

5 October 2021

Mr Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants (IFAC)  
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New York, New York 10017 USA

By email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Mr Siong,

**IESBA's Exposure Draft *Proposed Quality Management-related Conforming Amendments to the Code***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Exposure Draft *Proposed Quality Management-related Conforming Amendments to the Code* (QM Exposure Draft).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) and a range of professional and ethical standards that address non-assurance services.

**Overall comments**

APESB is supportive of the IESBA's QM Exposure Draft to make conforming amendments to the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) to align to, and operate in conjunction with, the International Quality Management Standards (ISQM 1 & ISQM 2) issued by the International Auditing and Assurance Standards Board (IAASB).

From 15 December 2022, ISQM 1 and 2 will replace International Standard on Quality Control 1 (ISQC 1). As ISQC 1 and its terminology, concepts and principles are referred to in various paragraphs of the extant IESBA Code, APESB agrees that the proposed amendments in the QM Exposure Draft are necessary and in the public interest to ensure the IESBA Code is consistent with ISQM 1 and 2.

APESB believes some additional conforming amendments in paragraphs R540.20 and R940.4 of the IESBA Code and changes to the paragraph numbering in Section 540 in the QM Exposure Draft should be considered by the IESBA before finalising the proposed revisions.

APESB's key recommendations are noted below. In addition, Appendix A provides APESB's responses to the IESBA's specific and general questions.

### **Recommendations**

APESB's key recommendations in relation to the QM Exposure Draft for the IESBA's consideration are that:

- '*quality control*' be amended to '*quality management*' in paragraphs R540.20 and R940.4 of the IESBA Code to improve alignment and interoperability with ISQM 1 and 2;
- the paragraph numbering in Section 540 after paragraph 540.14 A1 be reconsidered so that extant paragraph R540.14 is renumbered as paragraph R540.15 and subsequent paragraphs in Section 540 are renumbered accordingly; and
- '*policies and procedures*' be used instead of '*policies or procedures*' to maintain consistency throughout the IESBA Code.

### **Concluding comments**

We trust you find these comments helpful in your final deliberations. If you require additional information, please contact APESB's Chief Executive Officer, Mr. Channa Wijesinghe, at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



Nancy Milne OAM  
**Chairman**

## APPENDIX A

### APESB's Specific Comments

APESB's responses to the request for specific comments by the IESBA on the proposals in the QM Exposure Draft are as follows:

#### *Overarching Objective*

#### 1. Do you agree with the proposed conforming amendments in this ED?

Subject to the comments below, APESB agrees with the conforming amendments in the QM Exposure Draft. The resultant alignment with ISQM 1 and ISQM 2 will benefit the public interest and improve the interoperability of the IESBA Code with these Quality Management standards.

#### Additional Conforming Amendments

APESB believes the IESBA should consider additional conforming amendments to the IESBA Code to improve alignment and interoperability with ISQM 1 and 2.

Paragraph R540.20 of the IESBA Code lists restrictions on activities during 'cooling-off' periods and subparagraph (a) sets out the following restriction (emphasis added):

*'Be an engagement team member or provide quality control for the audit engagement'*

Under paragraph R940.4 of the IESBA Code, if a firm decides that due to the level of threats that those threats can only be addressed by rotating an individual off an assurance team, the firm must determine the appropriate 'cooling-off' period for certain roles, including subparagraph (b) which states (emphasis added):

*"Provide quality control for the assurance engagement".*

To address the issues noted above, APESB is of the view that:

- paragraph R540.20(a) could be drafted as follows:  
*"Be an engagement team member or provide quality management control ~~control~~ for the audit engagement"; and*
- paragraph R940.4(b) could be drafted as follows:  
*'Provide quality management control ~~control~~ for the assurance engagement'.*

Paragraph 5 in the Explanatory Memorandum to the QM Exposure Draft notes that conforming amendments to the definitions of 'engagement team' and 'audit team' are being addressed in the Engagement Team – Group Audits Independence project. The extant definitions of 'assurance team' and 'review team' also refer to 'quality control'. APESB favourably notes that the IESBA is also considering conforming amendments to these definitions in that project.

#### Paragraph Numbering

The IESBA *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers* (Objectivity Revisions) included consequential amendments to Section 540 of the IESBA Code, including the new paragraph 540.14 A1 after paragraph R540.13 and before the heading 'Service in a combination of key audit partner roles'.

Due to this new paragraph 540.14 A1, APESB expected that extant paragraph R540.14 would be renumbered to R540.15 and subsequent paragraphs in Section 540 would also be renumbered accordingly. However, the QM Exposure Draft includes conforming amendments to Section 540 of the IESBA Code and includes extant paragraphs R540.15 and R540.16 (and presumably subsequent paragraphs in Section 540) with the same numbering and are not renumbered to R540.16 and R540.17, respectively.

APESB recommends that the IESBA reconsiders the paragraph numbering of all paragraphs in Section 540 after paragraph 540.14 A1 before finalising the revisions.

#### Use of Policies or Procedures

APESB acknowledges that the QM Exposure Draft includes amendments that use '*policies or procedures*' to be consistent with the use of this terminology in ISQM 1. We believe that such references should be to '*policies and procedures*' instead.

APESB notes the definition of '*response*' in ISQM 1 includes that procedures are actions to implement policies. As such, a procedure is dependent on the existence of a policy. Further, we are of the view that procedures are necessary to ensure that policies are implemented, as, without such procedures, policies are merely statements of intent.

The use of '*policies or procedures*' is proposed in the QM Exposure Draft and included in two paragraphs in the IESBA Objectivity Revisions. Apart from these references, the IESBA Code consistently refers to '*policies and procedures*' throughout the standard on all but one occasion in paragraph 300.7 A5. Thus, for example, paragraph 120.15 A3 in the QM Exposure Draft refers twice to '*policies and procedures*' and refers to the quality management system designed, implemented, and operated according to ISQM 1.

APESB believes that '*policies and procedures*' should be used throughout the IESBA Code to maintain this consistency.

#### Contingent Fees

The fifth dot point in paragraph 330.4 A2 of the extant IESBA Code includes '*Quality control policies and procedures*' as a factor relevant in evaluating threats created by contingent fees. However, the proposed amendment to this provision has restricted this to policies or procedures under ISQM 1 relating to addressing threats to the fundamental principles. It is unclear to APESB as to why this has changed from a reference to the entire system of quality control under ISQC 1 to specific responses under ISQM 1 and not the entire system of quality management.

- 2. In addition to the proposed conforming amendments, the IESBA also considered the matter raised concerning decisions about accepting or providing services to a client in paragraph 300.7 A5. See explanation in the margin of paragraph 300.7 A5 (page 9)**

**Do you agree with the IESBA's view on this matter? If not, please explain why.**

APESB agrees with the IESBA's view on this matter and to not delete "*including decisions about accepting or providing services to a client*" from the fifth dot point of paragraph 300.7 A5 of the IESBA Code.

Paragraph 30 of ISQM 1 requires the firm to establish the quality objective stated therein to address the firm's acceptance and continuance of client relationships and specific engagements and judgements. ISQM 1 also requires the firm to identify and assess quality risks to achieve this quality objective and design and implement responses (policies or procedures) to address this quality risk (paragraph 23 of ISQM 1).

The above obligations fall on the firm and would include, for example, designing policies and procedures to ensure judgements about whether to accept or continue a client relationship is based on the ability to perform the engagement in accordance with professional standards (including relevant ethical requirements in the IESBA Code) and applicable legal and regulatory requirements. However, the exercise of the judgement under those policies and procedures falls on the engagement partner and having the relevant authority to make the ultimate decision about accepting or providing services to a client.

As such, APESB agrees with the IESBA's view that authority and accountability rest with the individual professional accountant in practice.

**3. Do you agree with the proposed effective date? If not, please explain your reasoning.**

APESB supports the IESBA's proposed effective date of 15 December 2022 for the proposed amendments in the QM Exposure Draft as this aligns with the effective date of ISQM 1 and ISQM 2.

**APESB's General Comments**

APESB's general comments on the QM Exposure Draft for the IESBA's consideration are as follows:

**(a) *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)***

APESB is of the view that the QM Exposure Draft will have minimal impact on SMPs as they are conforming amendments due to the issuance of IAASB's Quality Management Standards.

**(b) *Regulators and Audit Oversight Bodies***

APESB notes the proposed conforming amendments promote consistency and interoperability, likely improving regulators' enforceability of these provisions in the IESBA Code.

**(c) *Developing Nations***

Not applicable.

**(d) *Translations***

Not applicable.