

AGENDA PAPER

Item Number: 6

Date of Meeting: 26 November 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:

- (a) views on how the reference to the objectivity cooling-off period required under ASQM2 should be treated in the amending standard; and
- (b) 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 January 2021, the International Ethics Standards Board for Accountants (IESBA) issued the standard [Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) with an effective date of 15 December 2022. The pronouncement:

- Adds a new section (Section 325) to the Code 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 (EQR) or an appropriate reviewer.
- Includes references to a requirement in ISQM 2 for firms to implement policies and procedures on the appointment of an EQR.
- Additional application material on familiarity threats related to appropriate reviewers.

The IAASB released [International Standard on Quality Management \(ISQM\) 2, Engagement Quality Reviews](#), in December 2020, which sets out a two-year cooling-off requirement for firms before an Engagement Partner for an audit can become an EQR on the same audit engagement. The Australian Auditing and Assurance Standards Board (AUASB) issued the Australian version [ASQM 2 Engagement Quality Review](#) in March 2021.

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. The Exposure Draft was based on the IESBA standard and 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).

At the September 2021 Board Meeting, the Board considered the feedback received as part of the exposure's draft due process (refer to [BM 109 Agenda Item 3](#)). APESB received four submissions from stakeholders on ED 02/21, which generally supported the proposed revisions to the Code, including the addition of the AUST requirement paragraph.

A stakeholder raised a concern about whether a breach of a requirement in the amending standard would result in the auditor reporting on the breach in its Independence Declaration (as per s307C of the Corporations Act 2001). The Board agreed to consider additional submissions specifically on the impact of breach reporting that could be made to the APESB by 15 October 2021.

Consideration of Issues

APESB received six additional submissions from stakeholders, which considered the proposals in ED 02/21 and the potential impact on breach reporting. The submissions from five stakeholders are tabulated in a Supplementary General Comments Table and Supplementary Specific Comments Table at Agenda Items 6 (a) and 6 (b), respectively. The confidential submission from the Australian Securities and Investment Commission (ASIC) is included at Agenda Item 6(c) for the Board's consideration only.

On 9 November 2021, APESB Technical Staff met with staff from PwC to discuss their views on the proposed revisions and discuss the project's general direction.

The stakeholders were supportive of the proposed revisions to the Code, which aligned with the standard issued by the IESBA. However, several stakeholders were concerned with the inclusion of the Australian-specific requirement in the proposed paragraph AUST R325.8.1. The key matters raised were whether this is a quality management or independence issue, the role of APESB in setting requirements in addition to the IESBA specified requirements and the impact of the ASQM2 requirement interacting with the Long Association provisions in the Code. These matters are considered further in the sections below.

Quality management or Independence matter

While proposed paragraph AUST R325.8.1 sought 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 (as per ASQM2), some stakeholders were concerned that the requirement would elevate a quality management issue to an independence issue. This is due to the preliminary views of the IESBA in their exposure draft on the objectivity proposals and due to the requirement for the cooling-off period being established in the quality management standards issued by the IAASB.

However, the IESBA has formed the view that considering the objectivity of an EQR is both an ethical consideration and a precondition for quality.¹ They are not mutually exclusive concepts. APESB Technical Staff note that there are instances in the Code where the review by an EQR can be a safeguard to address threats to the fundamental principles, for example, to address long association concerns (paragraph 540.3 A6 of the Code). Where the safeguard is being applied to support the independence of the auditor, APESB Technical Staff are of the view that the objectivity of the EQR is important and more than just a factor within a system of quality management. Therefore, APESB Technical Staff do not agree that the objectivity of EQRs relates solely to quality management matters.

¹ Refer to paragraph 30 (b) of the IESBA's [Basis for Conclusion: Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#).

Role of APESB in setting Australian specific requirements in the Code

Several respondents raised concerns that the proposed Australian-specific paragraph would not be consistent with the views of the IESBA or the provisions in the IESBA Code. As per Section 3.2 of APESB's [Due process and working procedures for the development and review of APESB pronouncements](#) (the Due Process document), highlights that the Code is based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code) issued by the IESBA, but with Australian added provisions.

Section 3.3 of the Due process documents states, "...APESB's pronouncements will be at least equal to, and not less than, the requirements in the corresponding international pronouncement (if any). Where appropriate, APESB will develop additional requirements or guidance to the international pronouncement to take into consideration the Australian environment (for example, legislation and regulations, public interest issues, current practice and Australian terminology and references) and stakeholder feedback. APESB uses professional judgement in reaching its conclusions about the inclusion of Australian specific requirements, guidance, amendments or examples into pronouncements that are based on international standards issued by standard setting boards of IFAC."

In determining the content of the Code, APESB does have the ability to amend the IESBA Code when the Board believes it is warranted. Historically, APESB has set a higher standard than the existing IESBA Code at the time by prohibiting the auditor from providing accounting and bookkeeping services in emergency situations, requirements and guidance on PIEs, breach of a requirement of the Code. In all of these instances, subsequently, IESBA has taken action to amend the IESBA Code.

Impact of the ASQM2 cooling-off requirement on the Long Association provisions of the Code

A respondent raised concerns that the proposed Australian specific paragraph would add to the Long Association cooling-off requirements in the Code. APESB Technical Staff do not agree with this position. The objectivity provisions do not change how the overall long association cooling-off periods are determined. However, 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.

APESB Technical Staff are concerned that Members may be confused by the guidance in proposed paragraphs 325.8 A4 and 540.14 A1, which state that the Objectivity cooling-off period (required by ASQM 2) does not modify and are distinct from the long association cooling-off periods. Therefore, if there is no modification, then the existing combinations of Engagement Partner (EP), Engagement Quality Reviewer (EQR), and Other Key Audit Partner roles should continue post the adoption of these provisions. However, the practical consequence is that an EP cannot move to an EQR role in the future without serving a two-year cooling-off period.

APESB Technical Staff initially believed that the proposed Australian requirement paragraph would improve the user's ability to easily understand the rules related to cooling-off periods arising from the practical interaction of these two provisions.

CA ANZ has suggested that it may be more efficient for the APESB to consider removing the guidance in paragraph 325.8 A4 rather than reproducing the ASQM 2 requirement in the Code. APESB Technical Staff note that the removal of paragraph 325.8 A4 would improve the clarity of the provisions. Its removal would not impact the Code's alignment with the requirements in the International Code.

APESB Technical Staff believe there are three options for the Board to consider in relation to the treatment for proposed paragraph AUST R325.8.1 being:

- Option 1: Retain the IESBA paragraphs as drafted (with no Australian specific requirement paragraph);
- Option 2: Add to the IESBA paragraphs with the proposed AUST paragraph, including 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; or
- Option 3: Remove the IESBA guidance paragraph 325.8 A4, which removes the need for the Australian specific requirement paragraph. This option would include the addition of a cross-reference to the ASQM2 requirements to be included in the extant Long Association provisions in the Code

APESB Technical Staff are of the view that Option 3 suggested by CA ANZ is the preferred approach. We note that the regulator is also supportive of this approach. Accordingly, Technical Staff seek the Board's view on the preferred approach to be adopted in the amending standard.

As no other changes are proposed to the amending standard as presented in the initial exposure draft, the amending standard has not been reproduced in this board paper. The exposure draft was considered at [Agenda Item 9](#) of the March 2021 Board Meeting.

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, as it will reflect the existing requirement in ASQM2. Instead, the amending standard will provide guidance on assessing the objectivity of EQRs and other appropriate reviewers and give clarity to SMPs on the operation of cooling-off periods for EPs and EQRs. Accordingly, APESB Technical Staff are of the view that the amending standard will have minimal impacts on SMPs.

Recommendations

Subject to the Board's review comments, the Board:

- (a) determine the option relating to the reference to the Objectivity cooling-off period to be adopted in the proposed amending standard; and
- (b) 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

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| Agenda Item 6 (a) | General Comments Table – ED 02/21 |
| Agenda Item 6 (b) | Specific Comments Table – ED 02/21 |
| Agenda Item 6 (c) | ASIC Submission – CONFIDENTIAL (distribution to Board Members only) |

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