

# Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

November 2022

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

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## **GUIDE TO THE CODE**

*[Paragraphs 1 to 5 of the Guide to the Code remain unchanged.]*

### **How to Use the Code**

*The Fundamental Principles, Independence and Conceptual Framework*

6. The **Code** requires **Members** to comply with the fundamental principles of ethics. The **Code** also requires **Members** to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. Applying the conceptual framework requires having an inquiring mind, exercising professional judgement, and using the reasonable and informed third party test.

*[Paragraphs 7 to 20 of the Guide to the Code remain unchanged.]*

## 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, the fee-related provisions and the quality management-related conforming amendments apply as specified in the respective transitional provisions on page 19.

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

## GLOSSARY

<b>[AUST] ASQM 1</b>	Auditing Standard ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> issued by the <b>AUASB</b> .
<b>Engagement Quality Review</b>	An objective evaluation of the significant judgements made by the <b>Engagement Team</b> and the conclusions reached thereon, performed by the <b>Engagement Quality Reviewer</b> and completed on or before the date of the engagement report.
<b>Engagement Quality Reviewer</b>	A partner, other individual in the <b>Firm</b> , or an external individual, appointed by the <b>Firm</b> to perform the <b>Engagement Quality Review</b> .
<b>Network</b>	A larger structure: <ul style="list-style-type: none"><li>(a) That is aimed at cooperation; and</li><li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li></ul>

*[All other terms in the Glossary of the extant Code 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

*[Paragraphs R120.3 to 120.13 A3 of extant Section 120 remain unchanged.]*

##### *Firm Culture*

- AUST 120.14 A1 APES 320 *Quality Management for Firms that provide Non-Assurance Services* and ASQM 1 set out requirements and application material relating to Firm culture in the context of a Firm's responsibilities to design, implement and operate a system of quality management for non-assurance services engagements and audits or reviews of Financial Statements, or other assurance or related services engagements.

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

##### *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, a system of quality management designed, implemented and operated by a Firm in accordance with 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 200

### APPLYING THE CONCEPTUAL FRAMEWORK – MEMBERS IN BUSINESS

#### Introduction

*[Paragraphs 200.1 to 200.4 of extant Section 200 remain unchanged.]*

#### Requirements and Application Material

##### General

*[Paragraphs R200.5 to 200.5 A3 of extant Section 200 remain unchanged.]*

##### Identifying Threats

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a **Member** when undertaking a **Professional Activity**:

(a) Self-interest Threats:

- A **Member** holding a **Financial Interest** in, or receiving a loan or guarantee from, the employing organisation.
- A **Member** participating in incentive compensation arrangements offered by the employing organisation.
- A **Member** having access to corporate assets for personal use.
- A **Member** being offered a gift or special treatment from a supplier of the employing organisation.

(b) Self-review Threats:

- A **Member** determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.

(c) Advocacy Threats:

- A **Member** having the opportunity to manipulate information in a prospectus in order to obtain favourable financing.

(d) Familiarity Threats:

- A **Member** being responsible for the financial reporting of the employing organisation when an **Immediate** or **Close Family** member employed by the organisation makes decisions that affect the financial reporting of the organisation.
- A **Member** having a long association with individuals influencing business decisions.

(e) Intimidation Threats:

- A **Member** or **Immediate** or **Close Family** member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle.
  - The way in which financial information is to be reported.

- An individual attempting to influence the decision making process of the [Member](#), for example with regard to the awarding of contracts or the application of an accounting principle.

*[Paragraphs 200.7 A1 to 200.10 A1 of extant Section 200 remain unchanged.]*

## PART 3 – MEMBERS IN PUBLIC PRACTICE

### SECTION 300

#### APPLYING THE CONCEPTUAL FRAMEWORK – MEMBERS IN PUBLIC PRACTICE

##### Introduction

*[Paragraphs 300.1 to 300.3 of extant Section 300 remain unchanged.]*

##### Requirements and Application Material

*[Paragraphs R300.4 to 300.7 A4 of extant Section 300 remain unchanged.]*

##### *The Firm and its Operating Environment*

300.7 A5 A **Member in Public Practice's** evaluation of the level of a threat might be impacted by the work environment within the **Member's Firm** and its operating environment. For example:

- Leadership of the **Firm** that promotes compliance with the fundamental principles and establishes the expectation that **Assurance Team** members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The **Engagement Partner** having authority within the **Firm** for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

*[Paragraphs 300.7 A6 to 300.10 A1 of extant Section 300 remain unchanged.]*



## 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 A3 of extant Section 320 remain unchanged.]*

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.
- Policies and procedures that the Firm has implemented, as part of a system of quality management in accordance with quality management standards such as APES 320 *Quality Management for Firms that provide Non-Assurance Services* or ASQM 1, that respond to quality risks relating to the Firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
- 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 325

### OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

#### Introduction

*[Paragraphs 325.1 to 325.4 of extant Section 325 remain unchanged.]*

#### Application Material

##### General

325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320) and ASQM 1 establish the Firm's responsibilities for its system of quality management and require the Firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing Engagement Quality Reviews in accordance with ASQM 2 *Engagement Quality Reviews* (ASQM 2).

*[Paragraphs 325.5 A2 to 325.8 A3 of extant Section 325 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**

*[Paragraphs 330.3 A1 to 330.4 A1 of extant Section 330 remain unchanged.]*

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

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the [Member in Public Practice](#) and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

*[Paragraphs 330.4 A3 to 330.6 A1 of extant Section 330 remain unchanged.]*

## **SECTION 360**

### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

#### **Introduction**

*[Paragraphs 360.1 to 360.4 of extant Section 360 remain unchanged.]*

#### **Requirements and Application Material**

*[Paragraphs 360.5 A1 to 360.18 A1 of extant Section 360 remain unchanged.]*

##### *Determining Whether Further Action Is Needed*

*[Paragraph R360.19 of extant Section 360 remains unchanged.]*

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, [Those Charged with Governance](#) include whether:

- The response is timely.
- The NOCLAR or suspected NOCLAR has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any NOCLAR.
- Action has been, or is being, taken to deter the commission of any NOCLAR where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of reoccurrence, for example, additional controls or training.
- The NOCLAR or suspected NOCLAR has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

*[Paragraphs R360.20 to 360.40 A1 of extant Section 360 remain unchanged.]*

# PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

## SECTION 400

### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### Introduction

*[Paragraphs 400.1 to 400.3 of extant Section 400 remain unchanged.]*

400.4 ASQM 1 requires a Firm to design, implement and operate a system of quality management for audits or reviews of Financial Statements performed by the Firm. As part of this system of quality management, ASQM 1 requires the Firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to Independence. Under ASQM 1, relevant ethical requirements are those related to the Firm, its personnel and, when applicable, others subject to the Independence requirements to which the Firm and the Firm's engagements are subject. Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the Firm for actions related to Independence, instead referring to "Firm" for ease of reference. A Firm assigns operational responsibility for compliance with Independence requirements to an individual(s) in accordance with ASQM 1. In addition, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

*[Paragraphs 400.5 to 400.10 of extant Section 400 remain unchanged.]*

#### Requirements and Application Material

*[Paragraphs R400.11 to R400.52 of extant Section 400 remain unchanged.]*

- R400.53 When determining whether a Network is created by a larger structure of Firms and other entities, a Firm shall conclude that a Network exists when such a larger structure is aimed at cooperation and:
- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
  - (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
  - (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);
  - (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
  - (e) The entities within the structure share the use of a common brand name. (Ref: Paras. 400.53 A6, 400.53 A7); or
  - (f) The entities within the structure share a significant part of professional resources. (Ref: Paras. 400.53 A8, 400.53 A9).

*[Paragraphs 400.53 A1 to 400.53 A3 of extant Section 400 remain unchanged.]*

400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).

*[Paragraphs 400.53 A5 to R400.73 of extant Section 400 remain unchanged.]*

400.73 A1 Examples of such transitional measures include:

- Having a **Member in Public Practice** review the audit or non-assurance work as appropriate.
- Having a **Member in Public Practice**, who is not a member of the **Firm** expressing the opinion on the **Financial Statements**, perform a review that is consistent with the objective of an **Engagement Quality Review**.
- Engaging another **Firm** to evaluate the results of the non-assurance service or having another **Firm** re-perform the non-assurance service to the extent necessary to enable the other **Firm** to take responsibility for the service.

*[Paragraphs R400.74 to 400.79 of extant Section 400 remain unchanged.]*

## **Breach of an Independence Provision for Audit and Review Engagements**

*When a Firm Identifies a Breach*

**R400.80** If a **Firm** concludes that a breach of a requirement in this Part has occurred, the **Firm** shall:

- (a) **End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;**
- (b) **Consider whether any legal or regulatory requirements apply to the breach and, if so:**
  - (i) **Comply with those requirements; and**
  - (ii) **Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;<sup>1</sup>**
- (c) **Promptly communicate the breach in accordance with its policies and procedures to:**
  - (i) **The **Engagement Partner**;**
  - (ii) **The individual with operational responsibility for compliance with **Independence** requirements;**
  - (iii) **Other relevant personnel in the **Firm** and, where appropriate, the **Network**; and**
  - (iv) **Those subject to the **Independence** requirements in Part 4A who need to take appropriate action;**
- (d) **Evaluate the significance of the breach and its impact on the **Firm's** objectivity and ability to issue an audit report; and**

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<sup>1</sup> For example, there are auditor reporting obligations in the *Corporations Act 2001* which a **Member in Public Practice** must comply with. Further information on these requirements is set out in ASIC Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC*.

- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the **Audit Engagement**; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the **Firm** shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the **Firm's** objectivity would be compromised, and therefore, the **Firm** would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the **Firm** having a system of quality management designed to address **Independence** requirements. It might be necessary to end the **Audit Engagement** because of the breach.

*[Paragraphs 400.80 A2 to R400.89 of extant Section 400 remain unchanged.]*

## **SECTION 410**

### **FEES**

#### **Introduction**

*[Paragraphs 410.1 to 410.2 of extant Section 410 remain unchanged.]*

#### **Requirements and Application Material**

*[Paragraphs 410.3 A1 to 410.4 A3 of extant Section 410 remain unchanged.]*

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed, implemented and operated by the [Firm](#) in accordance with the quality management standards issued by the [AUASB](#)) might also impact the evaluation of whether the threats to [Independence](#) are at an [Acceptable Level](#).

*[Paragraphs 410.4 A5 to R410.33 of extant Section 410 remain unchanged.]*



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

## SECTION 900

### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

#### Introduction

*[Paragraphs 900.1 to 900.2 of extant Section 900 remain unchanged.]*

900.3 ASQM 1 requires a Firm to design, implement and operate a system of quality management for assurance engagements performed by the Firm. As part of this system of quality management, ASQM 1 requires the Firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to Independence. Under ASQM 1, relevant ethical requirements are those related to the Firm, its personnel and, when applicable, others subject to the Independence requirements to which the Firm and the Firm's engagements are subject. In addition, Auditing and Assurance Standards establish responsibilities for Engagement Partners and Engagement Teams at the level of the engagement. The allocation of responsibilities within a Firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the Firm for actions related to Independence, instead referring to "Firm" for ease of reference. A Firm assigns operational responsibility for compliance with Independence requirements to an individual(s) in accordance with ASQM 1. Additionally, an individual Member in Public Practice remains responsible for compliance with any provisions that apply to that Member's activities, interests or relationships.

*[Paragraphs 900.4 to R900.55 of extant Section 900 remain unchanged.]*

## **SECTION 905**

### **FEES**

#### **Introduction**

*[Paragraphs 905.1 to 905.2 of extant Section 905 remain unchanged.]*

#### **Requirements and Application Material**

*[Paragraphs 905.3 A1 to 905.3 A3 of extant Section 905 remain unchanged.]*

905.3 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed, implemented and operated by a [Firm](#) in accordance with the quality management standards issued by the [AUASB](#)) might also impact the evaluation of whether the threats to [Independence](#) are at an [Acceptable Level](#).

*[Paragraphs 905.3 A5 to 905.10 A8 of extant Section 905 remain unchanged.]*

## TRANSITIONAL PROVISIONS

The Code is subject to the following transitional provisions:

*[Paragraphs 1 to 5 of the transitional provisions in the extant Code and amending standards remain unchanged]*

### *Quality Management-related Conforming Amendments to the Code*

6. Quality Management-related Conforming Amendments to 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 2022.

### **Compliance with the IESBA Code**

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

- For quality management of non-assurance services, APES 110 refers to APES 320 *Quality Management for Firms that provide Non-Assurance Services*.

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