

AGENDA PAPER

Item Number: 3
Date of Meeting: 6 September 2021
Subject: Proposed revisions to APES 110 for the Objectivity of the Engagement Quality Reviewer

Action required For discussion For noting For information

Purpose

To obtain the Board's approval to issue the amending standard *Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*.

Background

In February 2019, the International Auditing and Assurance Standards Board (IAASB) issued the exposure draft *Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews*, which proposed the implementation of a cooling-off period before an Engagement Partner for an audit can become an Engagement Quality Reviewer (EQR) on the same audit engagement.

In January 2020, the International Ethics Standards Board for Accountants (the IESBA) released the exposure draft *Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers*. The exposure draft proposed additional guidance in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code) specific to EQRs and a reference (but not a requirement) to the IAASB's specified cooling off-period relating to EQRs.

The IAASB released the final standard of [ISQM 2](#) in December 2020, which included the two-year cooling-off requirement for firms. AUASB issued the Australian version [ASQM 2 Engagement Quality Review](#) in March 2021.

The IESBA issued their final pronouncement [Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) in January 2021, with an effective date of 15 December 2022.

In March 2021, APESB released ED 02/21 [Proposed Amendments to APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) with a comment period that closed on 18 June 2021.

APESB's exposure draft was based on amendments to the International Code and proposed:

- The addition of a new section (Section 325) which provides guidance on identifying, evaluating and addressing threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an Engagement Quality Reviewer or an appropriate reviewer.
- References to the requirement in ASQM 2 for firms to implement policies and procedures on the appointment of an EQR.
- Clarification on the interaction of the long association provisions with the requirement in ASQM 2 for a firm to establish a cooling-off period of two years before an Engagement Partner can assume the EQR role for the same audit client.
- Additional application material on familiarity threats related to appropriate reviewers.

In addition, the exposure draft requested feedback on whether or not to incorporate an Australian-specific requirement paragraph to clarify how the cooling-off requirement in ASQM 2 interacts with the provisions in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

Consideration of Issues

APESB received four submissions from stakeholders on ED 02/21 that are tabulated in a General Comments Table and Specific Comments Table at Agenda Items 3(a) and 3(b), respectively.

The stakeholders were generally supportive of the proposed revisions to the Code, with the majority of the stakeholders agreeing with the APESB's proposals. However, while one of the stakeholders agreed with the purpose of the proposed revisions, they raised concerns about ambiguity in the application of the proposed standard and suggested further guidance is required. This matter and other key matters considered by Technical Staff as part of the exposure draft due process are outlined below.

Additional Guidance

A stakeholder requested additional guidance on the types of threats that may arise in relation to EQRs and other appropriate reviewers (refer to Specific Comment Table items 3 and 6 at Agenda Item 3 (b)).

Technical Staff note that the principles-based nature of the Code means that the guidance in the Code is not intended to cover all the specific risks and threats that may arise. Instead, Members should use their professional judgement to manage and assess risks and threats as appropriate in the circumstances. Based on this, Technical Staff do not believe additional guidance is required in this instance.

Optional inclusions on ASQM 2 required a cooling-off period

As noted in the Background above, the exposure draft sought feedback on including an optional Australian requirement paragraph to enhance and clarify that an Engagement Partner cannot undertake the role of Engagement Quality Reviewer for the same Audit Client without completing a two-year cooling-off period.

Two stakeholders responded to this request (refer to items 8 and 9 of the specific comment table at agenda paper 3 (b)). The stakeholders were supportive of the inclusion of the optional Australian requirement (paragraph AUST R325.8.1) and the cross-reference in R540.17 to this

requirement. The other two stakeholders did not comment or object to the inclusion of these items.

APESB Technical Staff are of the view that any requirement relating to audit partner rotation or cooling-off periods to ensure Independence should be included directly in the Code. Due to the support provided by stakeholders, Technical Staff recommends including the additional guidance into the amending standard as proposed in the Exposure Draft.

Inconsistent Terminology

It was noted at the March Board meeting that the IESBA final standard had not updated the IESBA Code to ensure consistent application of the terms Engagement Quality Reviewer and Engagement Quality Review. APESB Technical Staff were concerned that the use of inconsistent terminology would be confusing to the reader. Therefore, APESB Technical Staff included proposed amendments in the exposure draft to incorporate these changes. No stakeholder commented on the proposed conforming amendments by APESB.

On 5 August 2021, the IESBA released an exposure draft [Proposed Quality Management-related Conforming Amendments to the Code](#) (the IESBA QM ED). The exposure draft proposes conforming amendments to align the International Code with the IAASB's suite of quality management standards. The comment period for this exposure draft closes on 5 October 2021. The IESBA notes that their current Engagement Team and Group Audits project will consider any conforming amendments to the definition of 'engagement team' and 'audit team'.

APESB Technical Staff have reviewed the IESBA QM ED and note that the proposed conforming amendments are consistent with the IESBA proposals. The IESBA proposals have identified additional amendments to those specified and included in ED 02/21 by APESB Technical Staff. However, as IESBA has just commenced consultation on these conforming amendments, APESB Technical Staff are not proposing to include these proposals in the Objectivity of the EQR Amending Standard.

SMP considerations

Technical Staff have considered how the proposed Amending Standard would impact Small-to-Medium Practices (SMPs). The amending standard does not impose any new requirements on Members. Instead, it provides guidance on assessing the objectivity of EQRs and other appropriate reviewers. Under ASQM 1 and 2, EQRs are only required to be appointed for audit engagements where the audit client is a PIE. Technical Staff believe that there would be very few SMPs that undertake audit engagements for PIE audit clients, and therefore, the amending standard will have minimal impacts for SMPs.

Based on the stakeholders' feedback and the consideration of the matters raised, APESB Technical Staff are not proposing further changes to the proposals in ED 02/21. Therefore, as there will be no changes to the content included in the Exposure Draft, Technical Staff have not reproduced the amending standard in this agenda paper.

Recommendation

Subject to the Board's review comments, the Board approve the issue of the Amending Standard *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers* with an effective date of 1 January 2023.

Materials Presented

Agenda Item 3 (a) General Comments Table – ED 02/21
Agenda Item 3 (b) Specific Comments Table – ED 02/21

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Date: 23 August 2021