

Issues Paper – Further Consideration of Unresolved Issues & Sweep Issues

AASB ED 200A / FRSB ED 121

Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand

AASB ED 200B / FRSB ED 122

Proposed Separate Disclosure Standards

1. This issues paper contains the issues that were discussed but unresolved from the October 2010 joint meeting and some other sweep issues. This issues paper is organised according to the following seven issues:
 - (a) Issue 1: Location of Additional Disclosures
 - (b) Issue 2: Audit Fee Disclosures
 - (c) Issue 3: Reconciliation of Operating Cash Flow to Profit/Loss
 - (d) Issue 4: True and Fair Override
 - (e) Issue 5: Paragraph Aus7.1 of Interpretation 113 Transition
 - (f) Issue 6: Individual Key Management Personnel Disclosures
 - (g) Issue 7: Reduced Disclosure Requirements

Issue 1: Location of Additional Disclosures

2. At the October 2010 joint meeting, the Boards discussed the merits of having additional domestic disclosure requirements in a separate disclosure standard compared with locating them within topic-based standards.
3. Some members supported a separate disclosure standard largely on the basis that it would facilitate the topic-based standards being identical to IFRSs. Other members expressed a preference for locating additional disclosures within topic-based standards for ease of use.
4. Overall, the Boards expressed a preference for separate disclosure standards as the location of additional disclosures at the October 2010 joint meeting. Accordingly, staff have prepared a draft AASB Standard 2011-X *Australian Additional Disclosures* (Agenda paper 4.5) for the AASB's consideration.

5. Question for the AASB:

Do you agree to proceed with the proposal to locate the additional (domestic) disclosures in an AASB Additional Disclosure standard?

Issue 2: Audit Fee Disclosures

6. At the October 2010 joint meeting, the Boards requested staff to revise the wording of the disclosure requirements in relation to audit fees to:
- (a) incorporate the notion of ‘related practice’ in the disclosures by drawing on relevant pronouncements of the Accounting Professional and Ethical Standards Board and Australian *Corporations Act 2001*; and
 - (b) ensure the disclosures in relation to a group captures the following four types of disclosures:
 - (i) the audit of the parent entity;
 - (ii) the audit of the subsidiary;
 - (iii) all other services of the parent entity; and
 - (iv) all other services of the subsidiary.

Replacement of ‘Related Practice’

7. Staff conducted research on APES 110 *Code of Ethics for Professional Accountants* and the Corporations Act. The notion of ‘related party’ in IAS 24 was also considered as an alternative replacement for ‘related practice’. The consideration of each of the three terms is discussed below.

APES 110 – ‘Network Firm’

8. APES 110 issued by the APESB in February 2008 and *Code of Ethics: Independence in Assurance Engagements* issued by the NZICA in September 2008 are based on *Code of Ethics for Professional Accountants* in the *Handbook of International Auditing, Assurance, and Ethics pronouncements* of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants. The relevant definitions in those pronouncements are:

Network firm – A firm or entity that belongs to a Network.

Network – A larger structure:

- (a) That is aimed at co-operation, and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

9. In addition to the definitions, sections 290.14 – 290.26 of APES 110 ‘Networks and Network Firms’ elaborates on the concept of ‘network’ and ‘network firm’, which has been attached in Appendix A.
10. Staff note the APESB has issued Exposure Draft 03/10 *Proposed Standard: APES 110 Code of Ethics for Professional Accountants* in August 2010 which proposes changes to APES 110. Staff have compared the relevant sections that relate to ‘network’ and ‘network firm’ in APES 110 and ED 03/10 have found that the definitions remain unchanged and there are only minor amendments proposed in 290.14 – 290.26 that should not affect practice.
11. Staff consider the advantages of using ‘network firm’ are:
 - (a) it is accepted and recognised in both jurisdictions since its introduction in 2008;
 - (b) there has been confirmation from APESB staff that no concerns have been raised in the application of the notion in the Australian environment; and
 - (c) accounting firms presumably already have the information systems in place for compliance with APES 110 and NZICA *Code of Ethics: Independence*.
12. An issue with incorporating the notion of ‘network firm’ in the disclosure requirements is whether definitions and/or source references should be made in the standards. If the APES 110 / NZICA *Code of Ethics: Independence* are to be mentioned – the reference would need to be static rather than ambulatory because the APES 110 / NZICA *Code of Ethics: Independence* are not subject to Parliamentary scrutiny. This may give rise to issues in the future if there is a need to update the definitions.

13. If the Board decides to include the definitions in the standards, staff note that it may be necessary to also cross-refer to the explanation of network firms in *Basis for Conclusions: Amendment to Network Firms in Section 290: Independence – Assurance Engagements of APES 110 Code of Ethics for Professional Accountants*. An extract is displayed below.

“In summary a firm will be considered to be part of a Network when there is a **larger structure aimed at co-operation and** one or more of the following facts and circumstances apply:

- profit or cost sharing among the entities;
- share common ownership, control or management;
- common quality control policies and procedures;
- common business strategy;
- use of common brand-name; or
- sharing of a significant part of professional resources.”

Corporations Act 2001

14. Preliminary research by staff found that the equivalent of ‘related practice’ in the Corporations Act is embedded in section 324CE (an extract is attached in Appendix B) which is utilised to apply the table of relevant relationships in section 324CH (an extract is attached in Appendix C) when assessing auditor independence. Staff consider the notion of ‘relevant relationships’ in the Corporations Act is neither directly relevant nor transferable in the context of audit fees. Staff also note that unlike ‘network firm’, the Corporations Act material applies only in the Australian environment.

IAS 24 – ‘Related Party’

15. The advantages of using IAS 24 are:
- (a) it is a common notion utilised in AASB 124 and NZ IAS 24; and
 - (b) an ambulatory reference can be made to ‘related party’.
- The definition of ‘related party’ is narrower than ‘related practice’ and ‘network firm’ and it was not supported by the Boards’ subcommittee.

Comparison of Definitions

16. Staff have prepared a table (attached as Appendix D) which compares the definitions of:
- (a) 'related practice' in AASB 101;
 - (b) 'related party' in AASB 124 and NZ IAS 24; and
 - (c) 'network firm' in APES 110 and NZICA *Code of Ethics: Independence*.
17. The Boards' subcommittee concluded that the term 'network firm' is the most suitable, and that there is no need to incorporate the definition or explanatory material in the standards because preparers and auditors would ordinarily refer to the ethical pronouncement definition in any case.

Group Disclosures

18. In response to concerns expressed by constituents about the ambiguity of disclosures required in terms of a group, the Boards requested staff to clarify that disclosures in relation to a group consists of both the parent and its subsidiaries. Accordingly, staff have provided a clarification in the accompanying Basis for Conclusions (in paragraphs BC6 and BC7 of the 'Table of Comparisons' below) instead of locating them in the disclosure requirements. Staff consider it unnecessary to include specific additional guidance within the disclosure requirements because, like other disclosure requirements, the audit fee and related disclosures apply to each reporting entity and, in the case of a group, the fees for all member entities (parent and subsidiaries) in the group are relevant. Staff note that it is not common practice for the Boards to provide such clarification in standards.

Table of Comparison

19. The table below shows the wording proposed in the Exposure Drafts and the revised wording that has been reviewed by the joint subcommittee to address the Boards' concerns for audit fee disclosure requirements.

Wording in ED	Boards' Comments	Revised Wording
<p>5. An entity shall disclose in the notes fees to auditors (each auditor if more than one) paid or payable:</p> <p>(a) for the audit or review of the financial statements; and</p> <p>(b) for all other services performed during the reporting period. An entity shall describe the nature of other services comprising the fees disclosed under this category.</p>	<p><i>Extract from Draft October 2010 meeting minutes:</i></p> <p>(a) given the views expressed by some constituents about disclosing audit fees relating to subsidiaries in the context of consolidated financial statements, the Boards asked staff to consider clarifying the wording to better convey that the disclosures are meant to capture fees paid to each auditor of any entity in the group, including for:</p> <p>(i) the audit of the parent entity;</p> <p>(ii) the audit of the subsidiary;</p> <p>(iii) all other services of the parent entity; and</p> <p>(iv) all other services of the subsidiary;</p> <p>(b) the Boards asked staff to consider incorporating a notion of 'related practice' in the disclosures by drawing on the relevant pronouncement of the Accounting Professional & Ethical Standards Board and the Australian Corporations Act;</p>	<p>6 An entity shall disclose fees to auditors (each auditor if more than one) separately for:</p> <p>(a) the audit or review of the financial statements;</p> <p>(b) all other services performed by the auditor during the reporting period; and</p> <p>(c) all other services performed by a network firm during the reporting period.</p> <p>7 For each of 5(b) and (c) above, an entity shall describe the nature of other services.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Basis for Conclusions</p> <p>BC 6 The AASB and FRSB noted the notion of 'related practice' in audit fee disclosures in AASB 101 and decided to incorporate a similar notion that is common to both jurisdictions in the harmonised disclosures. Accordingly, the Boards decided to include the notion of 'network firm' from APES 110 <i>Code of Ethics for Professional Accountants</i> issued by APESB (Feb 2008) and <i>Code of Ethics: Independence in Assurance Engagements</i> issued by NZICA (Sep 2008).</p> <p>BC 7 The AASB and FRSB received comments from constituents that the composition of the audit fee disclosures proposed for consolidated financial statements is unclear. The AASB and FRSB consider that there is no need to provide further clarification in their standards because the relevant principle is that disclosures are made in the context of the scope of the entity reporting. Accordingly, in the case of a group, disclosures made in accordance with paragraph 5 would include fees paid by the parent and its subsidiaries.</p> </div>

Questions for the AASB

20. Do you agree with incorporating the notion of 'network firms' in the audit fee disclosure requirements without the definition or source references?

21. Do you agree with locating the clarification of disclosures required in terms of a group in the Basis for Conclusions?

22. Do you agree with the revised wording of audit fee disclosure requirements and the accompanying Basis for Conclusions?

Issue 3: Reconciliation of Operating Cash Flows to Profit/Loss

23. At the October 2010 joint meeting, the Boards decided to retain the requirement to disclose a reconciliation of net cash flows from operating activities to profit or loss, as opposed to the original proposal for each Board to delete their respective requirements. This is in response to views expressed by constituents and the likelihood of the IASB requiring a reconciliation disclosure in its Financial Statement Presentation project. The Boards decided to explain their reasoning for retaining the requirement in the Basis for Conclusions.
24. Staff consider paragraph Aus20.1 in AASB 107 and paragraph NZ 20.1 in NZ IAS 7 to be the same requirement and have converged the wording. Staff note that there is an illustration of the reconciliation required in paragraph Aus20.1 of AASB 107 in Appendix A (to be renamed 'Illustrative Examples from 1 January 2011 from AASB 2010-5). Similarly, paragraph NZ20.2 of NZ IAS 7 provides the grouping of the adjustments in the reconciliation required by paragraph NZ 20.1. Consistent with harmonising the disclosure requirements, staff propose to delete NZ20.2 of NZ IAS 7 and the illustration of the reconciliation in Illustrative Examples of AASB 107.
25. The table below shows the current wording from each jurisdiction and the harmonised wording for the reconciliation disclosure requirement, which the Board's subcommittee supports.

AASB 107	NZ IAS 7	Proposed Harmonised Wording																										
<p>AASB 107 Statement of Cash Flows</p> <p>Aus20.1 When an entity uses the direct method, a reconciliation of cash flows arising from operating activities to profit or loss shall be disclosed in the complete set of financial statements.</p> <p>Appendix A</p> <p>Reconciliation of Net Cash provided by Operating Activities to Profit or Loss (Direct Method – see paragraph Aus20.1)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">20X2</td> </tr> <tr> <td>Profit</td> <td style="text-align: right;">3,050</td> </tr> <tr> <td>Adjustments for:</td> <td></td> </tr> <tr> <td> Depreciation</td> <td style="text-align: right;">450</td> </tr> <tr> <td> Foreign exchange loss</td> <td style="text-align: right;">40</td> </tr> <tr> <td> Investment income</td> <td style="text-align: right;">(500)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">3,040</td> </tr> <tr> <td>Increase in trade and other receivables</td> <td style="text-align: right;">(500)</td> </tr> <tr> <td>Decrease in inventories</td> <td style="text-align: right;">1,050</td> </tr> <tr> <td>Decrease in trade payables</td> <td style="text-align: right;">(1,740)</td> </tr> <tr> <td>Decrease in income tax payable</td> <td style="text-align: right;">(600)</td> </tr> <tr> <td>Increase in interest payable</td> <td style="text-align: right;">130</td> </tr> <tr> <td><i>Net cash from operating activities</i></td> <td style="text-align: right; border-top: 3px double black; border-bottom: 3px double black;">1,380</td> </tr> </table>		20X2	Profit	3,050	Adjustments for:		Depreciation	450	Foreign exchange loss	40	Investment income	(500)		3,040	Increase in trade and other receivables	(500)	Decrease in inventories	1,050	Decrease in trade payables	(1,740)	Decrease in income tax payable	(600)	Increase in interest payable	130	<i>Net cash from operating activities</i>	1,380	<p>NZ IAS 7 Statement of Cash Flows</p> <p>NZ 20.1 The financial statements shall provide a reconciliation of the profit (loss) with the net cash flow from operating activities.</p> <p>NZ 20.2 The adjustments in the reconciliation may be grouped as follows:</p> <p>(a) non-cash items included in profit (loss); for example, depreciation;</p> <p>(b) any deferrals or accruals of past or future operating cash receipts or payments; for example, changes in accounts receivable and in accounts payable;</p> <p>(c) revenue and expense items classified as investing or financing activities in the statement of cash flows; for example, the cash flow from the sale of plant may be presented as an investing cash flow but the gain or loss on the sale will be included in the determination of profit (loss); and</p> <p>(d) other adjustments appropriately described.</p>	<p>12. When an entity uses the direct method, the financial statements shall provide a reconciliation of the profit (loss) with the net cash flow from operating activities.</p> <p>Basis for Conclusions</p> <p>BC 11 The AASB and FRSB have relocated the profit (loss) reconciliation to net operating cash flow disclosure requirement contained in AASB 107 and NZ IAS 7 to their respective separate disclosure standards and harmonised the disclosure requirements across both jurisdictions.</p> <p>BC 12 The AASB and FRSB note the IASB has indicated it will propose requiring a reconciliation in the Financial Statement Presentation project, based on strong support from respondents to the 2008 IASB-FASB Discussion Paper <i>Preliminary Views on Financial Statement Presentation</i>.</p> <p>BC 13 The Boards decided to retain a requirement for a reconciliation on the basis of support from those who commented on the Boards' convergence proposals and in view of the IASB's forthcoming work on Financial Statement Presentation.</p> <p>[Staff comments: Consistent with converging the reconciliation disclosure requirement, staff propose removing:</p> <ul style="list-style-type: none"> ▪ NZ 20.2 of NZ IAS 7; and ▪ the illustration of the reconciliation in Appendix A of AASB 107.]
	20X2																											
Profit	3,050																											
Adjustments for:																												
Depreciation	450																											
Foreign exchange loss	40																											
Investment income	(500)																											
	3,040																											
Increase in trade and other receivables	(500)																											
Decrease in inventories	1,050																											
Decrease in trade payables	(1,740)																											
Decrease in income tax payable	(600)																											
Increase in interest payable	130																											
<i>Net cash from operating activities</i>	1,380																											

26. **Question for the AASB**

Do you agree with the harmonised wording of the requirement to disclose a reconciliation of cash flows from operating activities to profit/loss and the related Basis for Conclusions?

Issue 4: True and Fair Override

27. At the October 2010 joint meeting, the AASB decided to proceed with its proposal to introduce the true and fair override in AASB 101 for the sake of IFRS compliance. The Board also decided to generalise the footnote identifying reporting frameworks that prohibit a true and fair override and to include an Aus paragraph to paragraph 19 to prohibit not-for-profit entities from accessing the true and fair override.
28. Accordingly, staff have inserted paragraph Aus19.1 and generalised the footnote to paragraphs 19-22. New text is shown in mark-up below.

AASB 101 *Presentation of Financial Statements*

- 17 In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable Australian Accounting Standards. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. AASB 108 sets out a hierarchy of authoritative guidance that management considers in the absence of an Australian Accounting Standard that specifically applies to an item;
 - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
 - (c) to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

19* In the extremely rare circumstances in which management concludes that compliance with a requirement in an Australian Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

Aus19.1 Notwithstanding paragraph 19, not-for-profit entities are not permitted to depart from applicable Australian Accounting Standards.

20* When an entity departs from a requirement of an Australian Accounting Standard in accordance with paragraph 19, it shall disclose:

- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
- (b) that it has complied with applicable full IFRSs as adopted in Australia or the Reduced Disclosure Requirements, except that it has departed from a particular requirement to achieve a fair presentation;
- (c) the title of the Australian Accounting Standard from which the entity has departed, the nature of the departure, including the treatment that the Australian Accounting Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and
- (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21* When an entity has departed from a requirement of an Australian Accounting Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).

22* Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an Australian Accounting Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

* Entities required to prepare financial statements in accordance with a reporting framework that would not permit a true and fair override (for example, the Corporations Act reporting framework) are not permitted to depart from applicable Australian Accounting Standards.

29. Question for the AASB:

Do you agree with the wording of paragraph Aus19.1 and the footnote to paragraphs 19-22?

Issue 5: Paragraph Aus7.1 of Interpretation 113 Transition

30. At the October 2010 joint meeting, the AASB noted that removing paragraph Aus 7.1 of Interpretation 113 may widen the range of accounting policy options available and decided to provide a reference to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to changes of accounting policy and to explain the implications in the Basis for Conclusions.
31. Accordingly, staff have provided an application reference to AASB 108 in the body of the draft Amending Standard and a Basis for Conclusions, which are displayed below.

AASB Interpretation 113 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*
Aus7.1 — ~~Where a venturer has recognised a gain or loss in profit or loss under paragraph 5 or 6, the amount of the unrealised gain or loss that has been eliminated shall be recognised by the venturer as it is realised by the JCE (as the contributed assets are consumed or sold) or, if not already realised by the JCE, when the venturer disposes of its investment in the JCE.~~

Application paragraph in DRAFT Amending Standard

Amendment to Interpretation 113

- 21 Paragraph Aus7.1 is deleted. AASB 108 applies to any change in accounting policy arising from this amendment.

Basis for Conclusions in DRAFT Amending Standard

Amendment to Interpretation 113

Application of amendment

- BC 8 Paragraph Aus7.1 has been deleted from Interpretation 113 (having been carried over from Abstract 36 *Non-monetary Contributions Establishing a Joint Neutral Entity* which is now withdrawn). The AASB noted that the removal of this paragraph may widen the range of accounting policy options available in relation to non-monetary contributions. Accordingly, the AASB concluded that an entity that changes its accounting policy as a result of the removal of paragraph Aus7.1 is making a voluntary change in accounting policy that would need to be accounted for in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

33. Question for the AASB:

Do you agree with the application reference and the Basis for Conclusions?

Issue 6: Individual Key Management Personnel Disclosures

34. At the October 2010 joint meeting, the AASB reaffirmed its desire to delete the individual key management personnel disclosures from AASB 124 *Related Party Disclosures* and directed staff to liaise with the Corporations and Markets Advisory Committee (CAMAC) with regard to its review of executive remuneration with an emphasis on having any relevant disclosure requirements included in the law.
35. Staff contacted the CAMAC on 28 October 2010 about its review on executive remuneration and have received confirmation that the CAMAC will publish its report to the Minister on 30 November 2010. From the discussion, staff gather that the CAMAC have utilised the definitions in AASB 124 in its review but have excluded related party transactions from the review. Staff also understand that, at this stage, CAMAC's review is not intending to deal with year-end disclosures about KMP loans and equity holdings.
36. The CAMAC published *Executive Review* in July 2010, which arose from a request by the Minister for Financial Services, Superannuation and Corporate Law, the Hon. Chris Bowen MP (letter received on 12 May 2010) to examine aspects of Australia's executive remuneration framework. CAMAC's review seeks to address two matters:
- (a) remuneration reporting
 - (i) examine the existing reporting requirements contained in section 300A of the Corporations Act and related regulations and identify areas where the legislation could be revised in order to reduce its complexity and more effectively meet the needs of shareholders and companies; and
 - (ii) make recommendations on how best to revise the legislative architecture to reduce the complexity of remuneration reports.
 - (b) remuneration arrangements
 - (i) examine where the existing remuneration setting framework could be revised in order to provide advice on simplifying the incentive components of executive remuneration arrangements; and

- (ii) make recommendations on how best to revise the legislative architecture to simplify the incentive components of executive remuneration arrangements.

37. The CAMAC will be holding a roundtable on 10 December 2010 in Sydney to discuss its review. Staff will be attending the roundtable and are currently awaiting the agenda papers for that discussion. At the December 2010 AASB meeting, staff will provide the Board with a verbal update on the outline of the CAMAC roundtable and the CAMAC report.

38. Question for the AASB:

Do you have any concerns about the CAMAC review or any particular matters that you would like staff to raise at the 10 December 2010 CAMAC roundtable.

Issue 7: Reduced Disclosure Requirements

39. In the Exposure Drafts, the Boards sought constituents' views on the requirements in the separate disclosure standard that should be required of entities applying the reduced disclosure requirements. Most of the respondents who commented on this question expressed the view that the additional (domestic) disclosures required of Tier 2 entities should be consistent in nature with the other disclosures required under the Reduced Disclosure Regime (RDR). The table below lists the additional disclosure requirements and the corresponding treatment currently under RDR (as required in AASB 2010-2).

Table of RDR Disclosures

Additional Disclosure Requirements (<u>shaded</u> when exempted for Tier 2 entities)
Compliance with Australian Accounting Standards
Statutory Basis
Financial Statements are General Purpose or Special Purpose
Audit Fees
Imputation Credits
Reconciliation of Operating Cash Flow to Profit(Loss)

40. Given that the disclosure requirements remain relatively similar despite having been harmonised with the equivalent New Zealand requirements, staff are in agreement with constituents that the additional disclosures required under AASB 10XX should be consistent to those currently required under the RDR.

41. Question for the AASB:

Do you agree that the Tier 2 disclosures remain as per 'Table of RDR Disclosures' (above)?

Appendix A

Section 290.14 – 290.26 of APES 110

Networks and Network Firms

- Note:** Paragraphs 290.14 – 290.26 are effective in respect of Assurance Engagements for periods commencing on or after 1 July 2008.
- 290.14 An entity that belongs to a Network might be a Firm, which is defined in this Code as a sole practitioner, partnership, corporation or other entity of professional accountants and an entity that controls or is controlled by such parties, or the entity might be another type of entity, such as a consulting practice, or a professional law practice. The Independence requirements in this section that apply to a Network Firm apply to any entity that meets the definition of a Network Firm irrespective of whether the entity itself meets the definition of a Firm.
- 290.15 If a Firm is considered to be a Network Firm, the Firm is required to be independent of the Financial Statement Audit Clients of the other firms within the Network. In addition, for Assurance Clients that are not Financial Statement Audit Clients, consideration should be given to any threats the Firm has reason to believe may be created by Financial Interests in the Client held by other entities in the Network or by relationships between the Client and other entities in the Network.
- 290.16 To enhance their ability to provide Professional Services, Firms frequently form larger structures with other Firms and entities. Whether these larger structures create a Network depends upon the particular facts and circumstances and does not depend on whether the Firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a Network. Alternatively, a larger structure might be such that it is aimed at co-operation and the Firms share a common brand name, a common system of quality control, or significant professional resources and consequently is considered to be a Network.
- 290.17 The judgment as to whether the larger structure is a Network should be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a Network exists. This judgment should be applied consistently throughout the Network.
- 290.18 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is considered to be a Network. However, the sharing of immaterial costs would not in itself create a Network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a Network. Further, an association between a Firm and an otherwise unrelated entity to jointly provide a service or develop a product would not in itself create a Network.
- 290.19 Where the larger structure is aimed at co-operation and the entities within the structure share common ownership, control or management, it is considered to be a Network. This could be achieved by contract or other means.
- 290.20 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is considered to be a Network. For this purpose common quality control policies and procedures would be those designed, implemented and monitored across the larger structure.

- 290.21 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is considered to be a Network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not considered to be a Network Firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a Professional Service.
- 290.22 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is considered to be a Network. A common brand name includes common initials or a common name. A Firm is considered to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its Firm name, when a partner of the Firm signs an assurance report.
- 290.23 Even though a Firm does not belong to a Network and does not use a common brand name as part of its Firm name, it may give the appearance that it belongs to a Network if it makes reference in its stationery or promotional materials to being a member of an association of Firms. Accordingly, a Firm should carefully consider how it describes any such memberships in order to avoid the perception that it belongs to a Network.
- 290.24 If a Firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the Firm, or an element of the name, even though it is no longer connected to the Firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not Network Firms. Those entities should carefully consider how to disclose that they are not Network Firms when presenting themselves to outside parties.
- 290.25 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is considered to be a Network. Professional resources include:
- Common systems that enable Firms to exchange information such as client data, billing and time records;
 - Partners and staff;
 - Technical departments to consult on technical or industry specific issues, transactions or events for Assurance Engagements;
 - Audit methodology or audit manuals; and
 - Training courses and facilities.
- 290.26 The determination of whether the professional resources shared are significant, and therefore the Firms are Network Firms, should be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be considered to be significant. The same applies to a common training endeavour. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating Firms with technical advice that the Firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

Appendix B

CORPORATIONS ACT 2001 - SECT 324CE Auditor independence--specific requirements for individual auditor

<u>Individual auditor</u>		
Item	For this <u>person</u> or <u>entity</u> ...	the relevant items of the table in <u>subsection 324CH(1)</u> are...
1	the <u>individual auditor</u>	1 to 19
2	a service <u>company</u> or trust acting for, or <u>on behalf of</u> , the <u>individual auditor</u> , or another <u>entity</u> performing a similar <u>function</u>	1 to 19
3	a professional <u>member</u> of the <u>audit</u> team conducting the <u>audit</u> of the <u>audited body</u>	1 to 6 8 to 19
4	an <u>immediate family member</u> of a professional <u>member</u> of the <u>audit</u> team conducting the <u>audit</u> of the <u>audited body</u>	1 and 2 10 to 19
5	a <u>person</u> who is a non-audit services <u>provider</u> and who does not satisfy the maximum hours test in subsection (6)	10 to 12
6	an <u>immediate family member</u> of a <u>person</u> who is a non-audit services <u>provider</u> and who does not satisfy the maximum hours test in subsection (6)	10 to 12
7	an <u>entity</u> that the <u>auditor</u> (or a service <u>company</u> or trust acting for, or <u>on behalf of</u> , the <u>individual auditor</u> , or another <u>entity</u> performing a similar <u>function</u>) <u>controls</u>	15
8	a <u>body corporate</u> in which the <u>auditor</u> (or a service <u>company</u> or trust acting for, or <u>on behalf of</u> , the <u>individual auditor</u> , or another <u>entity</u> performing a similar <u>function</u>) has a substantial <u>holding</u>	15
9	a <u>person</u> who: (a) is a former professional employee of the <u>auditor</u> ; and (b) does not satisfy the independence test in subsection (7)	1 and 2
10	an individual who: (a) is the former owner of the <u>individual auditor</u> 's business; and (b) does not satisfy the independence test in subsection (7)	1 and 2

Appendix C

CORPORATIONS ACT 2001 - SECT 324CH

Relevant relationships

Table of relevant relationships

(1) The following table lists the relationships between:

- (a) a [person](#) or a [firm](#); and
- (b) the [audited body](#) for an [audit](#);

that are relevant for the purposes of [sections 324CE](#), [324CF](#) and [324CG](#):

Relevant relationships	
Item	This item applies to a person (or, if applicable, to a firm) at a particular time if at that time the person (or firm)...
1	is an officer of the audited body This item does not apply if the audited body is a small proprietary company for the relevant financial year .
2	is an audit-critical employee of the audited body This item does not apply if the audited body is a small proprietary company for the relevant financial year .
3	is a partner of: <ul style="list-style-type: none">(a) an officer of the audited body; or(b) an audit-critical employee of the audited body This item does not apply if the audited body is a small proprietary company for the relevant financial year .
4	is an employer of: <ul style="list-style-type: none">(a) an officer of the audited body; or(b) an audit-critical employee of the audited body This item does not apply if the audited body is a small proprietary company for the relevant financial year .
5	is an employee of: <ul style="list-style-type: none">(a) an officer of the audited body; or(b) an audit-critical employee of the audited body This item does not apply if the audited body is a small proprietary company for the relevant financial year .
6	is a partner or employee of an employee of: <ul style="list-style-type: none">(a) an officer of the company; or(b) an audit-critical employee of the company

Relevant relationships

Item This item applies to a [person](#) (or, if applicable, to a [firm](#)) at a particular time if at that time the [person](#) (or [firm](#))...

This item does not apply if the [audited body](#) is a small proprietary [company](#) for the [relevant financial year](#).

7 [provides](#) remuneration to:

- (a) an [officer](#) of the [audited body](#); or
- (b) an [audit](#)-critical employee of the [audited body](#);
for acting as a consultant to the [person](#)

This item does not apply if the [audited body](#) is a small proprietary [company](#) for the [relevant financial year](#).

8 was an [officer](#) of the [audited body](#) at any time during:

- (a) the period to which the [audit](#) relates; or
- (b) the 12 months immediately preceding the [beginning](#) of the period to which the [audit](#) relates; or
- (c) the period during which the [audit](#) is being conducted or the [audit](#) report is being prepared

This item does not apply if the [audited body](#) is a small proprietary [company](#) for the [relevant financial year](#).

9 was an [audit](#)-critical employee of the [audited body](#) at any time during:

- (a) the period to which the [audit](#) relates; or
- (b) the 12 months immediately preceding the [beginning](#) of the period to which the [audit](#) relates; or
- (c) the period during which the [audit](#) is being conducted or the [audit](#) report is being prepared

This item does not apply if the [audited body](#) is a small proprietary [company](#) for the [relevant financial year](#).

10 has an [asset](#) that is an [investment](#) in the [audited body](#)

11 has an [asset](#) that is a beneficial [interest](#) in an [investment](#) in the [audited body](#) and has [control](#) over that [asset](#)

12 has an [asset](#) that is a beneficial [interest](#) in an [investment](#) in the [audited body](#) that is a material [interest](#)

13 has an [asset](#) that is a material [investment](#) in an [entity](#) that has a [controlling interest](#) in the [audited body](#)

14 has an [asset](#) that is a material beneficial [interest](#) in an [investment](#) in an [entity](#) that has a [controlling interest](#) in the [audited body](#)

15 owes an [amount](#) to:

- (a) the [audited body](#); or
- (b) a related [body corporate](#); or
- (c) an [entity](#) that the [audited body controls](#);

unless the debt is disregarded under subsection (5), (5A) or (5B)

Relevant relationships

Item This item applies to a [person](#) (or, if applicable, to a [firm](#)) at a particular time if at that time the [person](#) (or [firm](#))...

16 is owed an [amount](#) by:

- (a) the [audited body](#); or
- (b) a related [body corporate](#); or
- (c) an [entity](#) that the [audited body controls](#);
under a loan that is not disregarded under subsection (6) or (6A)

17 is liable under a guarantee of a loan [made](#) to:

- (a) the [audited body](#); or
- (b) a related [body corporate](#); or
- (c) an [entity](#) that the [audited body controls](#)

19 is entitled to the [benefit](#) of a guarantee given by:

- (a) the [audited body](#); or
- (b) a related [body corporate](#); or
- (c) an [entity](#) that the [audited body controls](#)
in relation to a loan unless the guarantee is disregarded under subsection (8)

Appendix D

Comparison of Definitions

Related practice per AASB 101	Related party per IAS 24	Network Firm per APES 110
<p><i>Related practice</i> means in relation to the auditor's practice:</p> <ul style="list-style-type: none"> (a) an entity through which an auditor provides professional services to clients and that has one or more partners or directors in common with the auditor's practice; or (b) an entity that is owned by the relatives of one or more partners of the auditor's practice and that shares fees or profits with the auditor's practice in respect of the entity that is subject to the financial reporting obligation; or (c) any other entity that shares fees or profits with the auditor's practice in respect of the entity that is subject to the financial reporting obligation. 	<p>A <i>related party</i> is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').</p> <ul style="list-style-type: none"> (a) A person or a close member of that person's family is related to a reporting entity if that person: <ul style="list-style-type: none"> (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if any of the following conditions applies: <ul style="list-style-type: none"> (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the 	<p><i>Network firm</i> is a firm or entity that belongs to a network.</p> <p><i>Network</i> is a larger structure:</p> <ul style="list-style-type: none"> (a) That is aimed at co-operation, and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources. <p><i>Firm</i></p> <ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties through ownership, management or other means; and (c) An entity controlled by such parties through ownership, management or other means.

	<p>others).</p> <p>(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).</p> <p>(iii) Both entities are joint ventures of the same third party.</p> <p>(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.</p> <p>(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.</p> <p>(vi) The entity is controlled or jointly controlled by a person identified in (a).</p> <p>(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).</p>	
--	---	--