

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

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APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* is based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA), published by the International Federation of Accountants (IFAC) in September 2021, and as amended. *International Code of Ethics for Professional Accountants (including International Independence Standards)* © September 2021 by the International Federation of Accountants.

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CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INDEPENDENCE STANDARDS)

TABLE OF CONTENTS

SCOPE AND APPLICATION	3
PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK	4
120 THE CONCEPTUAL FRAMEWORK.....	4
PART 2 – MEMBERS IN BUSINESS (INCLUDING EMPLOYMENT RELATIONSHIPS OF MEMBERS IN PUBLIC PRACTICE)	5
270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES	5
PART 3 – MEMBERS IN PUBLIC PRACTICE	7
320 PROFESSIONAL APPOINTMENTS	7
330 FEES AND OTHER TYPES OF REMUNERATION	8
PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS	9
400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS	9
410 FEES	9
411 COMPENSATION AND EVALUATION POLICIES.....	22
PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS	23
905 FEES	23
TRANSITIONAL PROVISIONS	27
CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS	27

SCOPE AND APPLICATION

- 1.1 Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (**this Code**). This **Code** is operative from 1 January 2020 and supersedes APES 110 *Code of Ethics for Professional Accountants* (issued in December 2010 and subsequently amended in December 2011, May 2013, November 2013, May 2017 and April 2018). Earlier adoption of this **Code** is permitted. Transitional provisions relating to **Key Audit Partner** rotation, revisions to Part 4B, the role and mindset expected of **Members**, the objectivity of **Engagement Quality Reviewers** and other appropriate reviewers and the fee-related provisions apply as specified in the respective transitional provisions on page 27.

[Paragraphs R1.2 to 1.8 of the extant Code's Scope and Application remain unchanged.]

PART 1 - COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

[Paragraphs 120.1 to 120.2 of extant Section 120 remain unchanged.]

Requirements and Application Material

General

[Paragraphs R120.3 to 120.5 A6 of extant Section 120 remain unchanged.]

Identifying Threats

[Paragraphs R120.6 to 120.6 A4 of extant Section 120 remain unchanged.]

Evaluating Threats

[Paragraphs R120.7 to 120.9 A2 of extant Section 120 remain unchanged.]

Addressing Threats

[Paragraphs R120.10 to R120.11 of extant Section 120 remain unchanged.]

Other Considerations when Applying the Conceptual Framework

[Paragraphs 120.12 A1 to 120.13 A3 of extant Section 120 remain unchanged.]

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

[Paragraph 120.14 A1 of extant Section 120 remains unchanged.]

Independence

[Paragraphs 120.15 A1 to 120.15 A2 of extant Section 120 remain unchanged.]

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to [Independence](#). In the context of audits, reviews and other [Assurance Engagements](#), the existence of a quality management system designed and implemented by a [Firm](#) in accordance with APES 320 *Quality Management for Firms that provide Non-Assurance Services* and the quality management standards issued by the [AUASB](#) is an example of such conditions, policies and procedures.

[Paragraphs 120.16 A1 to 120.16 A2 of extant Section 120 remain unchanged.]

PART 2 - MEMBERS IN BUSINESS (INCLUDING EMPLOYMENT RELATIONSHIPS OF MEMBERS IN PUBLIC PRACTICE)

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

[Paragraphs 270.1 to 270.2 of extant Section 270 remain unchanged.]

Requirements and Application Material

General

[Paragraphs R270.3 to 270.3 A1 of extant Section 270 remain unchanged.]

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the [Member's](#) employing organisation to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
 - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
 - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
 - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision making on capital projects and acquisitions.
 - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
 - Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
 - Pressure from superiors to inappropriately reduce the extent of work performed.
 - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to **Financial Interests**:
 - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.
- Pressure related to **Inducements**:
 - Pressure from others, either internal or external to the employing organisation, to offer **Inducements** to influence inappropriately the judgement or decision making process of an individual or organisation.
 - Pressure from colleagues to accept a bribe or other **Inducement**, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.
- Pressure related to non-compliance with laws and regulations (“NOCLAR”):
 - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.
- Pressure related to level of fees:
 - Pressure exerted by a **Member** on another **Member** to provide **Professional Services** at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 330, *Fees and Other Types of Remuneration*.

[Paragraphs 270.3 A3 to 270.4 A1 of extant Section 270 remain unchanged.]

PART 3 - MEMBERS IN PUBLIC PRACTICE

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

[Paragraphs 320.1 to AUST 320.2.1 of extant Section 320 remain unchanged.]

Requirements and Application Material

Client and Engagement Acceptance

General

[Paragraphs 320.3 A1 to 320.3 A2 of extant Section 320 remain unchanged.]

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the [Engagement Team](#) does not possess, or cannot acquire, the competencies to perform the [Professional Services](#).

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.
- The level of fees and the extent to which they have regard to the resources required, taking into account the [Member's](#) commercial and market priorities.

[Paragraphs 320.3 A5 to 320.10 A1 of extant Section 320 remain unchanged.]

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Introduction

[Paragraphs 330.1 to 330.2 of extant Section 330 remain unchanged.]

Application Material

Level of Fees

330.3 A1 The level of fees might impact a [Member in Public Practice's](#) ability to perform [Professional Services](#) in accordance with technical and professional standards.

[Paragraph 330.3 A2 of extant Section 330 remains unchanged.]

330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which [Professional Services](#) are covered.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

[Paragraphs 330.3 A4 to 330.6 A1 of extant Section 330 remain unchanged.]

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

[Paragraph 400.1 of extant Section 400 remains unchanged.]

400.2 This Part applies to both [Audit](#) and [Review Engagements](#) unless otherwise stated. The terms “audit,” “[Audit Team](#),” “[Audit Engagement](#),” “[Audit Client](#),” and “audit report” apply equally to review, [Review Team](#), [Review Engagement](#), [Review Client](#), and [Review Engagement](#) report.

[Paragraphs 400.3 to R400.89 of extant Section 400 remain unchanged.]

SECTION 410

FEES

Introduction

410.1 [Firms](#) are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to [Independence](#).

410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to [Independence](#) arising from fees charged to [Audit Clients](#).

Requirements and Application Material

[Paragraphs 410.3 A1 to AUST 410.3.1 A1 of extant Section 410 have been amended and relocated to paragraphs 410.14 A1 to AUST R410.14.2.]

General

410.3 A1 Fees for [Professional Services](#) are usually negotiated with and paid by an [Audit Client](#) and might create threats to [Independence](#). This practice is generally recognised and accepted by intended users of [Financial Statements](#).

410.3 A2 When the [Audit Client](#) is a [Public Interest Entity](#), stakeholders have heightened expectations regarding the [Firm's Independence](#). As transparency can serve to better inform the views and decisions of [Those Charged with Governance](#) and a wide range of stakeholders, this section provides for disclosure of fee-related information to both [Those Charged with Governance](#) and stakeholders more generally for [Audit Clients](#) that are [Public Interest Entities](#).

410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of [Financial Statements](#). Where reference is made to the fee for the audit of the [Financial Statements](#), this does not include any fee for an audit of [Special Purpose Financial Statements](#) or a review of [Financial Statements](#).¹⁵ (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

[Paragraphs R410.4 to R410.6 of extant Section 410 have been amended (or deleted) and relocated to paragraphs R410.18 to 410.21 A1.]

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an [Audit Client](#), this creates a self-interest threat and might create an intimidation threat to [Independence](#).

410.4 A2 The application of the conceptual framework requires that before a [Firm](#) or [Network Firm](#) accepts an audit or any other engagement for an [Audit Client](#), the [Firm](#) determines whether the threats to [Independence](#) created by the fees proposed to the client are at an [Acceptable Level](#). The application of the conceptual framework also requires the [Firm](#) to re-evaluate such threats when facts and circumstances change during the [Engagement Period](#) for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the [Audit Client](#) include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the [Firm's](#) commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the [Firm](#) or a [Network Firm](#).
- The level of the fee in the context of the service to be provided by the [Firm](#) or a [Network Firm](#).
- The operating structure and the compensation arrangements of the [Firm](#) and [Network Firms](#).
- The significance of the client, or a third party referring the client, to the [Firm](#), [Network Firm](#), partner or [Office](#).
- The nature of the client, for example whether the client is a [Public Interest Entity](#).
- The relationship of the client to the [Related Entities](#) to which the services other than audit are provided, for example when the [Related Entity](#) is a sister entity.
- The involvement of [Those Charged with Governance](#) in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.

¹⁵ In Australia, there are requirements in the *Corporations Act 2001* (for example, in sections 302 and 309) for specific entities to prepare a half-year report which needs to be audited or reviewed. Where a review is performed to meet financial reporting requirements of the *Corporations Act 2001*, the fee for the review is to be considered as a fee for the audit of the [Financial Statements](#) of the entity or group.

- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the Firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed and implemented by the Firm in accordance with APES 320 *Quality Management for Firms that provide Non-Assurance Services* and the quality management standards issued by the AUASB) might also impact the evaluation of whether the threats to Independence are at an Acceptable Level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an Acceptable Level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an Audit Client, whether for audit or other services, is a business decision of the Firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the Audit Client include:

- The Firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the Audit Engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the Audit Engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7, a Firm shall not allow the audit fee to be influenced by the provision of services other than audit to an Audit Client by the Firm or a Network Firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an Audit Client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the Firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an Audit Client.

[Paragraphs 410.7 A1 to R410.8 of extant Section 410 have been amended and relocated to paragraphs 410.12 A1 to R410.13.]

Contingent Fees

410.8 A1 **Contingent Fees** are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A **Contingent Fee** charged through an intermediary is an example of an indirect **Contingent Fee**. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.9 A **Firm** shall not charge directly or indirectly a **Contingent Fee** for an **Audit Engagement**.

R410.10 A **Firm** or **Network Firm** shall not charge directly or indirectly a **Contingent Fee** for a non-assurance service provided to an **Audit Client**, if:

- (a) The fee is charged by the **Firm** expressing the opinion on the **Financial Statements** and the fee is material or expected to be material to that **Firm**;
- (b) The fee is charged by a **Network Firm** that participates in a significant part of the audit and the fee is material or expected to be material to that **Firm**; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the **Financial Statements**.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a **Firm** or a **Network Firm** from entering into certain **Contingent Fee** arrangements with an **Audit Client**. Even if a **Contingent Fee** arrangement is not precluded when providing a non-assurance service to an **Audit Client**, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the **Contingent Fee** depends.
- Disclosure to intended users of the work performed by the **Firm** and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the **Financial Statements**.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the **Firm** or **Network Firms** to an **Audit Client** is generated by providing services other than audit to the client, due to concerns about the potential loss of either the **Audit Engagement** or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the **Firm** or **Network Firm** focuses on the non-audit relationship, which might create a threat to the auditor's **Independence**.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the **Firm**.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the **Audit Client**.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an **Audit Client** for the audit or services other than audit are overdue during the period of the **Audit Engagement**.

410.12 A2 It is generally expected that the **Firm** will obtain payment of such fees before the audit report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the **Firm**.
- The length of time the fees have been overdue.
- The **Firm's** assessment of the ability and willingness of the **Audit Client** to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the **Audit Engagement** review the audit work.

R410.13 When a significant part of the fees due from an **Audit Client remains unpaid for a long time, the **Firm** shall determine:**

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 511 are applicable; and**

(b) **Whether it is appropriate for the Firm to be re-appointed or continue the Audit Engagement.**

Total Fees – Fee Dependency

All Audit Clients

- 410.14 A1 When the total fees generated from an **Audit Client** by the **Firm** expressing the audit opinion represent a large proportion of the total fees of that **Firm**, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 410.14 A2 In calculating the total fees of the **Firm**, the **Firm** might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the **Firm**.
 - Whether the **Firm** is expected to diversify such that any dependence on the **Audit Client** is reduced.
- 410.14 A4 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who is not a **Member** of the **Firm** review the audit work.
 - Reducing the extent of services other than audit provided to the **Audit Client**.
 - Increasing the client base of the **Firm** to reduce dependence on the client.
 - Increasing the extent of services provided to other clients.
- 410.14 A5 A self-interest or intimidation threat is created when the fees generated by a **Firm** from an **Audit Client** represent a large proportion of the revenue of one partner or one **Office** of the **Firm**.
- 410.14 A6 Factors that are relevant in evaluating the level of such threats include:
- The qualitative and quantitative significance of the **Audit Client** to the partner or **Office**.
 - The extent to which the compensation of the partner, or the partners in the **Office**, is dependent upon the fees generated from the client.
- 410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:
- Having an appropriate reviewer who was not involved in the **Audit Engagement** review the audit work.
 - Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
 - Reducing the extent of services other than audit provided by the partner or **Office** to the **Audit Client**.

- Increasing the client base of the partner or the **Office** to reduce dependence on the **Audit Client**.
- Increasing the extent of services provided by the partner or the **Office** to other clients.

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, prior to the audit opinions being issued on the fifth year's engagements, having a **Member** perform a review on the fifth year's audit work might be a safeguard to reduce the threats created to an **Acceptable Level**, and if so, apply it.

The **Member in Public Practice** who performs a review 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 shall be conducted by a **Member** who was not involved in the **Audit Engagements** and who is not a **Member** of the **Office** of the **Firm** expressing the audit opinions.

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 the action 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.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an **Audit Client** that is not a **Public Interest Entity** represent, or are likely to represent, more than 30% of the total fees received by the **Firm**, 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 opinion being issued on the fifth year's **Financial Statements**, have a **Member**, who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements**, review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's **Financial Statements** has been issued, and before the audit opinion is issued on the sixth year's **Financial Statements**, have a **Member**, who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements**, or a **Professional Body** review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the **Firm** shall each year determine whether either of the actions in paragraph R410.15 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.

- R410.17** When two or more **Firms** are engaged to conduct an audit of the client's **Financial Statements**, the involvement of the other **Firm** in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:
- (a) The circumstances addressed by paragraph R410.15 apply to only one of the **Firms** expressing the audit opinion; and
 - (b) Each **Firm** performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

- R410.18** When for each of two consecutive years the total fees from an **Audit Client** that is a **Public Interest Entity** represent, or are likely to represent, more than 15% of the total fees received by the **Firm**, the **Firm** shall determine whether, prior to the audit opinion being issued on the second year's **Financial Statements**, a review, consistent with the objective of an **Engagement Quality Review** performed by a **Member** who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements** ("pre-issuance review") might be a safeguard to reduce the threats to an **Acceptable Level**, and if so, apply it.

- R410.19** When two or more **Firms** are engaged to conduct an audit of the client's **Financial Statements**, the involvement of the other **Firm** in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:
- (a) The circumstances addressed by paragraph R410.18 apply to only one of the **Firms** expressing the audit opinion; and
 - (b) Each **Firm** performs sufficient work to take full individual responsibility for the audit opinion.

- R410.20** Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the **Firm** shall cease to be the auditor after the audit opinion for the fifth year is issued.

- R410.21** As an exception to paragraph R410.20, the **Firm** may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:
- (a) The **Firm** consults with a regulatory or **Professional Body** in the relevant jurisdiction and it concurs that having the **Firm** continue as the auditor would be in the public interest; and
 - (b) Before the audit opinion on the sixth and any subsequent year's **Financial Statements** is issued, the **Firm** engages a **Member**, who is not a **Member** of the **Firm** expressing the opinion on the **Financial Statements**, to perform a pre-issuance review.

- 410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative **Firms** to carry out the **Audit Engagement**, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

410.22 A1 Communication by the Firm of fee-related information (for both audit and services other than audit) with Those Charged with Governance assists in their assessment of the Firm's Independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that Those Charged with Governance might have regarding the scope and extent of audit work and impact on the audit fee.

Fees for the Audit of the Financial Statements

R410.23 Subject to paragraph R410.24, the Firm shall communicate in a timely manner with Those Charged with Governance of an Audit Client that is a Public Interest Entity:

- (a) Fees paid or payable to the Firm or Network Firms for the audit of the Financial Statements on which the Firm will express an Opinion; and
- (b) Whether the threats created by the level of those fees are at an Acceptable Level, and if not, any actions the Firm has taken or proposes to take to reduce such threats to an Acceptable Level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the Financial Statements on which the Firm will express an Opinion to enable Those Charged with Governance to consider the Independence of the Firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the Audit Client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
 - The cost of other resources utilised or expended in performing the audit.
 - The quality of record keeping and processes for Financial Statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The Firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R410.24 As an exception to paragraph R410.23, the Firm may determine not to communicate the information set out in paragraph R410.23 to Those Charged with Governance of an entity that is (directly or indirectly) wholly-owned by another Public Interest Entity provided that:

- (a) The entity is consolidated into group Financial Statements prepared by that other Public Interest Entity; and
- (b) The Firm or a Network Firm expresses an opinion on those group Financial Statements.

R410.25 Subject to paragraph R410.27, the **Firm** shall communicate in a timely manner with **Those Charged with Governance** of an **Audit Client** that is a **Public Interest Entity**:

- (a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the **Firm** or a **Network Firm** during the period covered by the **Financial Statements on which the Firm will express an Opinion**. For this purpose, such fees shall only include fees charged to the client and its **Related Entities** over which the client has direct or indirect control that are consolidated in the **Financial Statements on which the Firm will express an Opinion**; and
- (b) As set out in paragraph 410.11 A1, where the **Firm** has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to **Independence** created by the proportion of fees for services other than audit relative to the audit fee:
 - (i) Whether such threats are at an **Acceptable Level**; and
 - (ii) If not, any actions that the **Firm** has taken or proposes to take to reduce such threats to an **Acceptable Level**.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable **Those Charged with Governance** to consider the **Independence** of the **Firm**.¹⁶ The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by **Those Charged with Governance** and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the **Firm** and **Network Firms** for the audit of the **Financial Statements on which the Firm will express an Opinion**.

R410.26 The **Firm** shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other **Related Entities** over which the **Audit Client** has direct or indirect control for the provision of services by the **Firm** or a **Network Firm**, when the **Firm** knows, or has reason to believe, that such fees are relevant to the evaluation of the **Firm's Independence**.

¹⁶ Refer to sections 300 (11B) to (11E) of the *Corporations Act 2001* for requirements imposed on **Those Charged with Governance** in Australia in relation to disclosure relating to fees and auditor **Independence**. In addition, AASB 1054 *Australian Additional Disclosures* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* also set out requirements in relation to the disclosure of audit fee information.

410.26 A1 Factors the **Firm** might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other **Related Entities**, individually and in the aggregate, for the provision of services by the **Firm** or a **Network Firm** are relevant to the evaluation of the **Firm's Independence** include:

- The extent of the **Audit Client's** involvement in the appointment of the **Firm** or **Network Firm** for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other **Related Entities** to the **Firm** or a **Network Firm**.
- The proportion of fees from the other **Related Entities** to the fees paid by the client.

R410.27 As an exception to paragraph R410.25, the **Firm** may determine not to communicate the information set out in paragraph R410.25 to **Those Charged with Governance** of an entity that is (directly or indirectly) wholly-owned by another **Public Interest Entity** provided that:

- (a) The entity is consolidated into group **Financial Statements** prepared by that other **Public Interest Entity**; and
- (b) The **Firm** or a **Network Firm** expresses an opinion on those group **Financial Statements**.

Fee Dependency

R410.28 Where the total fees from an **Audit Client** that is a **Public Interest Entity** represent, or are likely to represent, more than 15% of the total fees received by the **Firm**, the **Firm** shall communicate with **Those Charged with Governance**:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor under paragraph R410.21.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of **Public Interest Entities**, it is beneficial for stakeholders to have visibility about the professional relationships between the **Firm** and the **Audit Client** which might reasonably be thought to be relevant to the evaluation of the **Firm's Independence**. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an **Audit Client** for both audit and services other than audit paid and payable to the **Firm** and **Network Firms**. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an **Audit Client** to disclose audit fees,¹⁷ fees for services other than audit paid or payable to the **Firm** and **Network Firms** and information about fee dependency, the **Firm** shall discuss with **Those Charged with Governance** of an **Audit Client** that is a **Public Interest Entity**:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the **Firm's Independence**.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the **Firm's Independence** include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the **Firm**.

R410.31 After the discussion with **Those Charged with Governance** as set out in paragraph R410.30, to the extent that the **Audit Client** that is a **Public Interest Entity** does not make the relevant disclosure, subject to paragraph R410.32, the **Firm** shall publicly disclose:

- (a) Fees paid or payable to the **Firm** and **Network Firms** for the audit of the **Financial Statements on which the Firm will express an Opinion**;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the **Firm** or a **Network Firm** during the period covered by the **Financial Statements on which the Firm will express an Opinion**. For this purpose, such fees shall only include fees charged to the client and its **Related Entities** over which the client has direct or indirect control that are consolidated in the **Financial Statements on which the Firm will express an Opinion**;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other **Related Entities** over which the **Audit Client** has direct or indirect control for the provision of services by the **Firm** or a **Network Firm** when the **Firm** knows, or has reason to believe, that such fees are relevant to the evaluation of the **Firm's Independence**; and
- (d) If applicable, the fact that the total fees received by the **Firm** from the **Audit Client** represent, or are likely to represent, more than 15% of the total fees received by the **Firm** for two consecutive years, and the year that this situation first arose.

410.31 A1 The **Firm** might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the **Firm's Independence**, such as the examples described in paragraph 410.30 A1.

¹⁷ Refer to sections 300 (11B) to (11E) of the *Corporations Act 2001* for requirements imposed on **Those Charged with Governance** in Australia in relation to disclosure relating to fees and auditor **Independence**. In addition, AASB 1054 *Australian Additional Disclosures* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* also set out requirements in relation to the disclosure of audit fee information.

- 410.31 A2 Factors the **Firm** might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.
- 410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the **Firm** might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:
- On the **Firm's** website.
 - In the **Firm's** transparency report.
 - In an audit quality report.
 - Through targeted communication to specific stakeholders, for example a letter to the shareholders.
 - In the auditor's report.
- R410.32** As an exception to paragraph R410.31, the **Firm** may determine not to publicly disclose the information set out in paragraph R410.31 relating to:
- (a) A parent entity that also prepares group **Financial Statements** provided that the **Firm** or a **Network Firm** expresses an opinion on the group **Financial Statements**; or
 - (b) An entity (directly or indirectly) wholly-owned by another **Public Interest Entity** provided that:
 - (i) The entity is consolidated into group **Financial Statements** prepared by that other **Public Interest Entity**; and
 - (ii) The **Firm** or a **Network Firm** expresses an opinion on those group **Financial Statements**.

Considerations for Review Clients

- R410.33** This section sets out requirements for a **Firm** to communicate fee-related information of an **Audit Client** that is a **Public Interest Entity** and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the **Firm** may determine not to communicate or pursue disclosure of such information where a **Review Client** is not also an **Audit Client**.

SECTION 411

COMPENSATION AND EVALUATION POLICIES

Introduction

[Paragraphs 411.1 to 411.2 of extant Section 411 remain unchanged.]

Requirements and Application Material

General

[Paragraphs 411.3 A1 to 411.3 A3 of extant Section 411 remain unchanged.]

- AUST R411.4** A **Firm** shall not evaluate or compensate a **Key Audit Partner**, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the **Audit Clients** of the **Firm**. A **Firm** shall take reasonable steps to ensure that any profit-sharing arrangement of a **Key Audit Partner** is not a cross-subsidisation of the **Audit Engagement** by other service lines of the **Firm** or a mechanism for distributing indirect incentives to **Key Audit Partners** based on their ability to sell non-assurance services to the **Firm's Audit Clients**. This requirement does not preclude normal profit-sharing arrangements between partners of a **Firm**.

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 905

FEES

Introduction

905.1 **Firms** are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to **Independence**.

905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to **Independence** arising from fees charged to **Assurance Clients**.

Requirements and Application Material

[Paragraphs 905.3 A1 to 905.3 A5 of extant Section 905 have been amended and relocated to paragraphs 905.10 A1 to 905.10 A8.]

Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an **Assurance Client**, this creates a self-interest threat and might create an intimidation threat to **Independence**.

905.3 A2 The application of the conceptual framework requires that before a **Firm** accepts an **Assurance Engagement** for an **Assurance Client**, the **Firm** determines whether the threats to **Independence** created by the fees proposed to the client are at an **Acceptable Level**. The application of the conceptual framework also requires the **Firm** to re-evaluate such threats when facts and circumstances change during the **Engagement Period**.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the **Assurance Client** include:

- The level of the fees for the **Assurance Engagement** and the extent to which they have regard to the resources required, taking into account the **Firm's** commercial and market priorities.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the **Firm** or a **Network Firm**.
- The significance of the client to the **Firm** or partner.
- The nature of the client.
- The nature of the **Assurance Engagement**.
- The involvement of **Those Charged with Governance** in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

- 905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a **Firm** in accordance with APES 320 *Quality Management for Firms that provide Non-Assurance Services* and the quality management standards issued by the **AUASB**) might also impact the evaluation of whether the threats to **Independence** are at an **Acceptable Level**.
- 905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an **Acceptable Level**. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

[Paragraphs 905.4 A1 to R905.5 of extant Section 905 have been amended and relocated to paragraphs 905.8 A2 to R905.9.]

Level of Fees for Assurance Engagements

- 905.4 A1 Determining the fees to be charged to an **Assurance Client**, whether for assurance or other services, is a business decision of the **Firm** taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- 905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an **Assurance Engagement** when paid by the **Assurance Client** include:
- The **Firm's** commercial rationale for the fee for the **Assurance Engagement**.
 - Whether undue pressure has been, or is being, applied by the client to reduce the fee for the **Assurance Engagement**.
- 905.4 A3 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who does not take part in the **Assurance Engagement** assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
 - Having an appropriate reviewer who did not take part in the **Assurance Engagement** review the work performed.

Contingent Fees

- 905.5 A1 **Contingent Fees** are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A **Contingent Fee** charged through an intermediary is an example of an indirect **Contingent Fee**. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R905.6 A Firm shall not charge directly or indirectly a Contingent Fee for an Assurance Engagement.**
- R905.7 A Firm shall not charge directly or indirectly a Contingent Fee for a non-assurance service provided to an Assurance Client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the Subject Matter Information of the Assurance Engagement.**

905.7 A1 Paragraphs R905.6 and R905.7 preclude a **Firm** from entering into certain **Contingent Fee** arrangements with an **Assurance Client**. Even if a **Contingent Fee** arrangement is not precluded when providing a non-assurance service to an **Assurance Client**, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the **Contingent Fee** depends.
- Disclosure to intended users of the work performed by the **Firm** and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the **Subject Matter Information**.

905.7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees — Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the **Assurance Client** for the **Assurance Engagement** or other services are overdue during the period of the **Assurance Engagement**.

905.8 A2 It is generally expected that the **Firm** will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the **Firm**.
- The length of time the fees have been overdue.
- The **Firm's** assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the **Assurance Engagement** review the work performed.

R905.9 When a significant part of the fees due from an **Assurance Client remains unpaid for a long time, the **Firm** shall determine:**

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and**

(b) Whether it is appropriate for the Firm to be re-appointed or continue the Assurance Engagement.

Total Fees — Fee Dependency

- 905.10 A1 When the total fees generated from an Assurance Client by the Firm expressing the conclusion in an Assurance Engagement represent a large proportion of the total fees of that Firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.
- 905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the Assurance Client is not responsible for negotiating or paying the fees for the Assurance Engagement.
- 905.10 A3 In calculating the total fees of the Firm, the Firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the Firm.
 - Whether the Firm is expected to diversify such that any dependence on the Assurance Client is reduced.
- 905.10 A5 Examples of actions that might be a safeguard to address such threats include:
- Reducing the extent of services other than Assurance Engagements provided to the client.
 - Increasing the client base of the Firm to reduce dependence on the Assurance Client.
- 905.10 A6 A self-interest or intimidation threat is created when the fees generated by a Firm from an Assurance Client represent a large proportion of the revenue from an individual partner's clients.
- 905.10 A7 Factors that are relevant in evaluating the level of such threats include:
- The qualitative and quantitative significance of the Assurance Client to the partner.
 - The extent to which the compensation of the partner is dependent upon the fees generated from the client.
- 905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Having an appropriate reviewer who was not an Assurance Team member review the work.
 - Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the Assurance Client.
 - Increasing the client base of the partner to reduce dependence on the client.

TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

[Paragraphs 1 to 4 of the transitional provisions in the extant Code and amending standards remain unchanged.]

Revisions to the Fee-related provisions of the Code.

5. Revised Section 410 and other amendments to Part 4A will be effective for audits of **Financial Statements** for periods beginning on or after 1 January 2023. The amendments to revised Section 905 in relation to **Assurance Engagements** with respect to **Underlying Subject Matters** covering periods of time will be effective for periods beginning on or after 1 January 2023, otherwise, these amendments will be effective as of 1 January 2023. Amendments to other sections of the **Code** will be effective as of 1 January 2023.

Early adoption will be permitted.

CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

APES 110 and the IESBA Code

APES 110 incorporates the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to April 2021.

Compliance with the IESBA Code

The principles and requirements of APES 110 and the IESBA Code are consistent except for the following:

- The international requirement for audit partners not to be incentivised for selling non-assurance services to their **Audit Clients** has been broadened in paragraph AUST R411.4 of APES 110 to ensure that audit partners are not incentivised for selling non-assurance services to any **Audit Client** of the **Firm**.

[All other items on the extant list of compliance with the IESBA Code in the extant Code and amending standards remain unchanged.]