

## Proposed Revisions to the Code to Addressing the Objectivity of Engagement Quality Reviewers

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (IESBA)

### Joint submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

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ACCA (the Association of Chartered certified Accountants) and CA ANZ (Chartered Accountants Australia and New Zealand) created their strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of their members and students, sharing a commitment to uphold the highest ethical, professional and technical standards.

Further information about ACCA and CA ANZ's comments on the matters discussed here can be requested from:

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## About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 219,000 members and 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 110 offices and centres and more than 7,571 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

[www.accaglobal.com](http://www.accaglobal.com)

## About CA ANZ

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

[www.charteredaccountantsanz.com](http://www.charteredaccountantsanz.com)

## GENERAL COMMENTS

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ACCA and CA ANZ welcome the opportunity to comment on the proposals to revise the International Code of Ethics for Professional Accountants (including International Independence Standards) (**the Code**) to address the objectivity of an Engagement Quality Reviewer (**EQR**).

We are supportive of what the IESBA is trying to achieve and the proposals are helpful. However, we have identified some potential enhancements and these are highlighted in our response where appropriate.

In particular, we believe the proposed guidance on engagement quality (**EQ**) reviews should be in a new standalone section within the Code and include requirements for cooling-off periods. These requirements should be principles-based and should not impose a stricter standard than the existing requirements within other sections of the Code.

## AREAS FOR SPECIFIC COMMENT

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### **Question 1: Do you support the proposed guidance addressing the topic of the objectivity of an EQR?**

We support the proposed guidance which explicitly addresses the topic of the objectivity of an EQR as we believe this is critical to the effectiveness of the EQ review. We welcome the introduction of additional application material within the Code as this enhances firms' awareness of the threats to the objectivity of an EQR and the importance of applying appropriate safeguards to reduce the threats to an acceptable level.

We are encouraged by the IESBA's close coordination with the International Auditing and Assurance Standards Board (**IAASB**) to ensure the guidance and terminology within the Code on the topic of EQR objectivity is consistent and compatible with the proposed ISQM 2<sup>1</sup>. The proposed changes to the Code complement ISQM 2 and will ensure that EQRs continue to be robust and effectively support high-quality audits and other engagements. In light of this, we believe it would be helpful to refer to the ISQMs within paragraph 120.14 A1 as being '*issued by the IAASB*'.

### **Question 2: If so, do you support the location of the proposed guidance in Section 120 of the Code?**

In our opinion, an opportunity exists to increase the prominence of the topic of EQR objectivity within the Code by including the proposed guidance on EQ reviews in a new standalone section within Part 3 Professional Accountants in Public Practice. This Part of the Code sets out

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<sup>1</sup> International Standard on Quality Management 2, Engagement Quality Reviews.

requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. Therefore, we encourage the IESBA to reconsider if it would be more appropriate to locate the guidance elsewhere within the Code.

**Question 3: Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?**

We support the establishment of a cooling-off period to safeguard the objectivity of individuals previously involved in the engagement that is consistent with the existing cooling-off requirements imposed on partners involved in the audits of public interest entities (**PIEs**) in Section 540 of the Code. However, this needs to be carefully considered as it presents further challenges for small and medium practices (**SMPs**) in managing EQ reviews. For example, a sole practitioner or two partner practice may have to engage an external EQR if they have a cooling-off period, whereas larger firms will be able to manage this process internally.

We do not support the inclusion of cooling-off periods for EQRs in ISQM 2. In our joint submission to the IAASB on the Proposed ISQM 2<sup>2</sup>, we expressed the view that the ethical requirements in relation to EQRs, **including requirements in relation to cooling-off periods**, should be located within the Code. Therefore, we believe that cooling-off requirements for EQRs should be included within a new standalone section on EQ reviews within Part 3 of the Code. This would be consistent with the IESBA's previous approach to cooling-off periods which has been to include them in the Code. As Section 540 prescribes cooling-off periods for key audit partners (including EQRs) involved in the audits of PIEs, having the cooling-off requirements for EQRs after having served on the engagement included in the auditing standards would force practitioners to consult two different sources in order to fully understand the requirements, which could lead to inconsistencies and errors in practice. We are also concerned about the potential risk of conflicting cooling-off requirements for EQRs.

When the cooling-off requirements are included in the Code, they should remain principles based and should not impose a stricter standard than the existing requirements for PIEs in section 540. This is consistent with part of the IESBA's views expressed in paragraph 16 of the Explanatory Memorandum which states that "*a strict prohibition on an individual serving in the EQR role after having served on the engagement unless that person has served a cooling-off period may not be proportionate in the circumstances*".

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<sup>2</sup> See [https://www.ifac.org/system/files/publications/exposure-drafts/comments/20190701\\_CAANZ\\_ACCASubmission\\_FinalISQM2.pdf](https://www.ifac.org/system/files/publications/exposure-drafts/comments/20190701_CAANZ_ACCASubmission_FinalISQM2.pdf)

## Request for general comments

### *Regulators and Audit Oversight Bodies:*

Any changes to the restructured Code must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the Code's requirements are comprehensive. Therefore, the drafting of the Code must be clear, and it must be drafted with due regard to enforceability. From an enforcement perspective, we accept that by advocating the inclusion of a prescribed cooling-off period within the Code, any breach could give rise to regulatory and disciplinary action in relation to a firm's compliance with relevant ethical requirements.

### *Small and Medium Practices (SMPs):*

SMPs are important stakeholders in developing and enhancing the restructured Code. It is within such organisations (with more limited resources, including fewer personnel) where changes in behaviours are best supported through clear guidance which is proportionate and scalable. We believe that the current proposals, as drafted, achieve meaningful improvements to EQ reviews and provide greater clarity. However, the implementation of changes relating to EQ reviews and the objectivity of an EQR will create a significant work effort to manage the rotation and a disproportionate increased cost for SMPs. The additional operational challenges may make the process unworkable for some firms.

### *Developing Nations:*

Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the restructured Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by professional bodies. The provisions need to provide practical and effective guidance in respect of the objectivity of an EQR, in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations.

### *Translations:*

Translation of the restructured Code for adoption in their environments is a challenging process for translators. Further changes will inevitably create inefficiencies and place additional demands on translation resources which could threaten accurate translation of the Code and compliance. In our opinion, the proposals should be clear, consistent and logical, and a realistic translation period is required. Although, as drafted, the proposed revisions would be unlikely to present translation issues as they use generally understood phrases rather than specific terms, the IESBA should remain alert to this in proposing any further changes to the existing wording.