

## DRAFT - APES 110 – Prohibited Non-Assurance Services, Interests, Relationships and Actions for Auditors of all Audit Clients

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) requires audit firms to be independent when undertaking audits, reviews and other assurance engagements. In addition, there are specific prohibitions which become stricter when the entity is a Public Interest Entity<sup>1</sup> (PIE).

APES 110 sets out a conceptual framework for auditors to assess whether non-assurance services, interests, relationships or actions create threats to the auditor's independence. The application of the conceptual framework involves a rigorous analysis of the service, interest, relationship or action to identify, evaluate and address threats to independence and involves a reasonable and informed third party test. If the service, interest, relationship or action creates a threat that 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 service or audit engagement.

The independence assessment must also consider the aggregate impact of multiple threats to independence, including where the fees in respect of multiple audit clients referred represent a large proportion of total fees for the firm.

Audit engagement teams in Australia specifically exclude individuals within the client's internal audit function, as direct assistance by the internal audit function of the entity to the external auditor is prohibited in Australia.

APES 110 also recognises that some situations create threats that cannot be reduced to an acceptable level and are, therefore, specifically prohibited. These **prohibitions** relate to certain non-assurance services, interests, relationships or actions for auditors and are either outright prohibitions or prohibitions based on the materiality to the financial statements of the entity being audited. In assessing materiality, auditors must consider both qualitative and quantitative aspects. These prohibitions have legal enforceability in respect of audits and reviews performed under the *Corporations Act 2001* due to Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* and audits performed under the *Superannuation Industry (Supervision) Act 1993* and *Superannuation Industry (Supervision) Regulations 1994*.

The following tables provide a high-level summary of APES 110 prohibitions. Please note that this summary does not amend or override the Code, the text of which alone is authoritative. Reading this summary is not a substitute for reading the Code.

### Strictly Prohibited Non-Assurance Services – For PIE Audit Clients

APES 110 Paragraph	Strictly Prohibited Non-Assurance Services for PIEs
R600.7	Assuming management responsibility for a client
R601.6	Accounting and bookkeeping services, including preparing accounting records or financial statements <sup>2</sup>
R608.5	Serving as General Counsel
R609.6	Performing negotiations for a client as part of a recruiting service
R609.7	Recruiting services for a position at the client as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements
R610.4	Promoting, dealing in or underwriting a client's shares
R411.4	Compensating or evaluating a key audit partner based on that partner's success in selling non-assurance services to their audit clients
R523.4 & AUST R523.5	Serving as a Company Secretary
AUST R523.3.1	Managing the administration of an insolvent client

### Strictly Prohibited Non-Assurance Services – For Non-PIE Audit Clients

The prohibited non-assurance services listed in the preceding table for PIE audit clients are the same for non-PIE audit clients except for accounting and bookkeeping services which are prohibited from being provided to non-PIE audit clients unless (paragraph R601.5 of APES 110):

- The services are of a routine or mechanical nature (such services require little or no professional judgement and paragraph 601.4 A1 of APES 110 includes examples of such services); and

<sup>1</sup> Public Interest Entities (PIEs), as defined in [APES 110](#) in the Glossary and paragraphs 400.8 to AUST 400.8.1 A1.

<sup>2</sup> A Firm or Network Firm can provide routine or mechanical services in limited circumstances for divisions or related entities of the PIE audit client if the personnel providing the service are not part of the audit team and the divisions or related entities are immaterial to the financial statements being audited, or the services relate to matters that are immaterial.

- The firm addresses any threats that are created by providing such services that are not at an acceptable level.

**Prohibited Non-Assurance Services (based on materiality) – For PIE Audit Clients**

<b>APES 110 Paragraph</b>	<b>Prohibited Non-Assurance Services (based on materiality) – For PIE Audit Clients</b>
R603.5	Valuation services
R604.6	Calculating current and deferred tax liabilities (or assets)
R604.8	Tax planning or other tax advisory services where its effectiveness requires a particular accounting treatment or presentation in the financial statements and there are reasonable doubts as to its appropriateness
R604.11	Acting as an advocate for a client in the resolution of tax disputes before a public tribunal or court
R605.5	Internal audit services, on a significant part of internal controls over financial reporting, financial accounting systems, or amounts/disclosures in the financial statements
R606.5	Designing or implementing IT system services that are a significant part of internal controls over financial reporting or that generate information significant to accounting records or financial statements
R608.6	Advocacy role in resolving a dispute or litigation
607.3 A4 & R603.5	Litigation support services involving estimating damages or other amounts that affect the financial statements
R610.5	Corporate finance services where its effectiveness requires a particular accounting treatment or presentation in the financial statements and there are reasonable doubts as to its appropriateness

**Prohibited Non-Assurance Services (based on materiality) – For Non-PIE Audit Clients**

The prohibited non-assurance services for PIE audit clients listed in the preceding table are the same for non-PIE audit clients except for the following differences:

- The prohibitions on valuation services and litigation support services must also involve a significant degree of subjectivity for non-PIE audit clients (paragraphs R603.4 and 607.3 A4 of APES 110).
- Providing the following services to non-PIE audit clients are not strictly prohibited, however, in deciding whether or not to provide these services, the auditor and audit firm need to consider the applicable requirements and apply the conceptual framework of APES 110:
  - calculating current and deferred tax liabilities (or assets) (paragraphs 604.5 A1 to 604.5 A3 of APES 110);
  - internal audit services (paragraphs 605.1 to 605.4 A5 of APES 110); or
  - IT systems (paragraphs 606.1 to 606.4 A2 of APES 110).

**Prohibited Interests, Relationships and Actions (including materiality factors where noted) – All Audit Clients (except where indicated)**

<b>APES 110 Paragraph</b>	<b>Prohibited Interests, Relationships and Actions (including materiality factors where noted)</b>
<b>R310.4</b>	Acting where a conflict of interest compromises professional or business judgement
<b>R410.10</b>	Contingent fees for an audit engagement
<b>R410.11</b>	Contingent fees for a non-assurance service 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 judgement related to a material amount in the financial statements
<b>AUST R330.5.2</b>	Commissions or similar benefits for assurance services
<b>R510.4</b>	Direct financial interest or material indirect financial interest in the client
<b>R510.6</b>	Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity
<b>R510.8</b>	Common financial interests in an entity with a client where either of the financial interests is material and the client has significant influence over the entity

<b>APES 110 Paragraph</b>	<b>Prohibited Interests, Relationships and Actions (including materiality factors where noted)</b>
<b>R511.4</b>	Loans, or guarantees for a loan, to the client that are material
<b>R511.5</b>	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
<b>R511.6</b>	Deposits or brokerage accounts with a client that is a bank, broker or similar institution that are not under normal commercial terms
<b>R511.7</b>	Material loans, or guarantees for a loan, from a client that is not a bank or similar institution
<b>R520.4</b>	Close business relationships with a client that are significant or involve a material financial interest
<b>R520.5</b>	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
<b>R521.5</b>	Participating in an audit team if an immediate family member (spouse (or equivalent) or dependent) is, or was during the engagement period, a director or officer of the client or an employee able to exert significant influence over accounting records or financial statements of the client
<b>R522.3</b>	Participating in an audit team if, during the period covered by the audit report, an 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
<b>R523.3 &amp; AUST R523.3.1</b>	Partners or employees acting as a director or an officer of the client. A firm must refuse/withdraw from an audit if a partner or employee served 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
<b>R524.4</b>	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 accounting records or financial statements
<b>R524.6 &amp; R524.7</b>	For PIE audit clients – Audit engagements for a client within defined periods where Key Audit Partners or senior or managing partners have joined the client as director, officer or an employee able to exert significant influence over accounting records or financial statements
<b>R525.4</b>	Loan of personnel to the client unless specific requirements are met
<b>Section 540</b>	Long association with the client, including serving as an Engagement Partner, Engagement Quality Control Reviewer or other Key Audit Partner subject to specified cooling-off periods <sup>3</sup>
<b>R540.20</b>	For PIE audit clients – Audit partners who are serving a cooling-off period due to long association are prohibited from: <ul style="list-style-type: none"> <li>• Being on the audit engagement team;</li> <li>• Providing quality control;</li> <li>• Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement;</li> <li>• Leading or coordinating the professional services provided to that client;</li> <li>• Overseeing the relationship with the client; or</li> <li>• Undertaking any other role or activity involving frequent interaction with senior management or those charged with governance of the client, or direct influence on the outcome of the audit engagement</li> </ul>
<b>R420.3</b>	Gifts and hospitality from the client that are other than trivial and inconsequential
<b>R340.7 &amp; R340.8</b>	Offering or encouraging others to offer inducements or accepting or encouraging others to accept inducements, that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual

<sup>3</sup> Refer to the APESB Technical Staff publication Audit Partner rotation requirements in Australia Technical Staff Questions & Answers (2019) for further details of these prohibitions.