

Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Prepared and issued by
Accounting Professional & Ethical Standards Board Limited

EXPOSURE DRAFT **01/22**
ISSUED: March 2022

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Commenting on this Exposure Draft

This Exposure Draft, *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*, was developed and approved by the Accounting Professional & Ethical Standards Board Limited (APESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by 29 April 2022.**

Comments should be addressed to:

Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11
99 William Street
Melbourne Victoria 3000
Australia

E-mail: sub@apesb.org.au

APESB would prefer that respondents express a clear overall opinion on whether the proposed amendments, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. APESB regards both critical and supportive comments as essential to a balanced view of the proposed amendments.

Respondents are asked to submit their comments electronically through the APESB website, using the link <https://apesb.org.au/current-projects/>.

Please submit comments in both a PDF and Word file. All comments will be considered a matter of public record and will ultimately be posted on the APESB website, www.apesb.org.au.

APESB prefers that comments are submitted via its website. However, if there are practical difficulties, comments can also be sent to sub@apesb.org.au or mailed to the address noted above.

Obtaining a copy of this Exposure Draft

This Exposure Draft is available on the APESB website: www.apesb.org.au.

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Reasons for issuing Exposure Draft 01/22

Accounting Professional & Ethical Standards Board Limited (APESB) proposes to amend APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to enhance the fee-related provisions of the Code, so they remain robust and appropriate in enabling Members in Public Practice to meet their responsibility to comply with the fundamental principles of the Code and be independent.

In May 2021, the APESB issued [ED 03/21 Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) (ED 03/21), which included proposed amendments to:

- incorporate changes made by the International Ethics Standards Board for Accountants (IESBA) to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code);
- update references to APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320) and the AUASB Quality Management standards;
- address key recommendations from the inquiry into the regulation of the auditing profession in Australia undertaken by the Parliamentary Joint Committee on Corporations and Financial Services (PJC Inquiry) to strengthen audit partner incentivisation requirements and to establish defined fee categories for disclosure; and
- the proposed addition of a threshold of 20% to assess fee dependency on a referral source that refers multiple audit clients to a firm, an individual partner or an office within the firm.

In March 2022, APESB considered the outcomes of the due process for ED 03/21. In relation to the proposed amendments based on revisions to the International Code, the Board considered the inclusion of a footnote to paragraph 410.3 A3 to clarify its intent in separately disclosing the fee concerning the audit of the financial statements for transparency purposes. The Board will assess the clarity of the new IESBA provisions and their interaction with the requirements to disclose audit fees under the *Corporations Act 2001* and Australian Accounting Standards at its June 2022 meeting.

The Board approved the amendments to revise the audit partner incentivisation provisions and to update references to the reissued APES 320 (issued in February 2022). The Board also agreed to defer the inclusion of audit fee categories in the Code to ensure consistency with the outcomes of the AASB project on fee disclosures.

The Board considered the proposed revisions to the referral source fee dependency provisions. In light of the range of stakeholders' views and suggestions submitted in response to ED 03/21 on the proposed changes to assess fee dependency of a referral source, APESB have developed revised proposals for these provisions, which are set out in this exposure draft (ED 01/22) and summarised below.

Key requirements and guidance in Exposure Draft 01/22

This Exposure Draft sets out revised proposed amendments to the provisions of the Code relating to fee dependency on a referral source. The proposed key changes are summarised below:

- Amend the provision regarding fee dependency on a referral source by introducing a 30% threshold and a five-year cumulative period to allow existing and new firms a reasonable time period to address the threats.
- Clarify 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.
- Amending the drafting of the extant guidance paragraph AUST 410.14.1 A1 to be consistent with the IESBA drafting approach.
- Establish an additional requirement to clarify actions to be taken if the fee dependency on a referral source continues past 5 years.

With respect to the potential action to be taken if the fee dependency on a referral source continues beyond five years, the following three options have been identified:

1. have an appropriate reviewer who was not involved in the audit engagement review the audit work (which is a suggested safeguard in proposed paragraph 410.14 A7);
2. require a review to be completed in line with the guidance in ASQM 2 *Engagement Quality Reviews* (ASQM 2); or
3. perform a compliance engagement in line with ASAE 3100 *Compliance Engagements* to provide assurance that the firm's systems and processes in relation to compliance with ethical requirements and professional standards are operating as intended.

The text in the relevant paragraphs of the exposure draft relating to the options are highlighted in grey.

Request for Specific Comments

APESB is seeking respondents' 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.

In considering these options, APESB encourages respondents to consider whether the proposed action, and the scope of that review or compliance engagement, will appropriately assess and address threats to independence when there is fee dependency on one or more referral sources.

APESB invites stakeholders' views on the appropriate action that should be included in the proposed paragraph AUST R410.14.2 of the Amending Standard.

Proposed operative date

It is intended that the proposed amendments will be effective for engagements beginning or on or after 1 January 2023. Early adoption will be permitted.

Amendments to the Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

[Date]

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**CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS
(INCLUDING INDEPENDENCE STANDARDS)**

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PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 410

FEES

Introduction

[Refer to [ED 03/21](#) for proposed paragraphs 410.1 to 410.2]

Requirements and Application Material

[Refer to [ED 03/21](#) for proposed paragraphs 410.3 A1 to R410.13]

Total Fees – Fee Dependency

[Refer to [ED 03/21](#) for proposed paragraphs 410.14 A1 to 410.14 A7]

AUST 410.14.1 A1 Another party or Firm may refer multiple Audit Clients to an Engagement Partner, an Office of a Firm or a Firm. The dependence on that source and concern about losing those clients creates a self-interest or intimidation threat. Paragraphs 410.14 A3 and 410.14 A6 provide examples of factors that are relevant in evaluating the significance of the threat and paragraphs 410.14 A4 and 410.14 A7 provide examples of actions that might be safeguards.

AUST R410.14.2 When for each of five consecutive years, total fees in respect of multiple Audit Clients 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, the Firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an Acceptable Level, and if so, apply it:

- (a) Prior to the audit opinions being issued on the fifth year's Engagements, have a Member perform [options – 1. a review (performed by an appropriate reviewer as per proposed paragraph 410.14 A7), 2. a review (as per ASQM 2) or 3. a compliance engagement] on the fifth year's audit work; or
- (b) After the audit opinions on the fifth year's Engagement have been issued, and before audit opinions are issued on the sixth year's Engagements, have a Member perform [options – 1. a review (performed by an appropriate reviewer as per proposed paragraph 410.14 A7), 2. a review (as per ASQM 2) or 3. a compliance engagement] on the fifth year's audit work.

The Member in Public Practice who performs [a review or compliance engagement] when fee dependency is at the Firm level shall not be a Member of the Firm expressing the audit opinions. 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.

[Relevant for option 2 or 3]

AUST 410.14.2 A1 The [review or compliance engagement] referred to in paragraph AUST R410.14.2 is [a review or an Assurance Engagement] in accordance with [ASQM 2 *Engagement Quality Reviews* or ASAE 3100 *Compliance Engagements*], to opine on the firm's compliance with applicable professional standards, laws and regulations.

AUST R410.14.3 If the total fees described in paragraph AUST R410.14.2 continue to exceed 30% after the fifth year, the Firm shall each year determine whether either of the actions in paragraph AUST R410.14.2 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the Firm from the client, and if so, apply it.

[Refer to [ED 03/21](#) for proposed paragraphs R410.15 to R410.33]