

## APPENDIX E

### PROFESSIONAL STATEMENT F1 - PROFESSIONAL INDEPENDENCE

#### Principles

1. Professional independence is a concept fundamental to the accounting profession requiring a member to observe integrity in and an objective approach to professional work.
2. In each professional assignment undertaken, a member in public practice must both be and be seen to be free of any interest which is incompatible with objectivity. This is self evident in the exercise of the reporting function but also applies to all other professional work. In determining whether a member in public practice is or is not seen to be free of any interest which is incompatible with objectivity, the criterion should be whether a reasonable person, having knowledge of the relevant facts and taking into account the conduct of the member and the member's behaviour under the circumstances, could conclude that the member has placed himself or herself in a position where his or her objectivity would or could be impaired.
3. A member not in public practice has a duty to be objective in carrying out his or her professional work whether or not the appearance of professional independence is attainable. Thus a member performing professional work in commerce, industry or the public service must recognise the problems created by personal relationships or financial involvements which by reason of their nature or degree might threaten his or her objectivity.
4. This Statement is confined to the professional aspect of independence as distinct from any requirements which may be imposed by law.

#### Definitions

5. The following expressions, when used in this Statement, have the meanings assigned to them in this paragraph:
  - (a) "Company" includes the parent company and all subsidiaries of that parent.
  - (b) "Near relative" includes spouse or minor child or any other close relative, or person in loco parentis who is financially dependent upon the person in the practice or upon the spouse of that person.
  - (c) "Practice" is a firm or other organisation (incorporated or otherwise) which offers accountancy services to the public and "person in a practice" includes -
    - (i) a sole practitioner;
    - (ii) each partner or other principal in a practice;
    - (iii) any consultant or retired principal having a continuing relationship within a practice in that he or she is under an obligation to earn his or her consulting fee by rendering services to the practice when called upon to do so;
    - (iv) each employee engaged in the professional work of a practice;
    - (v) each sub-contractor to a practice in relation to work sub-contracted to him or her;
    - (vi) any person engaged in any of the above capacities with any related practice.

A practice is "related" to another practice if the practices have:

    - one or more principals in common, or
    - a continuing financial or commercial relationship or arrangement with each other which might impair the professional independence of the practice in relation to a client.
  - (d) "Report" or "reporting function" means an opinion on financial information by a person in a practice.
  - (e) References to beneficial ownership of or interest in shares include rights to acquire such ownership or interest.
6. It is not possible to give a definition of "material" which would cover all circumstances where materiality is referred to herein. In such circumstances regard will be had to the effect which an interest might have or be seen to have on the objectivity of a person in a practice.

#### Reporting

7. A member must present or report on information objectively. That duty is the essence of professionalism and is appropriate to all accountants in public practice, in commerce, in industry and in the public service.

8. No person in a practice shall personally take part in the exercise of the reporting function in respect of a client if, during the period in respect of which the report is to be made or at any time in the twelve months prior to the first day of the period in respect of which the report is to be made, the person or a near relative has been an officer (other than an auditor), partner or employee of the client or had any financial or commercial relationship with the client which might impair the person's professional independence.

Audits (see also the prohibition in paragraph 22(a)(ii) below)

9. Notwithstanding the absence of any legal prohibition on such an appointment, a practice must not act as auditor of a company if any person in the practice is an employee, director or other officer of that company.

#### **Material Beneficial Interest in Audit Clients**

10. A practice must not have as an audit client a company in which any person in the practice, or a near relative of any person in the practice, is the beneficial owner of shares forming a material part of the equity share capital of the company, or forming a material part of the assets of that person.
11. A material beneficial interest in an audit client may be involuntarily acquired, for example where a person in a practice inherits such shares or marries a shareholder or acquires shares as a result of a take-over or when a new employee engaged in professional work owns such shares when joining the practice. If the audit appointment is to be retained, immediate steps must be taken to reduce such beneficial interest to a level which is not material.

#### **Material Beneficial Interest in Non-Audit Clients**

12. Where a practice is asked to report on a company otherwise than as auditor, no person in the practice who has a material beneficial interest in, or is a near relative of a person who has a material beneficial interest in, the company shall personally take part in that assignment.
13. Paragraphs 10, 11 and 12 are not intended to prevent any person in a practice from having a material beneficial interest in a public unit trust or listed company which holds shares in a client company, provided that such unit trust or company is not an audit client of the practice nor has a material beneficial interest in the client company.

#### **Independent Valuation**

14. No person in a practice may provide valuation services to a reporting entity in respect of the assets and/or liabilities of that reporting entity, its subsidiaries or entities which it significantly influences if:
- (a) the valuation is to be referred to as an "independent" valuation in an audited financial report of that reporting entity; and
  - (b) any person in the practice is acting as an auditor or an officer of that reporting entity.

#### **Trustee Shareholders in Audit Clients**

15. A practice must not have a company as an audit client if any person in the practice, or a near relative of any person in the practice, is a trustee of a trust having a material interest in that company. Where the practice is asked to report other than as auditor, the person concerned must not personally take part in that assignment.

#### **Corporate Trustee**

16. Prohibitions similar to those set out in paragraph 15 apply where any person in a practice is a director or employee of a company which acts as trustee of a trust having a material interest in the client company.  
Nominee Shareholdings
17. A material interest in an audit client company held by any person in a practice as nominee may not, in fact, be a threat to professional independence but may well impair the appearance of professional independence and, if the audit appointment is to be retained, immediate steps must be taken to procure the appointment of a nominee unconnected with the practice.

#### **Loans to or from Clients**

18. No person in a practice, or near relative of any person in the practice, shall accept or make or guarantee a loan from or to a client except for a loan negotiated at arm's length in the ordinary course of the client's business. A transaction so negotiated must not be entered into without full consideration of its effects on actual and apparent professional independence. In the case of an audit client company, the restrictions under the Corporations Law must be observed.

**Commission**

19. Acceptance of commission by a practice or by any person in a practice could impair the professional independence required of members. Members are referred to paragraph D.2 in the Code of Professional Conduct. Goods and Services from Clients
20. No person in a practice, or near relative of any person in the practice, shall accept from a client goods or services on terms more favourable than those generally available to others. Hospitality or gifts on a scale which is not commensurate with normal courtesies of social life must not be accepted.

**Conflicts**

21. It is recognised that from time to time unavoidable conflicts of interest or of duty will occur. Conflicts are generally of two types. On the one hand, there may be an actual or apparent conflict between the duty owed by the practice or a person in the practice to a client and the personal interest of the practice or a person in the practice. On the other hand, there may be an actual or apparent conflict between the respective interests of two or more clients of a practice. In all such cases, a practice and each principal of the practice must ensure that a full and frank explanation and disclosure of the conflict is made to the client(s). Additionally, in severe cases of conflict of duty, such as where two clients are, or are about to become, in dispute on a matter, the practice must not advise both clients on the matter. The practice may elect to continue to advise one client on the matter provided that the interests of the other client would not be materially prejudiced thereby. The practice may, however, if asked by both clients, put forward proposals for settling the dispute.

**Insolvency**

22. (a) Except in the case of a member's voluntary winding up:
  - (i) No person in a practice shall accept appointment as liquidator, provisional liquidator, controller, scheme manager or administrator of a company if any person in the practice has, or during the previous two years has had, a continuing professional relationship with the company.
  - (ii) No practice or person in a practice shall accept appointment as auditor of a company if any person in the practice has been a liquidator, provisional liquidator, controller, scheme manager, official manager or administrator of the company within the previous two years.
- (b) For the purpose of (a)(i) above, a "continuing professional relationship" shall not arise:
  - (i) by reason only of the appointment of a practice or person in a practice to investigate, monitor or advise on the affairs of a company on behalf of a third party so long as the professional obligation is to a party other than the company being investigated, or
  - (ii) if the professional relationship existed for less than two months, or
  - (iii) by reason only of the appointment of a person as liquidator of a company in which that person or any other person in the practice has been liquidator, provisional liquidator or administrator, or
  - (iv) by reason only of the appointment of a person as scheme manager or administrator of a company in which that person or any other person in the practice has been official manager, liquidator, controller, provisional liquidator or administrator, or
  - (v) by reason only of the appointment of a person as controller of a company in which that person or any other person in the practice has been controller under a prior ranking debenture or where their appointment has been made by the Court.
- (c) The above principles apply to all insolvency appointments, including appointments under the Bankruptcy Act.

**Directorships**

23. No person in a practice shall accept or retain a directorship of a company which, through ownership of shares or otherwise, exerts significant influence over another company of which the practice or any person in the practice is auditor.

**Management Consulting Services**

24. When providing management consulting services to an audit client, a practice or a person in the practice must not participate in the executive function of that client.

**Appointments Generally**

25. Whenever a practice or any person in a practice is asked to accept an appointment, consideration must be given to whether acceptance might give rise to a situation in which the professional independence of the practice or of the individual may be, or may appear to be, compromised. In the case of an existing appointment, should a situation arise in which professional independence is threatened, immediate steps must be taken to resolve the conflict.

**Preparation of Books**

26. (a) A practice should not participate in the preparation of books of a public company audit client save in exceptional circumstances.
- (b) In the case of a private company audit client, it is recognised that it is frequently necessary to provide a much fuller service than would be appropriate in the case of public company audit client and this may include participation in the preparation of books.
- (c) In all cases in which a practice is concerned in the preparation of books of an audit client, particular care must be paid to the need for professional independence and to ensure that the client accepts full responsibility for such books and that no person in the practice has taken part in the executive decision-making functions of the client.

**Fees**

27. When the receipt of recurring fees from a client or group of connected clients represents a large proportion of the total gross fees of a practice, the extent of dependence on that client or group of connected clients will inevitably come under scrutiny and raise doubts as to objectivity. It is not possible to give precise guidance on the proportion of fees which should not come from one client or a group of connected clients. However, if such fees are the only income or a substantial part of the gross income the practice should carefully consider its position.

**Personal and Business Relationships**

28. Personal and business relationships can affect objectivity. There is a particular need, therefore, for a practice to ensure that its objective approach to any assignment is not endangered as a consequence of any such relationship. By way of example, objectivity may be impaired where a person in a practice has a mutual business interest with an officer or employee of a client or has an interest in a joint venture with a client.

**Enterprises other than Companies**

29. All of the foregoing rules applicable in the case of a company apply in the case of other enterprises. For this purpose, "other enterprise" means any business organisation incorporated or otherwise other than a company and includes a partnership or trust.