

Understanding Auditor Independence Under the Code

Audit Conference 2024

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Agenda

- Engagement Team and Group Audits (ET GA)
- Technology-Related Revisions to the Code
- Listed Entity and Public Interest Entity (PIE)
- Sustainability Reporting and Assurance Developments
- Q&A

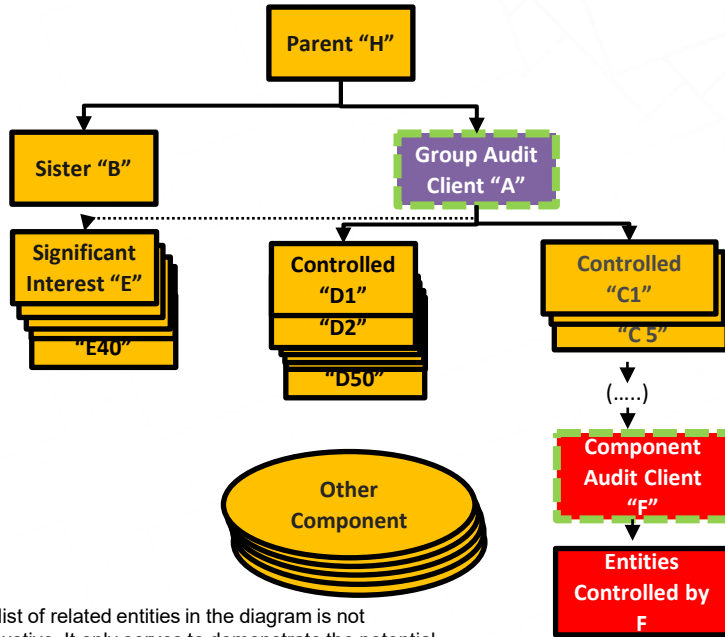
Engagement Team and Group Audits (ET GA)

Definition of Engagement Team and Group Audits

- [Amending Standard](#) issued June 2023, effective 1 January 2024.
- Revisions provide robust independence requirements for all group audit team members including:
 - Audit Team members,
 - Group Auditor Firm (GAF)
 - Component Auditor Firms (CAF), including those outside the GAF's network;
- New Section 405 *Group Audits*
- Revised definitions of engagement team and audit team
- Communication between firms for Group Audits



Independence for Component Audit Firm (CAF) outside Group Audit Firm (GAF)'s network



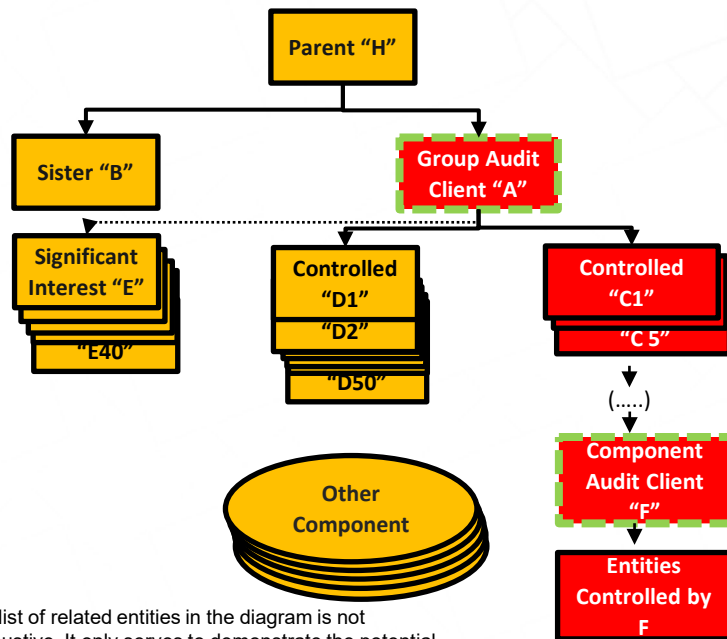
The list of related entities in the diagram is not exhaustive. It only serves to demonstrate the potential scope of related entities of the group audit client and other components.

- CAF outside the GAF's network shall be independent in accordance with the provisions in Part 4A (R405.11(a))

- CAF outside the GAF's network shall be independent of group audit client with respect to financial interest and loans and guarantees (R405.11(b) & (c))

- CAF outside the GAF's network shall consider any relationship or circumstance the CAF **knows, or has reason to believe**, might create a threat to their independence (R405.12)
 - circumstances and relationships – e.g. financial interest in a joint venture
- CAF shall evaluate and address threat to independence (R405.13)
- CAF shall notify GAF of independence matters that require significant judgment (R405.4)
 - If threat cannot be reduced to an acceptable level, the CAF cannot participate in the group audit (R405.23-25)

Independence Considerations for Group Audit Team member within, or engaged by, Component Audit Firm (CAF) outside Group Audit Firm (GAF)



The list of related entities in the diagram is not exhaustive. It only serves to demonstrate the potential scope of related entities of the group audit client and other components.

Member of the group audit team outside the GAF's network shall be independent in accordance with the provisions in Part 4A (R405.6)

- Member of the group audit team outside the GAF's network shall consider any relationship or circumstance the individual **knows, or has reason to believe** might create a threat to their independence (R405.7)
 - circumstances and relationships – e.g. immediate family member who is director of an entity contrasted with spouse who does not have any director role (405.7 A1)
- Individual shall notify the CAF (R405.7)
- CAF shall evaluate and address threat to independence (R405.8)
- CAF shall notify GAF of independence matters that require significant judgment (R405.4)
 - If threat cannot be reduced to an acceptable level, the individual cannot participate in the group audit (R405.23-25)

Breaches at a Component Auditor Firm

Component Auditor Firm (CAP) (R405.23)

- End, suspend or eliminate the breach and address the consequences;
- Evaluate the significance and impact on CAF's objectivity;
- Determine any other actions to be taken; and
- Promptly communicate **in writing** to the group engagement partner.



Group Engagement Partner (GEP) (R405.24 & 25)

- Review the CAF's assessment of significance of breach and impact on CAF's objectivity, and any proposed actions;
- Evaluate GAF's ability to use the CAF's work for the group audit; and
- Determine any further action to be taken.

GEP to exercise professional judgment and consider RITP



Those Charged with Governance (TCWG) (R405.27, 28 & 29)

Group Audit Firm discusses and communicates **in writing** to TCWG:

- The significance and impact of breach on CAFs objectivity, and any proposed actions; and
- Whether actions proposed or taken would address the consequences or use other means to obtain audit evidence.

GAF cannot use the work of CAF unless TCWG concur

Resources - Engagement Team and Group Audits (ET GA)



IESBA Staff Q&As – ET GA

- Determination of the Engagement Team and Audit Team
- New Defined Terms in terms of Group Audits
- Independence in a Group Audit Context
- Key Audit Partners
- Breach of an Independence Provision at a Component Auditor Firm

Available on the [IESBA's website](https://www.iesba.org/)

★ APESB recent release: [Compiled Code \(June 2023\)](#) incorporates ET GA provisions. ★

Technology-Related Revisions to the Code



Technology related revisions to the Code

- Guides ethical mindset and behavior of Members in dealing with changes brought by technology
- IESBA [Final Pronouncement](#) issued April 2023



- APESB Amending Standard to be issued May 2024
- **Effective date for Australia: 1 January 2025**

Overview of Technology-related revisions

Draws attention to the **competence, confidentiality, & leadership** imperatives of the digital age

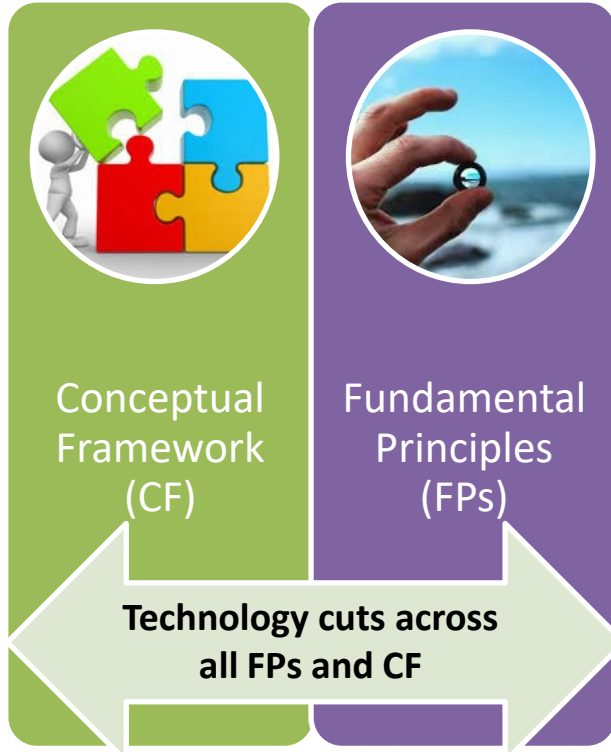
Considers ethical threats from **use of technology & complexity** when exercising professional judgment

Addresses the ethical dimension of **using output of technology**

Strengthens **auditor independence** for technology-related services & business relationships

Applies to assurance on **non-financial information** (e.g. ESG disclosures)

Technology and the Conceptual Framework



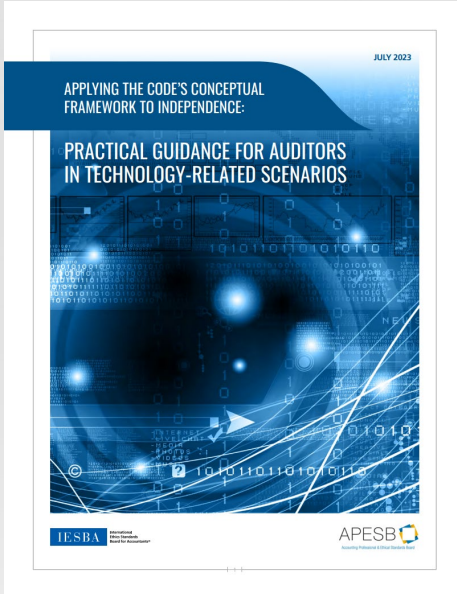
- Data available might not be sufficient for effective use of technology.
- Technology might not be appropriate for the purpose for which it is to be used.
- The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- The technology was designed or developed using the knowledge, expertise or judgement of the accountant or employing organisation.

Ethical considerations when using technology output

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.

Resources – Technology

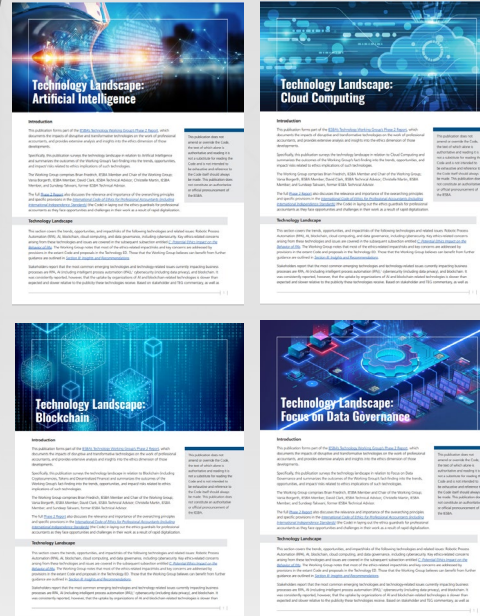
APESB-IESBA Non-Authoritative Material



- Jointly released by APESB and IESBA in July 2023
- Provides guidance on Auditor Independence and Technology
- Includes three practical examples on how to apply independence requirements in the Code

Available on [APESB's website](https://www.apesb.org.au/technology)

IESBA Non-Authoritative Material



- IESBA has developed a series of NAM for Technology in December 2022
- [Artificial Intelligence](#)
- [Cloud Computing](#)
- [Blockchain](#)
- [Focus on Data Governance](#)
- [Robotics Process Automation](#)
- [Other Technologies](#)

Available on the [IESBA's website](https://www.iesba.org/technology)

Definition of Listed Entity and Public Interest Entity (PIE)



New definition of Public Interest Entity (PIE)

PIE definition

3 specific mandatory categories:

- Publicly traded entity (*replaces listed entity*)
- Deposit-taking institutions
- Insurers

1 broad mandatory category:

- Entity required under local law, regulation or professional standards (*Guidance in paragraph 400.23 A2*)



AUST specific PIEs

7 categories
generally considered
PIEs in Australia
(*requirement paragraph
AUST R400.23.1*)

APESB issued [Amending Standard](#) in November 2023

Revisions effective from **1 January 2025**

Australian requirement on PIEs

The following entities will generally be considered as PIEs (AUST R400.23.1):

- Authorised deposit-taking institutions and authorised non-operating holding companies (NOHCs) regulated by APRA
- Authorised insurers and authorised NOHCs regulated by APRA
- Life insurance companies and registered NOHCs regulated by APRA
- Private Health Insurers regulated by APRA
- Disclosing Entities
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeships that have five or more members regulated by APRA
- Other issuers of debt and equity instruments to the public

Determining PIEs

APES 110 mandate firms to determine PIEs

Non-exhaustive list of factors to evaluate the level of public interest in the financial condition of an entity

Nature of the business or activities (e.g., financial obligations to the public)

Subject to regulatory supervision over the entity's financial obligations

Size of the entity

The importance of the entity to its sector (e.g., replaceable in the event of financial failure)

Number and nature of stakeholders (e.g., investors, customers, creditors & employees)

Potential systemic impact in the event of financial failure

IESBA's Sustainability Projects



International Sustainability Standards Infrastructure

Sustainability Reporting and Assurance

Standardized approach for **reporting** information



Reliable, comparable and decision useful information

Reporting Standards

Standardized approach for providing independent **assurance**



Credible and trustworthy information

Assurance Standards

Ethical mindset and behaviors to guide judgments and drive actions



Trustworthy information that is factual and not misleading

IESBA – Ethics and Independence Standards

Sustainability - Exposure Draft

IESBA actions on Sustainability:

- Informed by series of [Global Roundtables](#) in 2023.
- Complemented by [IESBA's Use of Experts Project](#).
- Close coordination with [IAASB's Sustainability Project](#) aiming to develop new overarching standard for sustainability assurance.
- Input from [IESBA's Sustainability Reference Group \(SRG\)](#) with APESB CEO, Channa Wijesinghe appointed to chair the SRG.

Sustainability Assurance – IESBA Exposure Draft [International Ethics and Independence Standards for Sustainability Assurance \(IESSA\)](#) released in January 2024. Comment closed on 10 May 2024. IESBA expects to approve final standards in December 2024.

Sustainability Reporting – IESBA will explore developing profession-agnostic ethics standards for sustainability reporting commencing 2025.

Main Characteristics of Proposed IESSA

SUSTAINABILITY ASSURANCE **Ethics and Independence provisions**

Designed to be understood and applied by all practitioners, including those who are not PAs

**PROFESSION-
AGNOSTIC**
(ALL Practitioners)

**FRAMEWORK
NEUTRAL**

Goal is also to underpin any reporting or assurance framework used to prepare or assure the sustainability information

Same high standards of ethical behavior and independence that apply to audits of financial information under the IESBA Code (in Parts 1 to 4A)

EQUIVALENT
to Audit Standards

STANDALONE
(New Part 5 of IESBA Code)

Best option to achieve profession-agnostic objective and ensure alignment with PIF characteristics

The IESBA Code

For Professional Accountants

PART 1

Complying with the Code, the Fundamental Principles, and the Conceptual Framework

(All Professional Accountants)
Section 100–199

PART 2

Professional Accountants in Business (PAIBs)

Part 2 is also applicable to individual PAPPs when performing professional activities pursuant to their relationship with the firm

Section 200–299

PART 3

Professional Accountants in Public Practice (PAPPs)

Section 300–399

PART 4A

International Independence Standards

Independence for Audits and Reviews

Section 400–899

PART 4B

International Independence Standards

Independence for Assurance Engagements other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5

Section 900–999

NEW

For Sustainability Assurance Practitioners

PART 5

International Ethics Standards for Sustainability Assurance (including international Independence Standards)

For Sustainability Assurance Engagements Scoped to Part 5

Section 5100–5700

Sustainability Assurance - Applicability

Proposed IESSA applies when a **sustainability assurance practitioner** performs an **assurance engagement** on **sustainability information**

IESSA consists of ethics and independence standards

New defined terms in the Glossary of the Code

❖ **Sustainability Assurance Practitioner**

- Includes all practitioners, including PAs and non-PAs

❖ **Sustainability Information**

- Broad and sufficiently generic to be perennial and interoperable with various reporting and assurance standards (including proposed ISSA 5000)
- **Also relevant for sustainability reporting**

❖ **Sustainability Assurance Engagement**

- An engagement designed to enhance the degree of confidence of the intended users about the sustainability information
- Can be either limited or reasonable assurance

Use of Experts – Exposure Draft

Current Position

What the Code addresses

- Independence for experts consulted on audit / assurance

What the Code does *not* address

- *External experts* whose work is used in audit / assurance
- External experts used for NAS
- External experts used by PAIBs

What ISAs address

- Competence, capabilities and objectivity of auditors' experts
- Management's experts



Desired Public Interest Position

What the Code should/will address

- Independence for experts consulted on audit / assurance
- Competence, capabilities and objectivity (CCO) for external experts used in any professional service
- Additional rigor for *external experts* whose work is used in audit / assurance, including sustainability assurance engagements (SAEs)
- External experts used by PAIBs

IESBA Exposure Draft [Using the Work of an External Expert](#) released in January 2024.

Comment closed on 30 April 2024. IESBA expects to approve final standards in December 2024.

Proposed phasing of sustainability reporting in Australia

Treasury have issued [draft legislation](#) on climate-related financial disclosures.

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least <u>two of three</u> criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees		
1 July 2024 Group 1	\$500 million or more	\$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	\$200 million or more	\$500 million or more	250 or more	All other NGER reporters	\$5 billion assets under management or more
1 July 2027 Group 3	\$50 million or more	\$25 million or more	100 or more	N/A	N/A

Q & A



Further Information

For more information visit www.apesb.org.au

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Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff on APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*. This includes slides developed by the IESBA Technical Staff on the revisions to the IESBA Code Amending Standards and the exposure drafts relating to the proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA)* and *Using the Work of an External Expert*.

These slides only provide an *overview* of provisions in the Code and do not purport to present all the detailed changes. The slides should be read in conjunction with the Code. These slides do not form part of the Code, the text of which is authoritative.

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