

18 February 2022

### **Amendments to the Code to address the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers**

Accounting Professional & Ethical Standards Board (APESB) today issued an amending standard to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

The revisions in the amending standard add a new section to the Code (Section 325), which provides guidance on identifying, evaluating and addressing threats to objectivity that might arise in relation to engagement quality reviewers and other appropriate reviewers.

New guidance material also clarifies the interaction of the long association provisions in the Code with the requirements in ASQM 2 *Engagement Quality Reviews* (issued by the Australian Auditing and Assurance Standards Board).

These amendments align the Code with the international requirements issued by the International Ethics Standards Board for Accountants (IESBA).

Please refer to Appendix 1 of this technical update for details of all the revisions. The amendments to APES 110 will be effective from 1 January 2023, with early adoption permitted.

The interactive PDF of the amending standard is available from APESB's [website](#).

– ENDS –

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## Appendix 1

### Amendments to APES 110 (Issued November 2018 and amended September 2020 and March 2021)

APESB has approved the following revisions to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* which was issued in November 2018 and amended in September 2020 and March 2021.

Paragraph/Section Reference	Revisions
<b>SCOPE AND APPLICATION</b>	
1.1	Accounting Professional & Ethical Standards Board Limited (APESB) issues APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> ( <b>this Code</b> ). This Code is operative from 1 January 2020 and supersedes APES 110 <i>Code of Ethics for Professional Accountants</i> (issued in December 2010 and subsequently amended in December 2011, May 2013, November 2013, May 2017 and April 2018). Earlier adoption of this Code is permitted. Transitional provisions relating to Key Audit Partner rotation, revisions to Part 4B <sub>1</sub> and the role and mindset expected of Members and the objectivity of an Engagement Quality Reviewer and other appropriate reviewers shall apply as specified in the respective transitional provisions on page 2216.
<b>GLOSSARY</b>	
<b>Assurance Team</b>	<ul style="list-style-type: none"> <li>(a) All members of the Engagement Team for the Assurance Engagement;</li> <li>(b) All others within a Firm who can directly influence the outcome of the Assurance Engagement, including:               <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Assurance Engagement Partner in connection with the performance of the Assurance Engagement;</li> <li>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the Assurance Engagement; and</li> <li>(iii) Those who provide quality control for the Assurance Engagement, including those who perform the Engagement Quality Control Review for the Assurance Engagement.</li> </ul> </li> </ul>
<b>Audit Team</b>	<ul style="list-style-type: none"> <li>(a) All members of the Engagement Team for the Audit Engagement;</li> <li>(b) All others within a Firm who can directly influence the outcome of the Audit Engagement, including:               <ul style="list-style-type: none"> <li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Engagement Partner in connection with the performance of the Audit Engagement, including those at all successively senior levels above the Engagement Partner through to the individual who is the Firm's senior or managing partner (chief executive or equivalent);</li> <li>(ii) Those who provide consultation regarding technical or industry-specific issues transactions or events for the engagement; and</li> </ul> </li> </ul>

Paragraph/Section Reference	Revisions
	<p>(iii) Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review for the engagement; and</p> <p>(c) All those within a Network Firm who can directly influence the outcome of Audit Engagement.</p> <p><i>In Part 4A, the term “Audit Team” applies equally to “Review Team.”</i></p>
Cooling-off period	<p><i>This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to AUST R540.2019.1.</i></p>
<b>Engagement Quality Control Review</b>	<p><del>A process designed to provide a</del>An objective evaluation, <del>on or before the report is issued,</del> of the significant judgements <del>made by the Engagement Team made</del> and the conclusions <del>it reached thereon,</del> performed by the Engagement Quality Reviewer and completed on or before the date of the engagement <del>in formulating the report.</del></p>
<b>Engagement Quality Reviewer</b>	<p><u>A partner, other individual in the Firm, or an external individual, appointed by the Firm to perform the Engagement Quality Review.</u></p>
<b>Key Audit Partner</b>	<p>The Engagement Partner, the individual responsible for the Engagement Quality Control Review, and other audit partners, if any, on the Engagement Team who make key decisions or judgements on significant matters with respect to the audit of the Financial Statements on which the Firm will express an Opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.</p>
<b>Review Team</b>	<p>(a) All members of the Engagement Team for the Review Engagement; and</p> <p>(b) All others within a Firm who can directly influence the outcome of the Review Engagement, including:</p> <p>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the Engagement Partner in connection with the performance of the Review Engagement, including those at all successively senior levels above the Engagement Partner through to the individual who is the Firm’s senior or managing partner (chief executive or equivalent);</p> <p>(ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</p> <p>(iii) Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review for the engagement; and</p> <p>(c) All those within a Network Firm who can directly influence the outcome of the Review Engagement.</p>
<b>PART 3 – MEMBERS IN PUBLIC PRACTICE</b>	
300.6 A1	<p>Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might</p>

Paragraph/Section Reference	Revisions
	<p>create threats for a Member in Public Practice when undertaking a Professional Service:</p> <p>(a) Self-interest Threats:</p> <ul style="list-style-type: none"> <li>• A Member having a Direct Financial Interest in a client.</li> <li>• A Member quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the Professional Service in accordance with applicable technical and professional standards for that price.</li> <li>• A Member having a close business relationship with a client.</li> <li>• A Member having access to confidential information that might be used for personal gain.</li> <li>• A Member discovering a significant error when evaluating the results of a previous Professional Service performed by a member of the Member's Firm.</li> </ul> <p>(b) Self-review Threats:</p> <ul style="list-style-type: none"> <li>• A Member issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.</li> <li>• A Member having prepared the original data used to generate records that are the subject matter of the Assurance Engagement.</li> </ul> <p>(c) Advocacy Threats:</p> <ul style="list-style-type: none"> <li>• A Member promoting the interests of, or shares in, a client.</li> <li>• A Member acting as an advocate on behalf of a client in litigation or disputes with third parties.</li> <li>• A Member lobbying in favour of legislation on behalf of a client.</li> </ul> <p>(d) Familiarity Threats:</p> <ul style="list-style-type: none"> <li>• A Member having a Close or Immediate Family member who is a Director or Officer of the client.</li> <li>• A Director or Officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the Engagement Partner.</li> <li>• An Audit Team member having a long association with the Audit Client.</li> <li>• <u>An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.</u></li> </ul> <p>(e) Intimidation Threats:</p> <ul style="list-style-type: none"> <li>• A Member being threatened with dismissal from a client engagement or the Firm because of a disagreement about a professional matter.</li> <li>• A Member feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.</li> </ul>

Paragraph/Section Reference	Revisions
	<ul style="list-style-type: none"> <li>• A Member being informed that a planned promotion will not occur unless the Member agrees with an inappropriate accounting treatment.</li> <li>• A Member having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.</li> </ul>
<b><u>SECTION 325</u></b>	<b><u>OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS</u></b>
<u>325.1</u>	<u>Members in Public Practice are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.</u>
<u>325.2</u>	<u>Appointing an Engagement Quality Reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.</u>
<u>325.3</u>	<u>This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an Engagement Quality Reviewer.</u>
<u>325.4</u>	<u>An Engagement Quality Reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where a Member appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.</u>
<u>325.5 A1</u>	<p><b><u>Application Material</u></b></p> <p><b><u>General</u></b></p> <p><u>Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. APES 320 <i>Quality Management for Firms that provide Non-Assurance Services</i> (APES 320) and ASQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements</i> (ASQM 1) establishes the Firm's responsibilities for its system of quality management and requires the Firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing Engagement Quality Reviews in accordance with ASQM 2 <i>Engagement Quality Reviews</i> (ASQM 2).</u></p>
<u>325.5 A2</u>	<u>An Engagement Quality Reviewer is a partner, other individual in the Firm, or an external individual, appointed by the Firm to perform the Engagement Quality Review.</u>

Paragraph/Section Reference	Revisions
325.6 A1	<p><b><u>Identifying Threats</u></b></p> <p>The following are examples of circumstances where threats to the objectivity of a Member in Public Practice appointed as an Engagement Quality Reviewer might be created:</p> <p>(a) <u>Self-interest Threat:</u></p> <ul style="list-style-type: none"> <li>• <u>Two Engagement Partners each serving as an Engagement Quality Reviewer for the other's engagement.</u></li> </ul> <p>(b) <u>Self-review Threat:</u></p> <ul style="list-style-type: none"> <li>• <u>A Member serving as an Engagement Quality Reviewer on an Audit Engagement after previously serving as the Engagement Partner.</u></li> </ul> <p>(c) <u>Familiarity Threat:</u></p> <ul style="list-style-type: none"> <li>• <u>A Member serving as an Engagement Quality Reviewer has a close relationship with or is an Immediate Family member of another individual who is involved in the engagement.</u></li> </ul> <p>(d) <u>Intimidation Threat:</u></p> <ul style="list-style-type: none"> <li>• <u>A Member serving as an Engagement Quality Reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.</u></li> </ul>
325.7 A1	<p><b><u>Evaluating Threats</u></b></p> <p>Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an Engagement Quality Reviewer include:</p> <ul style="list-style-type: none"> <li>• <u>The role and seniority of the individual.</u></li> <li>• <u>The nature of the individual's relationship with others involved on the engagement.</u></li> <li>• <u>The length of time the individual was previously involved with the engagement and the individual's role.</u></li> <li>• <u>When the individual was last involved in the engagement prior to being appointed as Engagement Quality Reviewer and any subsequent relevant changes to the circumstances of the engagement.</u></li> <li>• <u>The nature and complexity of issues that required significant judgement from the individual in any previous involvement in the engagement.</u></li> </ul>
325.8 A1	<p><b><u>Addressing Threats</u></b></p> <p><u>An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the Firm.</u></p>
325.8 A2	<p><u>An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an Engagement Quality Reviewer.</u></p>

Paragraph/Section Reference	Revisions
325.8 A3	<p><u>Cooling-off Period</u></p> <p>ASQM 2 requires the Firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the Engagement Partner can assume the role of Engagement Quality Reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.</p>
<b>PART 4A - INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS</b>	
R400.73	<p>If, following the discussion set out in paragraph R400.72(b), Those Charged with Governance request the Firm to continue as the auditor, the Firm shall do so only if:</p> <p>(a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;</p> <p>(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the Engagement Team for the audit or the individual responsible for the Engagement Quality Control Review; and</p> <p>(c) Transitional measures will be applied, as necessary, and discussed with Those Charged with Governance.</p>
400.73 A1	<p>Examples of such transitional measures include:</p> <ul style="list-style-type: none"> <li>• Having a Member in Public Practice review the audit or non-assurance work as appropriate.</li> <li>• Having a Member in Public Practice, who is not a member of the Firm expressing the opinion on the Financial Statements, perform a review that is equivalent to an Engagement Quality Control Review.</li> <li>• Engaging another Firm to evaluate the results of the non-assurance service or having another Firm re-perform the non-assurance service to the extent necessary to enable the other Firm to take responsibility for the service.</li> </ul>
R410.4	<p>Where an Audit Client is a Public Interest Entity and, for two consecutive years, the total fees from the client and its Related Entities represent more than 15% of the total fees received by the Firm expressing the opinion on the Financial Statements of the client, the Firm shall:</p> <p>(a) Disclose to Those Charged with Governance of the Audit Client the fact that the total of such fees represents more than 15% of the total fees received by the Firm; and</p> <p>(b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the Firm from the client, and if so, apply it:</p> <p>(i) Prior to the audit opinion being issued on the second year's Financial Statements, a Member in Public Practice, who is not a member of the Firm expressing the opinion on the Financial Statements, performs an Engagement Quality Control Review of that engagement; or a</p>

Paragraph/Section Reference	Revisions
	<p>Professional Body performs a review of that engagement that is equivalent to an Engagement Quality Control Review (“a pre-issuance review”); or</p> <p>(ii) After the audit opinion on the second year’s Financial Statements has been issued, and before the audit opinion being issued on the third year’s Financial Statements, a Member in Public Practice, who is not a member of the Firm expressing the opinion on the Financial Statements, or a Professional Body performs a review of the second year’s audit that is equivalent to an Engagement Quality Control Review (“a post-issuance review”).</p>
R540.4	<p>If a Firm decides that the level of the threats created can only be addressed by rotating the individual off the Audit Team, the Firm shall determine an appropriate period during which the individual shall not:</p> <p>(a) Be a member of the Engagement Team for the Audit Engagement;</p> <p>(b) Provide quality control for the Audit Engagement; or</p> <p>(c) Exert direct influence on the outcome of the Audit Engagement.</p> <p>The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a Public Interest Entity, paragraphs R540.5 to R540.210 also apply.</p>
R540.5	<p>Subject to paragraphs R540.7 to R540.9, in respect of an audit of a Public Interest Entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years<sup>27</sup> (the “time-on” period):</p> <p>(a) The Engagement Partner;</p> <p>(b) The individual appointed as responsible for <u>performing</u> the Engagement Quality Control Review; or</p> <p>(c) Any other Key Audit Partner role.</p> <p>After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to AUST R540.2049.1.</p>
540.6 A1	<p>For example, an individual who served as Engagement Partner for four years followed by three years off can only act thereafter as a Key Audit Partner on the same Audit Engagement for three further years (making a total of seven cumulative years<sup>28</sup>). Thereafter, that individual is required to cool off in accordance with paragraph R540.154.</p>
R540.12	<p>Where the individual has been appointed as responsible for the Engagement Quality Control Review and has acted in that capacity for seven cumulative years,<sup>32</sup> the cooling-off period shall be three consecutive years.</p>
540.14 A1	<p>The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ASQM 2 <i>Engagement Quality Reviews</i> as a condition for eligibility before the Engagement Partner can assume the role of Engagement Quality Reviewer.</p>

Paragraph/Section Reference	Revisions
R540.154	[Paragraph R540.14 remains unchanged but renumbered as paragraph R540.15.]
R540.165	Subject to paragraph R540.176(a), if the individual acted in a combination of Key Audit Partner roles and served as the Key Audit Partner responsible for the Engagement Quality Control Review for four or more cumulative years, the cooling-off period shall be three consecutive years.
R540.176	<p>If an individual has acted in a combination of Engagement Partner and Engagement Quality Control Review roles<sup>33</sup> for four or more cumulative years during the time-on period, the cooling-off period shall:</p> <p>(a) As an exception to paragraph R540.165, be five consecutive years where the individual has been the Engagement Partner for three or more years; or</p> <p>(b) Be three consecutive years in the case of any other combination.</p>
Footnote 33 to para R540.17	Members should refer to the requirement in ASQM 2 for Members to undertake a two-year cooling-off period between the time they finish being an Engagement Partner for an Audit Client and then assuming the role of Engagement Quality Reviewer for the same Audit Client.
R540.187	If the individual acted in any combination of Key Audit Partner roles other than those addressed in paragraphs R540.154 to R540.176, the cooling-off period shall be two consecutive years.
R540.2049	Where a legislative or regulatory body (or organisation authorised or recognised by such legislative or regulatory body) has established a cooling-off period for an Engagement Partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.154 and R540.176(a) provided that the applicable time-on period does not exceed seven years. <sup>343</sup>
Footnotes 343 to 4039	[Footnotes 33 to 39 remain unchanged but are renumbered as footnotes 34 to 40.]
540.219 A1	The provisions of paragraph R540.219 are not intended to prevent the individual from assuming a leadership role in the Firm or a Network Firm, such as that of the senior or managing partner (chief executive or equivalent).
R800.10	<p><b>When the Firm performs an eligible Audit Engagement:</b></p> <p>(a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the Engagement Team, their Immediate Family members and, where applicable, Close Family members;</p> <p>(b) The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the Audit Client and the following Audit Team members:</p>

Paragraph/Section Reference	Revisions
	<ul style="list-style-type: none"> <li>(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and</li> <li>(ii) Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review; and</li> <li>(c) The Firm shall evaluate and address any threats that the Engagement Team has reason to believe are created by interests and relationships between the Audit Client and others within the Firm who can directly influence the outcome of the Audit Engagement.</li> </ul>
<b>PART 4B - INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS</b>	
R990.7	<p><b>When the Firm performs an eligible Assurance Engagement:</b></p> <ul style="list-style-type: none"> <li>(a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the Engagement Team, and their Immediate and Close Family members;</li> <li>(b) The Firm shall identify, evaluate and address any threats to Independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the Assurance Client and the following Assurance Team members; <ul style="list-style-type: none"> <li>(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and</li> <li>(ii) Those who provide quality control for the engagement, including those who perform the Engagement Quality Control Review; and</li> </ul> </li> <li>(c) The Firm shall evaluate and address any threats that the Engagement Team has reason to believe are created by interests and relationships between the Assurance Client and others within the Firm who can directly influence the outcome of the Assurance Engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.</li> </ul>
<b>TRANSITIONAL PROVISIONS</b>	
1.	Paragraph R540.2019 shall have effect only for audits of Financial Statements for periods beginning prior to 31 December 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for Engagement Partners where legislation or regulation has specified a cooling-off period of less than five consecutive years.
4.	<p><u>Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers</u></p> <p>Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers will be effective for engagements beginning on or after 1 January 2023. Early adoption will be permitted.</p>

Paragraph/Section Reference	Revisions
<b>CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS</b>	
	<p><b><i>APES 110 and the IESBA Code</i></b></p> <p>APES 110 incorporates the <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) issued by the International Ethics Standards Board for Accountants (IESBA) in April 2018 and incorporating amendments up to <del>October 2020</del> <u>January 2021</u>.</p>
	<ul style="list-style-type: none"> <li>• <u>APES 110 does not include paragraph 325.8 A4 of the IESBA Code to eliminate any confusion on the application of the cooling-off periods required by Section 540 of the Code and ASQM 2 <i>Engagement Quality Reviews</i>.</u></li> </ul>