APES 110 – Prohibited Non-assurance Services, Interests and Relationships for Auditors of Public Interest Entities

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) requires audit firms to be independent when undertaking audits, reviews and assurance engagements. In addition, there are specific prohibitions when the entity is a Public Interest Entity (PIE).[1]

APES 110 sets out a conceptual framework for auditors to assess whether non-assurance services, interests or relationships create threats to the auditor's independence. The application of the conceptual framework involves a rigorous analysis of the service, interest, or relationship to identify, evaluate and address threats to independence, and involves a reasonable and informed third party test. The auditor must address or eliminate any threats identified by either applying safeguards (where available and capable of being applied) to reduce the threats to an acceptable level; or decline or end the non-assurance service or the audit engagement. If the service, relationship or interest creates a threat that cannot be eliminated and if safeguards are not available to reduce the threat to an acceptable level, the firm is required to decline or end the service or audit engagement.

The independence assessment must also consider the aggregate impact of multiple threats to independence, including where the fees in respect of multiple audit clients referred represent a large proportion of total fees for the firm. Audit or engagement teams in Australia also specifically excludes individuals within the client's internal audit function as direct assistance by the internal audit function of the entity is prohibited in Australia.

APES 110 also recognises that some situations create threats that cannot be reduced to an acceptable level and are, therefore, specifically prohibited. These **prohibitions** relate to certain non-assurance services, interests, and relationships for auditors of PIEs and are either outright prohibitions or prohibitions based on the materiality to the financial statements of the PIE being audited. APES 110 also prohibits firms from evaluating or compensating audit partners based on their success in selling non-assurance services to audit clients.

The following tables provide a high-level summary of APES 110 prohibitions. To obtain a full understanding of these independence requirements, it is important to refer to the relevant provisions in APES 110.

Strictly Prohibited Non-Assurance Services	**Prohibited Non-Assurance Services (subject to materiality)**
Assuming management responsibility for a client	Valuation services
Accounting and bookkeeping services, including preparing accounting records or financial statements[2]	Calculating current and deferred tax liabilities (or assets)
Serve as general counsel for a client's legal affairs	Tax planning or other tax advisory services where its effectiveness requires a particular accounting treatment or presentation in the financial statements and there are reasonable doubts as to appropriateness
Performing negotiations for a client as part of a recruiting service	Acting as an advocate for a client in the resolution of tax disputes before a public tribunal or court

[1] Public Interest Entities (PIEs) are defined in APES 110 in the Glossary and paragraphs 400.8 to AUST 400.8.1 A1 and include listed entities, entities defined by regulation or legislation as PIEs or entities required to have audits in compliance with the same Independence requirements as listed entities, or due to having a large number and wide range of stakeholders.
[2] Can provide routine or mechanical services for divisions or related entities of the audit client if the personnel providing the service are not on the audit team and divisions or related entities are immaterial to the financial statements being audited or services are immaterial.

APES 110 – Prohibited Non-assurance Services, Interests and Relationships for Auditors of Public Interest Entities

Strictly Prohibited Non-Assurance Services	Prohibited Non-Assurance Services (subject to materiality)
Recruiting services for a position at the client as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements	Internal audit services on a significant part of internal controls over financial reporting, or on financial accounting systems or amounts/disclosures that are material either individually or in aggregate
Promote, deal in or underwrite a client's shares	Designing or implementing IT system services that are a significant part of internal controls over financial reporting or that generate information significant to accounting records or financial statements
	Advocacy role in resolving a dispute or litigation
	Litigation support services involving estimating damages or other amounts that affect the financial statements
	Corporate finance services where its effectiveness requires a particular accounting treatment or presentation in the financial statements and there are reasonable doubts as to its appropriateness

Prohibited Interests, Relationships and actions (including materiality factors where noted)	
Contingent fees for an audit or for non-assurance services to the audit client where the fees are material to the firm	Business relationships involving holding common interests in a closely-held entity with a client if the business relationship is significant, any financial interest is material or the financial interest does not create control over the closely-held entity
Commissions or similar benefits for assurance services	Participating in an audit team if an immediate family member is, or was during the engagement period, a director or officer of the client or is able to exert significant influence over accounting records or financial statements of the client
Gifts and hospitality from the client that is not trivial and inconsequential	Participating in an audit team if, during the period covered by the audit report, an individual served as a director or officer of the audit client or was an employee able to exert significant influence over the accounting records or financial statements
Direct financial interest or material indirect financial interest in the client	Partners or employees acting as director/officer/company secretary of the client. A firm **must** refuse/withdraw from an audit if a partner or employee served as an officer (including an administrator) of the client or as an employee able to exert direct and significant influence over the subject matter of an audit

APES 110 – Prohibited Non-assurance Services, Interests and Relationships for Auditors of Public Interest Entities

Prohibited Interests, Relationships and actions (including materiality factors where noted)	
Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity	Significant connections by a firm with a former partner or audit team member who is now employed by an audit client
Common financial interests in an entity with a client where either of the financial interests is material and the client has significant influence over the entity	Audit engagements for a client within defined periods where key audit partners and senior or managing partners have joined the client as director, officer or an employee able to exert significant influence over accounting records or financial statements
Loans or guarantees for a loan to the client that are material	Loan of personnel to the client unless specific requirements are met
Loans or guarantees for a loan from a client that is a bank or similar institution that are not made under normal lending procedures, terms and conditions	Long association with the client, including serving as a key audit partner for more than seven years and subject to specified cooling-off periods[3]
Deposits or brokerage accounts with a client that is a bank, broker or similar institution unless under normal commercial terms	Audit partners on a cooling-off period due to long association are prohibited from: • Being on the audit engagement team; • Providing quality control; • Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement; • Leading or coordinating the professional services provided to that client; • Overseeing the relationship with the client; or • Undertaking any other role or activity involving frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement.
Material loans or guarantees for a loan from a client that is not a bank or similar institution	Acting where a conflict of interest compromises professional or business judgement. In Australia, professional accountants must not receive commissions in connection with an audit
Close business relationships with a client that are significant and involve a material financial interest	Offering or encouraging others to offer inducements or accepting or encouraging others to accept inducements, that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual

[3] Refer to the APESB Technical Staff publication *Audit Partner rotation requirements in Australia Technical Staff Questions & Answers* for further details of these prohibitions.