

# **APES 110 Code Prohibitions applicable to Auditors for all Audit and Review Engagements**

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## Introduction and purpose

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[APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) (APES 110) requires auditors and audit firms to be independent when undertaking audit and review engagements. Audit engagement teams in Australia specifically exclude individuals within the client's internal audit function, as direct assistance by the internal audit function to the external auditor is prohibited.

Auditors must apply the Conceptual Framework<sup>1</sup> in APES 110 to assess whether interests, relationships, actions or the provision of non-assurance services create threats to their independence. This process involves a rigorous analysis to identify, evaluate and address threats to independence, including using a reasonable and informed third party test. [Section 600](#) of APES 110 sets out the requirements and application material relevant to applying the conceptual framework when providing non-assurance services to audit clients, including the overarching prohibition on assuming management responsibility.

The analysis of threats to independence must consider the aggregate impact of multiple threats, such as where the provision of non-assurance services<sup>2</sup> to an audit client creates more than one threat or the fees in respect of multiple audit clients referred from one source represents a large proportion of total fees for the firm. If threats to independence 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 audit or review engagement.

Some situations will always create threats that cannot be reduced to an acceptable level. These situations are, therefore, prohibited explicitly in APES 110. These **prohibitions** are either strict prohibitions or prohibitions based on specific factors. Where APES 110 expressly or strictly prohibits a non-assurance service to an audit client it cannot be provided regardless of the materiality of the service on the financial statements (paragraph 600.10 A2 of APES 110).

APES 110 imposes more extensive prohibitions for audit clients that are Public Interest Entities (PIEs).<sup>3</sup> The prohibitions have legal enforceability for audits and reviews performed under the [Corporations Act 2001](#) and also under the [Superannuation Industry \(Supervision\) Act 1993](#) and [Superannuation Industry \(Supervision\) Regulations 1994](#).

Firms are required to communicate with Those Charged With Governance (TCWG) of PIE audit clients before commencing non-assurance services for entities within the corporate structure of which the PIE forms part, where non-assurance services might create threats to independence. Communication enables TCWG to have effective oversight of the audit firm's independence (paragraphs 600.20 A1 to R620.23 of APES 110). This includes informing TCWG that the audit firm has determined that the non-assurance service is not prohibited, will not create a threat to independence, or any threats are at an acceptable level or will be eliminated or reduced to an acceptable level. The audit firm must provide information to enable TCWG to make an informed assessment about the impact of the non-assurance service on independence (paragraph R600.21 of APES 110). The non-assurance service cannot be provided unless TCWG concur with the audit firm's conclusions about the provision of that non-assurance service (paragraph R600.22 of APES 110).<sup>4</sup>

Firms are required to document conclusions about the firm's compliance with independence standards (paragraph R400.60). With respect to conclusions about compliance with non-assurance services obligations, this might include, elements of understanding the nature of the services and the impact on financial statements, the nature of threats to independence and whether results will be subject to audit procedures, the extent of management's involvement and safeguards or other actions to address threats, the rationale as to why services are not prohibited and whether any threats are, or have been reduced to an acceptable level (paragraph 600.27 A1 of APES 110).

The following tables provide high-level summaries of APES 110 prohibitions relating to audit or review engagements (refer paragraph [400.2](#) of APES 110) and include references to relevant APES 110

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<sup>1</sup> Refer to [Section 120](#) and paragraph R600.8 in APES 110 and [Chapter 4](#) of the Independence Guide Fifth Edition, May 2020.

<sup>2</sup> Per paragraph R600.12 of APES 110, when a firm or network firm provides multiple non-assurance services to an audit client the firm must consider the individual and combined effect or impact on threats to independence.

<sup>3</sup> PIEs are defined in the [Glossary](#) and paragraphs [400.8](#) to [AUST 400.8.1 A1](#) of APES 110.

<sup>4</sup> Paragraph R600.23 of APES 110 provides an exception to paragraphs R600.21 and R600.22 of APES 110. Where the firm is prohibited by professional standards, laws or regulation, from providing information about the proposed non-assurance service to TCWG or it would result in disclosure of confidential information, the proposed service may be provided if certain criteria are met.

paragraphs. Even if a non-assurance is not prohibited by APES 110, members must also be cognisant of the application of the conceptual framework and application material in Section 600 of APES 110 in relation to those services.

The summaries do not amend or override APES 110, the text of which alone is authoritative. Reading this summary is not a substitute for reading APES 110. Guidance is provided in the [Independence Guide Fifth Edition, May 2020](#), to illustrate the application of the provisions of APES 110 to various examples and scenarios.

There are also restrictions and prohibitions in legislation, such as the [Corporations Act 2001](#), in addition to the prohibitions summarised below.

**Table 1: Summary of APES 110 Code prohibitions relating to providing Non-Assurance Services to Audit Clients**

Prohibited Non-Assurance Services	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Assuming management responsibility for a client (R400.13). When performing a professional activity for an audit client. The firm must be satisfied that client management makes all judgements and decisions that are the proper responsibility of management (R400.14)	●		
Compensating or evaluating a key audit partner based on that partner's success in selling non-assurance services to their audit client (R411.4)	●		
Managing the administration of an insolvent client (AUST R523.3.1)	●		
Serving as a company secretary (R523.4 & AUST R523.5)	●		
Non-assurance service that might create a self-review threat <sup>5</sup>		● Self-review (R600.16) <sup>6</sup>	● Conceptual Framework (600.13 A1 & R600.14)
<b>Subsection 601 Accounting and Bookkeeping</b>			
Accounting and bookkeeping services, including preparing accounting records or financial statements (R601.4 & R601.5) subject to limited exceptions <sup>7</sup>	●		

<sup>5</sup> Paragraph R600.14 of APES 110 requires a determination of whether providing a non-assurance service might create a self-review threat by evaluating whether there is a risk that the:

- a) Results of the service will form part of accounting records, internal controls over financial reporting, or financial statements; and
- b) In the course of the audit the audit team will evaluate or rely on judgements or activities performed when providing the service.

<sup>6</sup> Paragraph R600.17 of APES 110 provides an exception to paragraph R600.16 of APES 110. Firms may provide advice and recommendations to PIE audit clients in relation to information or matters arising in the audit provided the firm:

- a) Does not assume a management responsibility; and
- b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

<sup>7</sup> Preparing statutory financial statements is allowed for certain related entities of PIE audit clients (from subparagraphs (c) and (d) of the definition of related entity in APES 110) and subject to conditions in paragraph R601.6 of APES 110. Providing accounting and bookkeeping services to non-PIE audit clients is prohibited unless the services are of a routine or mechanical nature and if threats are reduced to an acceptable level. Routine or mechanical services involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary and require little or no professional judgement (paragraph 601.4 A1 of APES 110 and refer to paragraph 601.4 A2 of APES 110 for examples).

Prohibited Non-Assurance Services	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
<b>Subsection 603</b>			
<b>Valuation Services</b>			
Valuation services		● Self-review (R603.5)	● Materiality <sup>8</sup> and a significant degree of subjectivity (R603.4)
<b>Subsection 604</b>			
<b>Tax Services</b>			
Tax services or recommending transactions related to marketing, planning, or opining in favour of tax treatment initially recommended (directly or indirectly) by the firm where a significant purpose is tax avoidance unless the firm is confident the treatment has basis in applicable tax law or regulation that is likely to prevail (R604.4)	●		
Calculating current and deferred tax liabilities (or assets)		● (R604.10)	● Conceptual Framework (604.7 A1 to 604.9 A2) <sup>9</sup>
Tax advisory and tax planning services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has doubt as to its appropriateness (R604.13)	●		
Tax advisory and tax planning services		● Self-review (R604.15)	● Conceptual Framework (604.11 A1 to 604.14 A1)
Valuation for tax purposes		● Self-review (R604.19)	● Conceptual Framework (604.16 A1 to 604.18 A3)

<sup>8</sup> Reference to materiality in this table refers to a material effect on the financial statements on which the audit firm will express an opinion. The concept of materiality is addressed in Australian Auditing Standard [ASA 320 Materiality in Planning and Performing an Audit](#). The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors and is also affected by perceptions of the financial information needs of users.

<sup>9</sup> Reference to Conceptual Framework means although not strictly prohibited, the auditor needs to consider whether the applicable requirements and the conceptual framework prohibit the services.

Prohibited Non-Assurance Services	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Providing assistance in the resolution of tax disputes		● Self-review (R604.24)	● Conceptual Framework (604.20 A1 to 604.23 A1)
Acting as an advocate for a client in the resolution of tax disputes before a tribunal or court		● (R604.26)	● Materiality (R604.25)
<b>Subsection 605 Internal Audit Services</b>			
Internal audit services <sup>10</sup>		● Self-review (R605.6) <sup>11</sup>	● Conceptual Framework (605.1 to 605.5 A1)
<b>Subsection 606 Information Technology Systems Services</b>			
Designing or implementing IT systems <sup>8</sup>		● Self-review (R606.6) <sup>12</sup>	● Conceptual Framework (606.1 to 606.5 A1)

<sup>10</sup> A firm must be satisfied that the client has taken management responsibility for the internal audit services as specified in paragraph R605.3 of APES 110.

<sup>11</sup> Paragraph 605.6 A1 of APES 110 includes examples of internal audit services that are prohibited by paragraph R605.6 of APES 110 being services that relate to, internal controls over financial reporting, financial accounting systems, or amounts or disclosures that relate to the financial statements.

<sup>8</sup> A firm must be satisfied that the client has taken management responsibility for the information technology systems services as specified in paragraph R606.3 of APES 110.

<sup>12</sup> Paragraph 606.6 A1 includes examples of designing or implementing IT systems services that are prohibited by paragraph R606.6 being services that, form part of the internal control over financial reporting, generate information for accounting records or financial statements

Prohibited Non-Assurance Services	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
<b>Subsection 607 Litigation Support Services</b>			
Litigation support services		● Self-review (R607.6) <sup>13</sup>	● Involving estimating damages or other amounts that affect the financial statements, materiality and a significant degree of subjectivity (607.4 A2 & R603.4)
Acting as an expert witness		● R607.9 unless 607.7 A3 applies <sup>14</sup>	● Conceptual Framework (607.7 A1 to 607.8 A1)
<b>Subsection 608 Legal Services</b>			
Legal advice		● Self-review (R608.7)	● Conceptual Framework (608.1 to 608.6 A1)
Serving as General Counsel (R608.9)	●		
Acting as an advocate for a client in resolving a dispute or litigation before a tribunal or court		● (R608.11)	● Materiality (R608.10)
<b>Subsection 609 Recruiting Services</b>			
Performing negotiations for a client as part of a recruiting service (R609.5)	●		

<sup>13</sup> Paragraph 607.6 A1 of APES 110 includes an example of a litigation support service that is prohibited which is providing advice in connection with legal proceedings where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements.

<sup>14</sup> Paragraph 607.7 A3 of APES 110 notes that the advocacy threat from acting as an expert witness is at an acceptable level if the firm is appointed by a tribunal or court or engaged in relation to a class action subject to listed criteria.



Prohibited Non-Assurance Services	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Recruiting services, recommending persons or advising on employment terms, relating to positions as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements (R609.6) <sup>15</sup>	●		
<b>Subsection 610</b>			
<b>Corporate Finance Services</b>			
Promoting, dealing in, or underwriting a client's shares, debt or other financial instruments or providing advice on investment in such shares, debt or other financial instruments (R610.5)	●		
Corporate finance advisory services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has doubt as to its appropriateness (R610.6)	●		
Corporate finance services		● Self-review (R610.8)	● Conceptual Framework (610.1 to 610.7 A1)

<sup>15</sup> APES 110 includes specific matters that a firm must be satisfied that the client has taken management responsibility for when providing recruiting services for other positions that are not specifically prohibited (paragraph R609.3 of APES 110).

**Table 2: Summary of APES 110 Code prohibitions relating to interests, relationships and actions for all Audit Clients**

Prohibited Interests, Relationships and Actions
Acting where a conflict of interest compromises professional or business judgement ( <a href="#">R310.4</a> )
Charging contingent fees for an audit engagement ( <a href="#">R410.9</a> )
Charging contingent fees for a non-assurance service provided to the audit client where the fees are material to the firm (or network firm) or the outcome of the service is dependent on a judgment related to a material amount in the financial statements ( <a href="#">R410.10</a> )
Commissions or similar benefits for assurance services ( <a href="#">AUST R330.5.2</a> )
Direct financial interest or material indirect financial interest in the client ( <a href="#">R510.4</a> )
Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity ( <a href="#">R510.6</a> )
Acting as a trustee where the trust holds a direct financial interest or material indirect financial interest in the client unless specific requirements are met ( <a href="#">R510.7</a> )
Financial interests held in common with a client in an entity where either of the financial interests is material and the client can exert significant influence over the entity ( <a href="#">R510.8</a> )
Loans, or guarantees for a loan, to the client that are material ( <a href="#">R511.4</a> )
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 ( <a href="#">R511.5</a> )
Deposits or brokerage accounts with a client that is a bank, broker or similar institution that are not under normal commercial terms ( <a href="#">R511.6</a> )
Material loans, or guarantees for a loan, from a client that is not a bank or similar institution ( <a href="#">R511.7</a> )
Close business relationships with a client that are significant or involve a material financial interest ( <a href="#">R520.4</a> )
Business relationships involving holding common interests in a closely-held entity with a client or a director or officer of the client, or any group thereof, if the business relationship is significant, any financial interest is material or the financial interest creates control over the closely-held entity ( <a href="#">R520.5</a> )
Participating in an audit team if an immediate family member (spouse (or equivalent) or dependent) is, or was during any period covered by the engagement or financial statements, a director or officer of the client or an employee able to exert significant influence over the client's accounting records or financial statements ( <a href="#">R521.5</a> )
Participating in an audit team if, during the period covered by the audit report, the individual served as a director or officer of the audit client or was an employee able to exert significant influence over the client's accounting records or financial statements ( <a href="#">R522.3</a> )
A partner or employee acting as a director or an officer of the client ( <a href="#">R523.3</a> ). A firm must refuse/withdraw from an audit if a partner or employee were to serve as an officer or a director of the client or as an employee able to exert direct and significant influence over the subject matter of an audit ( <a href="#">AUST R523.3.1</a> )
Significant connections between a firm and a former partner or audit team member who is now employed by an audit client as a director, officer or employee in a position to exert significant influence over the client's accounting records or financial statements ( <a href="#">R524.4</a> )
Key audit partners or senior or managing partners joining <b>PIE audit clients</b> as director, officer or an employee able to exert significant influence over accounting records or financial statements unless an applicable 'cooling-off' period has passed ( <a href="#">R524.6</a> & <a href="#">R524.7</a> ) <sup>9</sup>
Loan of personnel to the client unless specific requirements are met ( <a href="#">R525.4</a> )

<sup>9</sup> Subject to limited exceptions in relation to business combinations (paragraph [R524.8](#) of APES 110).

### Prohibited Interests, Relationships and Actions

Individuals who are serving a cooling-off period due to long association ([540.1](#) to [R540.4](#)) are prohibited from:

- Being a member of the engagement team for the audit engagement;
- Providing quality control for the audit engagement; or
- Exerting direct influence on the outcome of the audit engagement.

This requirement is stricter for **PIE audit clients** with specified cooling-off periods<sup>10</sup> for engagement partner, engagement quality control reviewer or other key audit partners after serving a maximum length of time on the audit engagement ([R540.5](#) to [AUST R540.19.1](#)). In addition, key audit partners who are serving a cooling-off period due to long association ([R540.20](#)) are prohibited from:

- Being on the audit engagement team;
- Providing quality control on the audit engagement;
- 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 (including providing non-assurance services) involving frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement

Acting as the Engagement Quality Reviewer for an audit client after finishing the role of Engagement Partner for the same audit client, unless the individual has served a two-year cooling off period (proposed AUST R325.8.1)

Gifts and hospitality from the client where the value is not trivial and inconsequential ([R420.3](#))

Offering or accepting, or encouraging others to offer or accept, inducements that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual ([R340.7](#) & [R340.8](#))

<sup>10</sup> Refer to the APESB publication [Audit Partner rotation requirements in Australia Technical Staff Questions & Answers \(2019\)](#) for further details of these prohibitions.

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