

CPA Australia Ltd

Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia

GPO Box 2820
Melbourne VIC 3001
Australia

Phone 1300 737 373

Outside Aust +613 9606 9677

Website cpaaustralia.com.au

Mr Ken Siong,
Senior Technical Director
International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, New York 10017 USA

By Email: kensiong@ethicsboard.org

Dear Ken,

Exposure Draft: *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers.*

CPA Australia represents the diverse interests of more than 166,000 members working in over 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports clear and well-structured guidance for professional accountants with respect to the application of the Fundamental Principles (FPs) of the International Code of Ethics for Professional Accountants (the “Code”). It is important that all requirements and guidance follow a logical, sequential and practical structure to enable professional accountants to easily digest, comprehend and comply with the requirements of the Code. We commend the IESBA for remaining committed to a principles-based Code. It is important that the FPs and the Conceptual Framework (CF) have universal applicability to all disciplines in the accounting profession. Therefore, references to specific disciplines within the accounting profession should be minimised or avoided in Parts 1 to 3 of the Code.

Principles-based standards ideally refrain from prescribing specific timeframes as criteria for assessing compliance with the requirements. Given, however, the inclusion of specific timeframes for auditor rotation requirements in Section 540 of Part 4A of the Code, CPA Australia is supportive of the inclusion of a specified cooling-off period for engagement quality reviewers (EQRs)—for example, two years—in the Code. Further to our submission on the International Standard on Quality Management 2 (ISQM-2), CPA Australia supports including guidance on the cooling-off period in the Code rather than in ISQM-2.

CPA Australia’s recommendations with respect to the proposed revisions to the Code are as follows:

- For the IESBA to consider whether matters relating to the EQR are already adequately addressed by Part 4A of the Code.
- If Part 4A is considered insufficient in addressing matters relating to the EQR, the guidance proposed for Section 120 be included in Section 540 of Part 4A of the Code.

- To assist professional accountants in understanding and applying the rotation requirements for Engagement Partners (EPs) and EQRs, it would be useful for all related sections and application material to be in the same sections the Code. The IAASB may consider a cross-reference in the ISQM-2 to the requirements contained in the Code.
- Limit EQR cooling-off requirements to audits of entities where potential threats to the fundamental principles of Objectivity and Integrity may have more significant consequences (such as Public Interest Entities and Listed Entities).
- Apply cooling off requirements equally for moving from EP to EQR and from EQR to EP. There may be threats to Objectivity due to a preconceived understanding of the audit client obtained during an appointment as the EQR.

Should you have any questions regarding this submission, please do not hesitate to contact Josephine Haste CPA, Policy Adviser – Ethics and Professional Standards on +613 9606 9693 or josephine.haste@cpaaustralia.com.au.

Yours sincerely



Dr Gary Pflugrath
Executive General Manager, Policy and Advocacy

APPENDIX 1 - Schedule of Responses to Specific Questions raised in the Explanatory Memorandum

1. Do you support the proposed guidance addressing the topic of objectivity of an EQR?

If the cooling-off period for an EQR is seen as a discreet issue of Objectivity—rather than being a matter relevant to Independence—CPA Australia considers the additional guidance to be of value to professional accountants.

However, arguably, if it relates specifically to Independence, relevant considerations for all EP, EQR and KAP are already addressed in Parts 4A and 4B of the Code.

The EQR proposals are focused on the movement from EP to EQR and the potential self-review or self-interest threat *“that might be created when judgements made by the individual in the previous engagements continue to influence subsequent periods.”* While CPA Australia supports this guidance, we suggest that it should also apply to an EQR or KAP engaging in alternative roles on the same engagement.

The Explanatory Memorandum (EM) identifies examples of potential threats to Objectivity in paragraph 120.14 A2. CPA Australia suggests the following revisions:

a) *Self-interest threat*

Further to the comments regarding applicability to other participants on the one audit engagement, this threat would be equally true for EPs and other KAPs.

b) *Self-Review threat*

This threat equally applies to all three parties involved in the engagement, the EP, the EQR and KAP when they take on alternative roles.

c) *Familiarity threat*

The threats to the FPs created by family and other personal relationships are addressed in Section 521 of the Code, further emphasizing that the proposed guidance may be better placed in Part 4A of the Code.

d) *Intimidation threat*

While the arrangement described in the EM is considered inappropriate, it is unlikely in practice that this would occur. The intimidation threat is more likely pronounced between the KAP and the EP. Due to the level of experience required by the EQR, it is probable that the EQR and EP would have a similar level of influence in the firm.

CPA Australia is supportive of the factors included at paragraph 120.14 A3 of the EM which lists matters that are relevant when evaluating the level of threats to Objectivity as described in paragraph 120.14 A2. CPA Australia supports the examples of safeguards in paragraph 120.14 A4.

2. If so, do you support the location of the proposed guidance in Section 120 of the Code?

CPA Australia does not support the location of the proposed guidance in Section 120 of the Code. The CF applies equally to professional accountants across all disciplines of accounting. The CF is deliberately broad to enable such applicability. The proposed guidance relates to audit engagements; specifically, the function of

the EQR, and to include the guidance in Section 120 detracts from the more general discussion of the FPs in the CF.

CPA Australia is of the view that the proposals address movement of staff assigned to an audit engagement. Based on this view, the proposed guidance would be better placed in Part 4A, Section 540 *Long Association of Personnel (including Partner Rotation) with an Audit Client*.

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?

Consistent with CPA Australia's views expressed in our submission to the IAASB on Proposed ISQM-2 in June 2019, cooling-off requirements are akin to audit partner rotation requirements. Both cooling-off and rotation requirements attempt to address ethical issues relating to the fundamental principles of the Code, specifically, Objectivity and Independence (as a subset of Objectivity and Integrity). It is for this reason that CPA Australia believes that the concept of cooling-off should be placed with auditor rotation requirements in Section 540 of the Code.

APPENDIX 2 – Schedule of Responses to General Questions raised in the Explanatory Memorandum

1. Regulators and Audit Oversight Bodies

CPA Australia offer no response to this question.

2. Small and Medium Sized Entities (SMEs)

CPA Australia offer no response to this question.

3. Developing Nations

CPA Australia offer no response to this question.

4. Translation

CPA Australia offer no response to this question.