

**Constituents' Submissions – Specific Comments Table**  
**Exposure Draft ED 01/13: Proposed Amendments to the Definitions and Auditor Independence Requirements in APES 110 Code of Ethics for Professional Accountants**

**Note: General comments relating to Exposure Draft ED 01/13: Proposed Amendments to the Definitions and Auditor Independence Requirements in APES 110 Code of Ethics for Professional Accountants are addressed in a separate table. This table excludes minor editorial changes.**

Item No.	Specific Matter No. in Consultation Paper	Respondent	Respondents' Comments
1	Definitions	Deloitte	Deloitte is supportive of the proposed amendments to the definitions.
2	Definitions	CPAA & ICAA	We are supportive of the inclusion in the Code of a paragraph addressing circumstances where auditors may be receiving multiple client referrals from a single source. We consider that this will be a valuable addition to the Code, particularly for those of our members who conduct self-managed superannuation fund audits. We also support the minor editorials in the definition of Immediate Family and preface of sections 290 and 291 as outlined in the ED.
3	AUST 290.220.1	CLHT	The usage of the word 'Firm' here can be confusing with the 'Firm accepting the multiple Audit Clients'. As the rest of the paragraph appears to refer to the 'Firm expressing the audit opinion', I would suggest that the word 'Firm' be replaced by 'organisation' or 'company'
4	AUST 290.220.1	Deloitte	As stated in our correspondence on previous revisions to APES 110, we consider that the revised APES 110 should reflect the wording and structure the IFAC Code of Ethics for Professional Accountants (the Code), preferably with no changes, unless changes are shown to be required for legislative or regulatory reasons. Therefore, we question the need for the addition of proposed paragraph AUST 290.220.1, as the principles of the Conceptual Framework of APES 110, as well as the Independence Guide issued in February 2013 (Independence Guide) by the Joint Accounting Bodies (JAB) provides guidance on the issue of the potential threats to independence created by referrals from a single source. Our detailed comments are set out below.
	AUST 290.220.1	Deloitte	Proposed Paragraph AUST 290.220.1 <i>a) Requirement for addition of paragraph</i> We understand the background to the addition of this paragraph resulted from the government's request of the APESB to develop guidance for Self-Managed Superannuation Fund (SMSF) auditors on how APES 110 applies in the SMSF context. That guidance was included in a chapter on SMSFs in the Independence Guide, which also covered referral fees from a single source (paragraph 9.4.4).  Paragraph 9.4.4 of the Independence Guide states the following:

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			<p>9.4.4 Relationships between auditors and referral sources</p> <p>Referrals of SMSF audit clients will often come from accountants rather than appointments arising from individual trustees. These types of referral arrangements will need to be considered in light of independence requirements. This is despite the fact that the subsequent appointment or engagement is with the SMSF trustee.</p> <p>Where a large percentage of an SMSF auditor's work comes from one referral source, dependence on that referral source and possible concerns centred on retention of the audit clients may create a threat to independence. The Code of Ethics requires auditors to evaluate the threat and apply safeguards where necessary to eliminate the threat or reduce it to any acceptable level. This may include reducing the dependency on the external accounting practice (source of audit client referrals), external quality control reviews or external consultation on key audit judgements. APES 110, Sections 290.220 and 290.221 specifically address the issue of fees and the appropriate safeguards that could be put in place where a firm receives a large proportion of its fees from one source.....</p> <p>We agree that heavy reliance on a particular referral source specifically with regards to SMSFs could create threats to independence, and having guidance is helpful to assist members to evaluate auditor independence in this area. However as Paragraph 9.4.4 of the Independence Guide outlined above adequately addresses this we question the need for an additional paragraph in APES 110.</p>
	AUST 290.220.1	Deloitte	<p>a) <i>Scope of Proposed Paragraph AUST 290.220.1</i></p> <p>As noted above, the proposed addition of AUST paragraph 290.220.1 to APES 110 came from the request by the government to ensure that APES 110 applied to SMSF audits. Furthermore, the reason given for issuing ED 01/13 is that it "addresses risks identified in the SMSF context". However, the proposed paragraph 290.220.1 applies to all audit clients, not just SMSF audits, and there is no background or commentary from the APESB to explain why it considers it necessary for the proposed paragraph to apply to all audit clients.</p> <p>If it was determined that referrals from a single source was a specific risk in the SMSF context, then the proposed additional paragraph in APES 110 should specifically address that and be limited in its application. Otherwise it also seems out of step with the Independence Guide which only discusses the issue in the context of SMSFs. One suggestion may be to consider the following wording:</p> <p>AUST 290.220.1 In certain circumstances another party or Firm may refer multiple <del>Self-Managed Superannuation Fund Audits</del> <del>Audit Clients</del> to a Firm. In these circumstances, when the total fees in respect of multiple <del>Self-Managed Superannuation Fund Audits</del> <del>Audit Clients</del> referred from one source represent a large proportion of the total fees of the Firm expressing the audit opinions, the dependence on that</p>

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			<p>source and concern about losing those <del>Audits</del> <del>Audit Clients</del> creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:</p> <ul style="list-style-type: none"> <li>• The operating structure of the Firm;</li> <li>• Whether the Firm is well established or new; and</li> <li>• The significance of the referring source qualitatively and/or quantitatively to the Firm.</li> </ul> <p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>• Reducing the dependency on the referring source;</li> <li>• External quality control reviews; or</li> <li>• Consulting a third party, such as a professional body or another Member in Public Practice, on key audit judgments.</li> </ul>
	290.220.1	CPAA & ICAA	<p>The proposed paragraph AUST 290.220.1 provides examples of factors that may influence the significance of the threat and examples of safeguards. Two of the three examples provided in both cases are the same as those offered in paragraph 290.220, while the third example replaces the word 'client' with 'referring source'. We are of the opinion paragraph AUST 290.220.1 can refer to the examples of paragraph 290.220 without repeating them thus connecting the two paragraphs and reducing the wordiness of the Code.</p> <p>In addition, while paragraph 290.220 states '...the dependence on that client and concern about losing the client creates a self-interest or intimidation threat' the proposed paragraph AUST 290.220.1 states '...the dependence on that source and concern about losing those Audit Clients creates a self-interest or intimidation threat'. We think that the proposed paragraph should be consistent with paragraph 290.220 to the extent possible and suggest that 'Audit Clients' be replaced with the word 'clients'.</p> <p>Our suggestions will result in paragraph AUST 290.220.1 stating:</p> <p>In certain circumstances another party or Firm may refer multiple Audit Clients to a Firm. In these circumstances, 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 dependence on that source and concern about losing those clients creates a self-interest or intimidation threat.</p>

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			<p>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an Acceptable Level. Paragraph 290.220 provides examples of factors that may affect the significance of the threat and potential safeguards.</p> <p>We are of the opinion that our proposed suggestions do not affect the material content of the paragraph, while reducing the complexity and length of the Code.</p> <p>If the examples in paragraph AUST 290.220.1 are to be retained then we would suggest that the reference to 'a professional body' in the third example of safeguards should be reviewed. We note that while paragraph 290.220 refers to 'a professional regulatory body' this has been amended to 'a professional body' in the proposed paragraph. We are of the opinion that the proposed paragraph should refer to 'Consulting a third party, such as another Member in Public Practice, on key audit judgments'.</p>

**Staff Instructions**

- Comments of a “general” nature should be dealt with first, followed by paragraph specific comments.
- Respondents' comments must be copied verbatim into this table.
- Comments should be dealt with in paragraph order, not respondent order.
- Use acronyms only for respondents. Update the attached table with details of additional respondents.

**RESPONDENTS**

1	CLHT	Christine Lei Huey Tay, Senior Assurance Officer – University of Queensland
2	Deloitte	Deloitte
3	CPAA and ICAA	CPA Australia and Institute of Chartered Accountants Australia