

## AGENDA PAPER

**Item Number:** 9

**Date of Meeting:** 4 March 2021

**Subject:** Proposed revisions to APES 110 for the Objectivity of the Engagement Quality Reviewer

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Action required     For discussion     For noting     For information

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### Purpose

To obtain the Board's approval to issue the Exposure Draft *Proposed Amendments to APES 110 Addressing the Objectivity of the Engagement Quality Reviewer and Other Appropriate Reviewers* (the EQR's Objectivity ED).

### 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.

At their December 2019 board meeting, the International Ethics Standards Board for Accountants (the IESBA) commenced a project to review the guidance relating to the objectivity of the EQR and how the conceptual framework in the IESBA's Code would be applied. The project was accelerated to align with the IAASB project on ISQM 2.

In January 2020, the IESBA released the exposure draft *Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers*. The ED's proposals suggested the inclusion of additional guidance in Section 120 *The Conceptual Framework* of the Code, specific to EQRs. Importantly, the proposals suggested a link to the IAASB specified cooling off-period for Engagement Partners (EPs) before they can move into an EQR role for the same audit client, but the International Code itself would not include a requirement relating to this cooling-off period.

In March 2020, the APESB considered the [proposals in the IESBA ED](#) and also made a [submission](#) to the IESBA on the proposals. The submission was not supportive of having a cooling-off period specified in documents other than the International Code, but it was supportive of the suggested additional guidance (although preferred a different location than Section 120).

The IAASB released the final standard of [ISQM 2](#) in December 2020, which included a requirement for firms to have policies and procedures in place, ensuring a two-year cooling-off period before an Engagement Partner can assume the role of an EQR for the same audit client.

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, which refers to the requirement in ISQM 1 but does not duplicate the requirement in the International Code.

## Matters for Consideration

To maintain alignment with the International Code, Technical Staff are proposing to issue for exposure the revisions to the *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) addressing the objectivity of an Engagement Quality Reviewer (EQR) and other appropriate reviewers.

The proposed key amendments in the IESBA final standard include:

- 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 ISQM 2 for Firms to have policies and procedures
- Clarification on the interaction of the long association provisions in the Code with the requirement in ISQM 2 for a Firm to establish a cooling-off period of two years before an Engagement Partner can assume the EQR role on the same engagement.
- Additional application material on familiarity threats related to appropriate reviewers.

APESB Technical Staff are concerned with two key matters in the IESBA final standard being:

- (a) the location of the two-year cooling-off requirement relating to EQRs; and
- (b) the use of inconsistent terminology between the final standard and the extant International Code.

### (a) The location of the cooling-off requirement relating to EQRs

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. This suggestion was a key point of APESB's submission to the IESBA.

In addition, we note that '*...the PIOB commented that while the Code should remain principles-based whenever possible, the requirement of a cooling-off period for an EP who moves to an EQR role, as proposed in ISQM 2, should be established in the Code to ensure consistency of both IAASB and IESBA Standards.*'<sup>1</sup> After considering the views of the PIOB, the IESBA decided that the Code should establish the guidance for the requirement but continue to be principles-based to only refer to the requirement established in ISQM 2.

APESB Technical Staff are concerned that readers may not import the relevance of paragraphs 325.8 A3, 325.8 A4 and 540.14 A1 and the explicit requirement that needs to be imposed. We agree that the Code should predominantly be principles-based, but the long association provisions of the Code are rules-based.

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<sup>1</sup> IESBA, [Basis for Conclusions: Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers \(2021\)](#), page 7, paragraph 28.

It does seem inconsistent to have the Objectivity rule-based cooling-off period prescribed in another document when all the rule-based audit partner rotation requirements reside in the Code.

In addition, the IESBA paragraphs in relation to the impact on the long association rules could potentially cause some confusion to a reader. The paragraphs, which were included at the request of the PIOB, state that the Objectivity cooling-off period does not modify and are distinct from the long association cooling-off periods. However, the paragraphs do not address the PIOB comments that "...restrictions on the different key audit partner (KAP) roles allowed during that time of service [the 7-year "time-on" period] should be clarified."<sup>2</sup>

APESB Technical Staff agree the objectivity provisions do not change how the overall long association cooling-off periods are determined. Still, it will be a consideration of the Firm when determining the roles that a Member in Public Practice can undertake in relation to an engagement and the impact on the necessary cooling-off period that will apply. This consideration should be highlighted in the provisions in Section 540.

APESB Technical Staff believe this is best addressed through noting the Objectivity requirement in the long association section of the Code and providing additional examples and guidance in the APESB Technical Staff guidance document '*Audit Partner rotation requirements in Australia Technical Staff Questions & Answers*', since this publication will need to be revised to clarify the interaction of the objectivity and long association cooling-off periods as no longer can an Engagement Partner move to an Engagement Quality Reviewer role at the same entity without serving an appropriate cooling-off period.

To improve the user's ability to easily understand the rules that relate to cooling-off periods arising from providing service to an audit client, APESB Technical Staff propose to include the objectivity cooling-off period as a requirement in the Code. To that effect, the draft exposure draft presented for the Board's consideration at agenda item 9 (a) and 9 (b) includes two options concerning this requirement being:

- Option 1: Retain the IESBA paragraphs as drafted; or
- Option 2: Add to the IESBA paragraphs with AUST paragraphs, which include an explicit requirement to cool-off between undertaking the role of EP and the role of EQR for the same audit client. This option would also allow a cross-reference to the AUST Objectivity requirements to be included in the extant Long Association provisions in the Code.

APESB Technical Staff are of the view that Option 2 is their preferred approach to be included in the exposure draft.

Technical Staff seek the Board's views on whether the exposure draft should maintain the IESBA paragraphs (option 1) or include the additional proposed AUST paragraphs (option 2).

(b) Inconsistent Terminology

In preparing the draft Exposure Draft, APESB Technical Staff have noted that changes in the IESBA final standard relating to the terms Engagement Quality Reviewer and Engagement Quality Review have not been applied consistently across all provisions in the extant Code.

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<sup>2</sup> IESBA, [Basis for Conclusions: Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers \(2021\)](#), page 8, paragraph 32.

For example, in the extant Code, the term 'Engagement Quality Control Review' was a defined term. The IESBA have amended this term in paragraphs R540.5 and R540.12 in their final standard but have not changed the term in other paragraphs within Section 540 (being proposed paragraphs R540.16 and R540.17).

APESB Technical Staff have raised this inconsistency with the IESBA Technical Staff and were advised that consequential amendments to the International Code in light of the revised ISQM 1 and 2 will be considered at their June 2021 meeting. IESBA is going to address the different terminology as part of a conforming amendments exposure draft.

APESB Technical Staff are concerned that the use of inconsistent terminology will be confusing to the reader, especially when changes are spread across various amending standards and auditing standards and not implemented at the same time.

Therefore, APESB Technical Staff propose to include the following changes in the exposure draft:

- Change the definition of Engagement Quality Control Review to Engagement Quality Review, with the wording for the definition aligning to the definition in ISQM 2;
- Add the definition of Engagement Quality Reviewer (based on the definition in ISQM 2);
- Update paragraphs R540.16 and R540.17 for the revised terminology; and
- Add a conforming and other editorial amendments section to update various definitions and paragraphs to refer to engagement quality review (rather than engagement quality control review).

The proposed EQR's Objectivity ED is presented as a marked-up version and a clean version at agenda paper 9 (a) and 9 (b).

#### Issue of referenced AUASB standards

The proposed revisions to the Code include references to international standards that have not been released by AUASB in Australia (at the time of writing this report).

APESB Technical Staff have discussed with the AUASB their proposed due process concerning the release of Australian versions of the revised ISQM 1 and ISQM 2 issued by the IAASB. APESB Technical Staff expect that the AUASB will release versions of ISQMs 1 and 2 in the first quarter of 2021 and which are being considered at AUASB's March 2021 Board meeting. This will align with the proposed timeline for the Amending Standard release on the Objectivity of the EQR. Refer to Agenda paper 5 for further details of AUASB's project on the quality management standards.

#### **Recommendation**

That the Board:

- (a) determine the approach (either Option 1 or 2) to refer to the Objectivity cooling-off period in the Exposure Draft; and
- (b) approve the release of the proposed Exposure Draft *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* for public comment.

**Materials Presented**

Agenda Item 9 (a) Draft ED Objectivity of EQR (Marked-up)  
Agenda Item 9 (b) Draft ED Objectivity of EQR (Clean)

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