

APESB Update on Standard Setting and the Independence Guide

CPA Australia Webinar

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Australian Standard Setting Environment – APESB Pronouncements

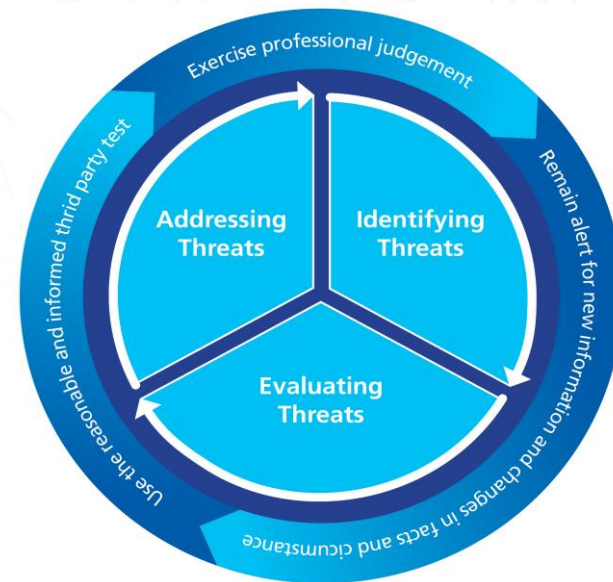
APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* issued November 2018 and effective 1 January 2020:

- Most significant restructure of the Code in two decades
- New user guide, updated glossary and interactive PDF features
- Requirements are **now separate** to guidance material – easier to implement and increases **enforceability**
- Enhanced conceptual framework
- Strengthened provisions on NAS, amended audit partner rotation provisions and NOCLAR

APESB's **14 other Standards** and **6 Guidance Notes** updated in 2019 for cross references to the restructured Code and other APESB pronouncements, consistency of definitions and provisions across pronouncements, and inclusion of interactive PDF features.

The Code – Enhanced conceptual framework

- No longer threats & safeguards approach - **not all** threats can be addressed by safeguards
- Identified threats that are **not** at Acceptable Level must be addressed in one of three ways:
 - **Eliminate** circumstances creating the threats;
 - **Apply** safeguards; or
 - **Decline** or **end** the specific professional activity/service
- **New requirements** – form an overall conclusion on effectiveness of actions, and remain alert to new information or changes in circumstances



International Standard Setting Developments

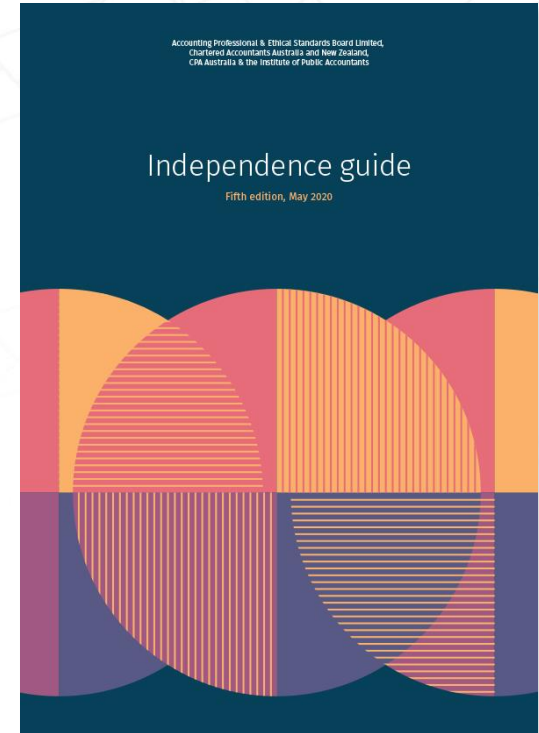
The IESBA current projects include:

- Fees related matters impacting or perceived to impact auditor independence including:
 - **Prohibition** on audit fee being influenced by NAS, requirement to cease if fee dependency on PIE audit client continues beyond specified time, and **communicate** fee-related information to TCWG and the public
 - Amendments to be considered at **September 2020** IESBA Board meeting (BM) and final standard expected by **December 2020**
- Non-Assurance Services (NAS) to ensure provisions remain robust and high quality including:
 - Prohibition on NAS to PIE audit clients **if a self-review threat**, tightening of **materiality** considerations including removal of qualifier for PIEs, and improve communication with TCWG about NAS.
 - Amendments to be considered at **September 2020** IESBA BM and final standard expected by **December 2020**
- Benchmarking – comparison of Code independence requirements to key jurisdictions

Auditor Independence Guide – Fifth Edition May 2020

Substantial rewrite incorporates changes to the restructured Code which was a collaboration between the APESB, CA ANZ, CPA Australia and the IPA including:

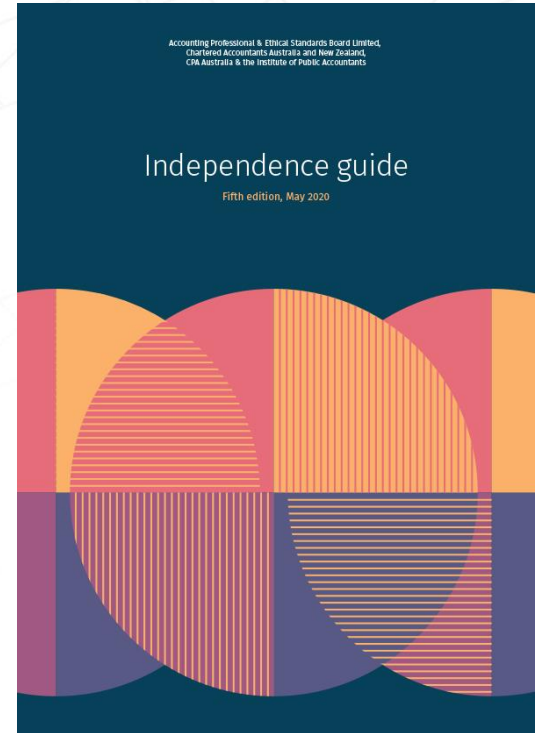
- Application of the **enhanced conceptual framework** in the restructured Code (Chapters 4, 7 & 8).
- Examples of Public Interest Entities (PIEs) (Chapter 5).
- **50** practical examples and scenarios to guide auditors in understanding independence obligations under the Code:
 - Independence for **audits** and **reviews** covering fees, interests, relationships, actions and NAS (**Chapter 7**)
 - Examples for other assurance engagements under Part 4B of the Code (Section 7.19)
 - SMSF specific scenarios (**Chapter 8**)



Auditors Independence Guide – Chapter 7

Chapter 7 applies **Part 4A** of the Code to independence issues for audits and reviews resulting from interests, relationships, and actions including:

- Fees – dependency and outstanding and contingent fees
- Gifts and Hospitality – providing or receiving hospitality
- Financial interests, loans and guarantees, business and personal relationships (including **Corporations Act 2001** requirements where relevant)
- **ACNC** specific examples on:
 - Immediate or close personal relationships;
 - Multiple relationships with a charity and a pro-bono audit;
 - Accounting and auditing for the same client; and
 - Providing accounting advice to an audit client



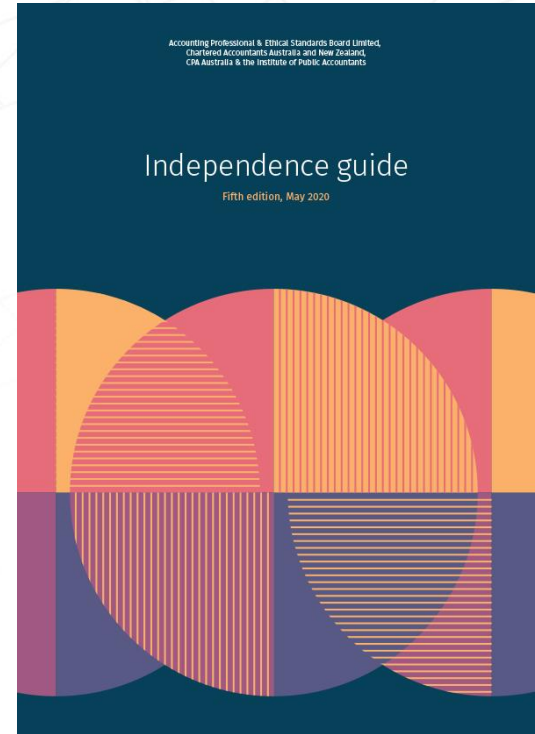
Auditors Independence Guide – Chapter 7 & NAS

Also includes examples of independence issues resulting from NAS:

- **Prohibition** on assuming **management responsibility** – APRA CPS prudential reporting to an audit client's board (CPS 220);
- **Accounting and bookkeeping services** including payroll services and preparation of financial statements for an audit client;
- **Taxation services** – five examples covering tax returns, tax-effect accounting, tax advice on an audit client's R&D claim, and representing an audit client in a tax dispute;
- **IT services** including the implementation of software developed by an audit firm for **AASB 16 Leases**; and
- Recruiting and corporate finance services

Examples on independence issues for other assurance services (**Part 4B** of the Code) include:

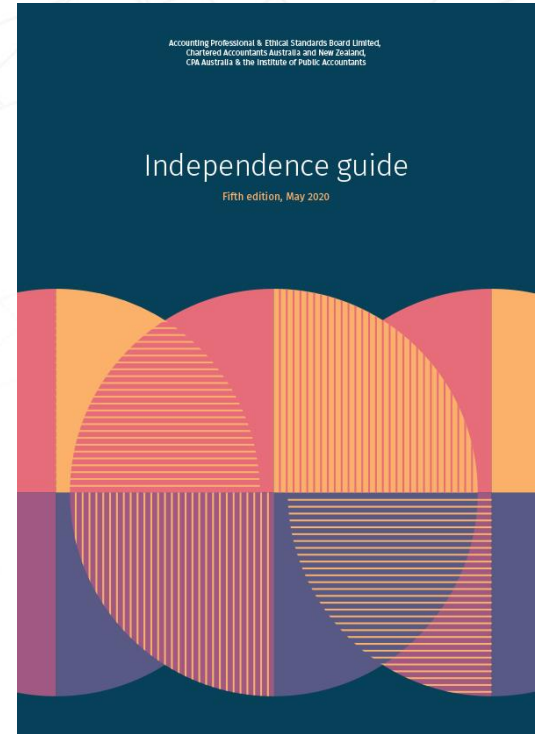
- Assurance over annual payroll calculations; and
- Assurance engagement under ASAE 3100



Auditors Independence Guide – SMSFs (Chapter 8)

Section 8.4 and Scenarios 1 to 4 explore **prohibitions** on providing accounting and bookkeeping services to SMSF audit clients:

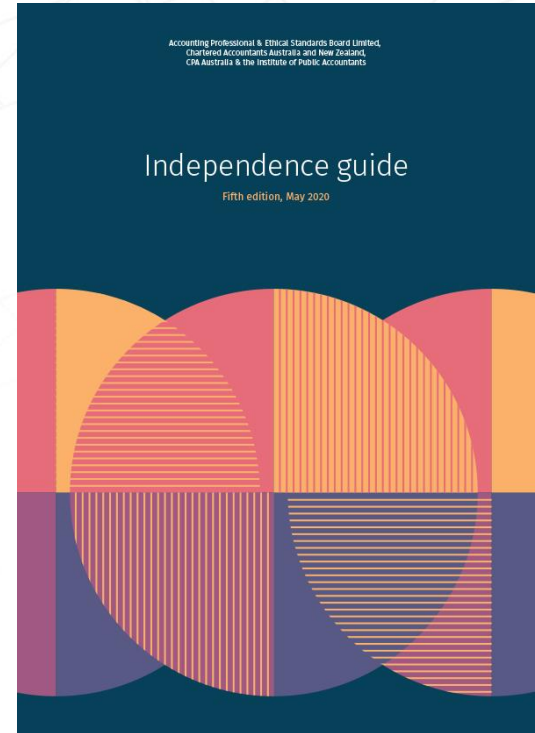
- Prohibition on **assuming management responsibility** – to avoid this must be satisfied the client makes **all judgements** and **decisions** that are the proper responsibility of management including:
 - Individual with **suitable skill, knowledge and experience** responsible for client’s decisions and to oversee services
 - Oversight of services and evaluates adequacy of results
- Accounting and bookkeeping prohibited unless **routine or mechanical** services:
 - Little or **no professional** judgement
 - Client **involved** in the process, for example, transactions coded by the client, client approved entries and trial balance
- Even if routine or mechanical **safeguards** must be put in place
- SMSF engagement also includes the **compliance audit**



Auditors Independence Guide – SMSFs continued

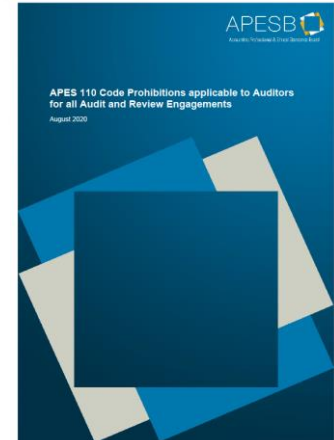
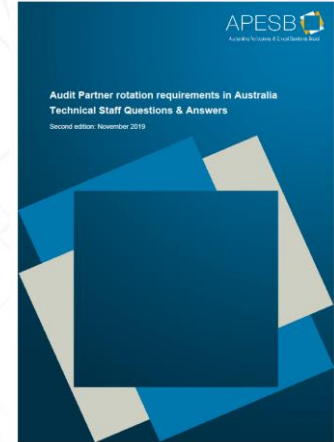
The remainder of Chapter 8 Guide provides guidance to SMSF auditors in relation to various circumstances that may create threats to independence including:

- **Previous** employee/consultant of the audit firm (Scenario 5)
- Relationships between auditors and **referral sources**, fee dependence, relatives, regional areas (Scenarios 6, 7 & 10).
- **Reciprocal** auditing arrangements (Scenarios 8 & 9).
- **Financial planning**, contracting out accounting work and long association with SMSF clients (Scenarios 11 to 13).



Other Related APESB Publications

- [Revised Technical Staff Q & A on Audit Partner Rotation](#)
 - Issued November 2019
 - **40+ Q&As** on partner rotation requirements
 - Useful **flowcharts** to determine cooling-off periods in various circumstances
- [APES 110 Code Prohibitions Summary](#)
 - Issued August 2020
 - High-level summary of prohibited interests, relationships, actions or NAS
 - Expands list to **all audit clients** not just PIEs



Further Information

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