

## AGENDA PAPER

**Item Number:** 3  
**Date of Meeting:** 25 June 2020  
**Subject:** Independence Guide and input on AUASB projects

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Action Required     For Discussion     For Noting     For Information

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### Purpose

To provide the Board with an update on:

- the finalisation and publication of the *Independence Guide – Fifth Edition, May 2020* (Independence Guide);
- Technical Staff input on the Auditing and Assurance Standards Board's (AUASB) projects to implement conforming amendments to AUASB pronouncements and update Guidance Statement GS 009 *Auditing Self-Managed Superannuation Funds* (GS 009).

### Background

#### Independence Guide

The Independence Guide was originally published in October 2005 as an initiative of CPA Australia and the Institute of Chartered Accountants Australia (now Chartered Accountants Australia and New Zealand (CA ANZ)). The most recent edition of the [Independence Guide \(Fourth Edition\)](#) was published in February 2013 by CA ANZ, CPA Australia and the Institute of Public Accountants (IPA).

The professional bodies approached APESB in May 2019 to manage a revision and update to the Independence Guide and agreed to provide funding for the project.

The Board approved the project to revise and update the Independence Guide at the June 2019 Board meeting. A Heads of Agreement (HoA) was finalised between the APESB and the three professional bodies on the 6 September 2019.

Technical Staff issued an Invitation to Tender for the revision and update to the Independence Guide in September 2019. The Board approved the engagement of Mrs. Elizabeth Giust of Qualitas Consultants, at the October 2019 Board meeting.

A progress report was presented at the March 2020 Board meeting, together with a draft of the Independence Guide. The Board noted the progress on the project and approved the draft revised Independence Guide to be included on the APESB website for public comment.

The draft Independence Guide presented at the March 2020 Board meeting was circulated on 21 February 2020 to the following stakeholders:

- Australian Securities and Investments Commission (ASIC), Australian Taxation Office (ATO), Australian Charities and Not-for-profits Commission (ACNC) and Australian Prudential Regulatory Authority (APRA);
- Auditing and Assurance Standards Board (AUASB), Financial Reporting Council (FRC) and New Zealand Auditing and Assurance Standards Board (NZAuASB);
- Firms including PwC, EY, KPMG, Deloitte, Grant Thornton, BDO, William Buck, Pitcher Partners, ShineWing Australia, Crowe Horwath and Nexia;
- Other members of the Large National Networks Group; and
- The Professional Accounting Bodies.

The Draft Independence Guide was posted on the CPA Australia website on 27 February 2020 and promoted via their weekly member update to gather feedback from a broader group. It was also issued on the APESB website on 6 March 2020 (open for feedback until 23 March 2020).

The Project Team received considerable feedback and comments from 11 stakeholders, which was summarised and presented at the April 2020 Board meeting. The following is a summary of the main issues raised by stakeholders:

- Routine or mechanical – queries were raised about when the preparation of financial statements for self-managed superannuation funds is not ‘routine or mechanical,’ and therefore the service is prohibited from being provided to audit clients under the restructured APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (restructured APES 110). This issue is discussed further under Matters for Consideration.
- Examples of Public Interest Entities (PIEs) – concerns were raised whether the examples of PIEs in Section 5.5 of the Independence Guide may create ‘benchmarks’ and do not represent holding assets in a fiduciary capacity. However, Section 5.5 includes a qualification that the examples are not intended to create a definitive list of PIEs or ‘thresholds.’ Further, APES 110 requires firms to determine whether to treat other entities as PIEs because they have a large number and wide range of stakeholders, and holding assets in a fiduciary capacity are just factors or examples of what might constitute a PIE. The PIE definition is also not intended to be sector-specific and can be applied by for-profit entities, public sector entities and not-for-profit entities.
- Incorporation of additional examples – stakeholders requested further examples in several areas, some of which have now been included in the Independence Guide. However, due to the significant increase in the number of case studies that are now in the Guide, all suggested examples could not be included. However, the remaining suggested examples have been documented for consideration in subsequent iterations of the Guide.
- IESBA proposals and the PJC Inquiry – stakeholders, requested references to, and inclusion of potential impacts from current projects from the International Ethics Standards Board for Accountants (IESBA) and relevant recommendations from the Parliamentary Inquiry into Regulation of auditing in Australia. These were subsequently included in Sections 1.4 and 1.5 of the Independence Guide.

- Guidance on the requirements of the Corporations Act 2001 (the Act) – stakeholders requested additional guidance on the requirements in the Act in respect of conflicts of interest and prohibited relationships. Section 7.2.2 of the Independence Guide summarises the relevant provisions of the Act and notes the complexity of these provisions. Several examples in the Independence Guide apply some of the requirements in the Act. Comprehensive guidance on the application of the Act is beyond the scope of the Independence Guide and is within ASIC’s mandate.
- Editorials relating to examples – valuable feedback was received, which led to editorial changes to clarify the circumstances in examples and application of the restructured APES 110.

### APESB Input to the AUASB’s Projects

APESB and AUASB continue to develop a strong working and collaborative relationship through the provision of technical input and assistance to each Board’s projects of mutual interest.

## **Matters for Consideration**

### Independence Guide

Subsequent to the April 2020 Board meeting, Technical Staff conducted follow up meetings with the stakeholders that provided feedback on the Independence Guide. Stakeholders were appreciative of this opportunity to discuss how the issues they raised were dealt with by the Project Team.

An issue highlighted to the Board in the April 2020 Board meeting related to audit firms providing bookkeeping and accounting services to an audit client, particularly in the SMSF sector.

The restructured APES 110 is quite clear that providing bookkeeping and accounting services to an audit client can only occur in limited circumstances when the accounting service is routine or mechanical. The Board expressed a clear view on this matter at the April 2020 Board meeting, consistent with the requirements of the Restructured Code.

Technical Staff redrafted Chapter 8 of the Independence Guide in accordance with this view and raised this specifically with, and provided the updated Guide to, all relevant stakeholders as part of conducting the subsequent meetings with them as discussed above.

Consultations with stakeholders have resulted in some editorial refinements to Chapter 8 of the Independence Guide.

The Board received an updated draft of the Independence Guide on 15 May 2020 for a final review, with a particular focus on the SMSF matters discussed above.

The Independence Guide was issued on 27 May 2020 and is attached as Agenda Item 3(a). The new edition of the Independence Guide is a collaboration between APESB, CA ANZ, CPA Australia, and the IPA. It provides guidance on the application of the restructured APES 110 to auditor independence requirements. It will also be a very useful tool for assurance practitioners and also for other stakeholders involved in the assurance process, such as CFOs and Audit Committees.

## AUASB Project - Conforming Amendments to AUASB Pronouncements

The AUASB is undertaking a project to implement amendments to AUASB pronouncements to conform with revised Auditing and Assurance standards issued by the International Auditing and Assurance Standards Board (IAASB). These Standards were recently updated in response to the restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by IESBA. These amendments also include relevant changes to align with the restructured APES 110.

At the request of AUASB Technical Staff, during May 2020 APESB Technical Staff undertook a detailed review of the following Draft AUASB documents for consistency with the IAASB changes and the restructured APES 110:

- *Auditing Standard ASA 2020-2 Amendments to Australian Auditing Standards made under Section 336 of the Corporations Act 2001* – which is to be a legislative instrument proposing amendments to 17 Australian Auditing Standards (ASA).
- ASA 2020-2 Explanatory Statement.
- Attachment to AUASB Board Meeting Summary Paper – Conforming Amendments AUASB Non-Force of Law Pronouncements – which includes proposed amendments to 2 ASAs, 2 Australian Standards on Review Engagements, 5 Australian Standards on Assurance Engagements and 1 Australian Standard on Related Services.

APESB Technical Staff provided a significant amount of feedback to the AUASB on the above documents, including in respect of changes to references to the restructured APES 110 from those currently referenced in AUASB standards to the extant APES 110.

The AUASB will review/approve the conforming amendments in an out of session Board meeting to be held in the latter part of June 2020.

## AUASB Project – Revision to GS 009 *Auditing Self-Managed Superannuation Funds*

The AUASB last updated GS 009 in September 2015 and received feedback from the Australian Taxation Office, CPA Australia and CA ANZ in February 2019 on areas to consider for revision. The AUASB approved a project plan in December 2019 to complete a detailed review of GS 009.

During late May and early June 2020, APESB Technical Staff were requested to undertake a review of relevant sections of GS 009 relating to the restructured APES 110, ethical requirements and auditor independence. APESB Technical Staff provided detailed feedback, including suggesting the inclusion of specific references to the restructured APES 110 and cross-references to the Independence Guide.

GS 009 is scheduled to be reviewed by the AUASB Board for approval at its Board meeting being convened on 9 and 10 June 2020. The finalisation of this project to revised GS 009 is timely due to the synergies between GS 009 and the Independence Guide and to ensure consistency between these two important documents.

## **Recommendations**

The Board note:

- The finalisation and publication of the Independence Guide; and
- Input from APESB Technical Staff to the AUASB's projects on conforming amendments to AUASB pronouncements and the revision of GS 009.

## **Materials presented**

Agenda Item 3 (a)      Independence Guide May 2020

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