> <li><i>- undergoes any ATO audit without issue</i></li> <li><i>- is not party to litigation relating to audit procedure</i></li> </ul> </li> </ul> <p><i>then there is a presumption that the safeguard afforded by the compliance audit under Aust R410.14.2 continues to be effective for the 4 years following issue of that audit opinion.</i></p>	No

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18.	N/A	Joint [SMP]	<b>Sampling</b> We suggest that the Code include guidance as to the minimum sample size and sample selection process necessary to ensure that audit and review options provide an effective safeguard. There has been a lot of uncertainty about this in connection with the concept of an appropriate reviewer. This would be a great opportunity to codify a minimum standard. We suggest that if the Reviewer (or the Auditor in a compliance engagement) selects their own stratified random sample, the sample size might reasonably be kept quite low (ie 1 fund selected for every 100 to 200 funds)	No
19.	N/A	SMSF Assoc.	We also recommend the inclusion of a short paragraph that acts as an alert. Noting that despite the timing of the application of the threshold test in AUST R410.14.2, auditors must be alert to and consider the risks to independence when accepting audit engagements from a referral source.	No

## RESPONDENTS

1	CA ANZ	Chartered Accountants Australia and New Zealand
2	CPAA	CPA Australia
3	Deloitte	Deloitte Touche Tohmatsu
4	IPA	Institute of Public Accountants
5	Joint [SMP]	Elite Super, Peak Super Audits
6	SMSF Assoc.	SMSF Association Limited