

Review of Supplementary Submissions – Specific Comments

Exposure Draft 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

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Note: Supplemental general comments relating to Exposure Draft 02/21 are addressed in a separate table. This table excludes minor editorial changes.

Item No.	Paragraph No. in ED	Respondent	Respondents' Comments	Change made to standard?
1	325.8 A4	CA ANZ	<ul style="list-style-type: none"> To enhance clarity, CA ANZ recommends removing the application material at 325.8 A4. 	Yes, removal of 325.8 A4
2	AUST R325.8.1	DTT	<p>Deloitte is not supportive of the creation of a new Australian ethical requirement (proposed AUST R325.8.1) for the following reasons:</p> <ul style="list-style-type: none"> Under International Standard on Quality Management (ISQM) 2, an engagement quality review is a specified response that is designed and implemented by the firm in accordance with its <i>system of quality management</i>, as is establishing the eligibility criteria for the engagement quality reviewer. Creating a new ethical requirement in the Code in respect of these requirements is not in alignment with the position of the International Ethics Standards Board for Accountants (IESBA), the International Auditing and Assurance Standards Board (IAASB) that issues the ISQMs, and their respective Consultative Advisory Groups The IESBA stated in its Exposure Draft issued January 2020 that <i>“If the Code were to establish a cooling-off requirement, a breach of such a requirement would trigger a breach of the Code, which may call into question the firm’s compliance with relevant ethical requirements. The IESBA is of the view that it would be more appropriate for a breach of such a requirement to be remediated as a quality issue through the firm’s system of quality management.”</i> A breach of proposed AUST325.8.1, in our view would trigger a breach of relevant ethical requirements or code of conduct applicable to the audit and would be required to be reported as a breach under the Code and the Corporations Act. This would call into question the independence of the audit which is not in the public interest. <p>We consider that a cross-reference to ISQM 2 is sufficient to alert a reader of the Code that there are additional quality control requirements that apply to the firm when performing an engagement quality review.</p>	Yes, Para AUST R325.8.1 deleted and R540.17 footnote 7 amended
3	AUST R325.8.1	GT	<ul style="list-style-type: none"> The content of AUST R325.8.1 and 325.8 A3 is repetitive as both refer members to the eligibility requirements for the Engagement Quality Reviewer contained in paragraph 19 of ASQM 2. It is 	Yes,

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			recommended to remove AUST R325.8.1 to ensure that there is consistency with the IESBA standard and so as not to introduce any unintended additional Australian reporting requirements; and	Para AUST R325.8.1 deleted and R540.17 footnote 7 amended
4	AUST R325.8.1 and R540.17 Footnote 7	CA ANZ	The content of AUST R325.8.1 and 325.8 A3 are quite repetitive, and both refer members to the eligibility requirements for the Engagement Quality Reviewer contained in paragraph 19 of ASQM 2 ¹ . CA ANZ recommends removing AUST R325.8.1 and changing the Footnote at R540.17 to refer to the application material at 325.8 A3.	Yes, Para AUST R325.8.1 deleted and R540.17 footnote 7 amended
5	AUST R325.8.1 and R540.17 Footnote 7	EY	The content of AUST R325.8.1 and 325.8 A3 are repetitive, and both refer members to the eligibility requirements for the Engagement Quality Reviewer contained in paragraph 19 of ASQM 2 ² . We recommend removing AUST R325.8.1 and changing the footnote at R540.17 to refer to the application material at 325.8 A3. This also ensures consistency with the IESBA Code as stated in its Exposure Draft issued January 2020 on this topic: "If the Code were to establish a cooling-off requirement, a breach of such a requirement would trigger a breach of the Code, which may call into question the firm's compliance with relevant ethical requirements. The IESBA is of the view that it would be more appropriate for a breach of such a requirement to be remediated as a quality issue through the firm's system of quality management."	Yes, Para AUST R325.8.1 deleted and R540.17 footnote 7 amended
6	AUST R325.8.1 and R540.17 Footnote 7	KPMG	However, KPMG is not supportive of the introduction to the Code, in proposed paragraph AUST R325.8.1, of a new requirement for an Engagement Partner to undertake a two-year cooling-off period before assuming the role of engagement quality reviewer for the same client given it does not align with the international approach to this matter and relates to quality management rather than ethics. It is the view of KPMG that the introduction of proposed paragraph AUST R325.8.1: <ul style="list-style-type: none"> Is inconsistent with the approach taken by IESBA in the International Code. IESBA has recognised that an engagement quality review is a measure designed and implemented by a firm as part of its 	Yes, Para AUST R325.8.1 deleted and R540.17 footnote 7 amended

¹ [Paragraph 19 Australian Standard on Quality Management 2 \(ASQM 2\) issued by the Audit and Assurance Standards Board \(AUASB\)](#)

² [Paragraph 19 Australian Standard on Quality Management 2 \(ASQM 2\) issued by the Audit and Assurance Standards Board \(AUASB\)](#)

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			<p>system of quality management, and that a breach of the cooling off period should therefore be treated as a quality matter rather than a breach of a relevant ethical requirement;</p> <ul style="list-style-type: none"> is inconsistent with proposed paragraph 325.8 A4 which states that the cooling off period required by ASQM 2 is distinct from, and does not modify, the partner rotation requirements in Section 540, which are designed to address threats to Independence created by long association with an audit client. Proposed paragraph AUST R325.8.1 appears to have the effect of amending those rotation requirements by adding to them; and would lead to a breach of the cooling off period required by ASQM 2 also being considered a breach of relevant ethical requirements applicable to the audit, and would therefore be required to be reported as a breach under the Code and the Corporations Act. Such an outcome would be inconsistent with the engagement quality review being a quality-related measure. <p>For the reasons stated above, it is the view of KPMG that proposed paragraph AUST R325.8.1 should not be included in the Code. KPMG notes that, should its recommendation be adopted, an amendment to footnote 7 at R540.17 will be required to remove the reference to AUST 325.8.1 and replace it with a reference to 325.8 A3.</p>	
7	R540.17 Footnote 7	GT	<ul style="list-style-type: none"> Change the Footnote at R540.17 to refer to the application material at 325.8 A3. 	Yes, R540.17 footnote 7 amended

RESPONDENTS

1	CA ANZ	Chartered Accountants Australia and New Zealand
2	DTT	Deloitte Touche Tohmatsu
3	EY	Ernst & Young
4	GT	Grant Thornton
5	KPMG	KPMG