

Basis for Conclusions
Prepared by the Staff of the IESBA®
January 2021

*International Ethics Standards Board
for Accountants®*

**Revisions to the Code
Addressing the Objectivity of an
Engagement Quality Reviewer
and Other Appropriate
Reviewers**

IESBA

**International
Ethics Standards
Board for Accountants®**



About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © January 2021 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 11](#).

**BASIS FOR CONCLUSIONS: REVISIONS TO THE
CODE ADDRESSING THE OBJECTIVITY OF AN
ENGAGEMENT QUALITY REVIEWER AND OTHER
APPROPRIATE REVIEWERS**

CONTENTS

	Page
I. Introduction	4
II. Background	4
III. Extension of Scope of Guidance to Appropriate Reviewer and Location of the Guidance	5
IV. Cooling-off Requirement and Location for Such Requirement	7
V. Other Matters	9
VI. Effective Date	10

I. Introduction

1. At its September 2020 virtual meeting, the IESBA approved the revisions to the Code addressing the Objectivity of an Engagement Quality Reviewer (EQR) and Other Appropriate Reviewers with the affirmative votes of 16 out of 17 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure. It relates to, but does not form part of, the pronouncement approved by the IESBA.

II. Background

Development of the Project Proposal

3. Some respondents to the International Auditing and Assurance Standards Board's (IAASB's) December 2015 *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, suggested that the global auditing or ethics and independence standards should clarify issues relating to an engagement quality control reviewer's (EQCR's) objectivity. Specifically, it was pointed out that some jurisdictions require firms to establish mandatory "cooling-off periods" for individuals previously involved in the audit engagement, in particular engagement partners (EPs), before they can act in an EQCR role on the same engagement.
4. The IAASB noted that relevant ethical requirements, such as the IESBA Code, may not specifically address threats to objectivity, which also affect quality, that may arise in those precise circumstances. For example, a self-review or self-interest threat might be created when judgments made by the individual in the previous engagement continue to influence judgments in subsequent periods, as is often the case in an audit of financial statements.
5. The IAASB issued the exposure draft *Proposed International Standard on Quality Management 2, Engagement Quality Reviews* (ED-ISQM 2) in February 2019. Among other matters, the IAASB proposals included changes in terminology from "engagement quality control review" to "engagement quality review" and "engagement quality control reviewer" to "engagement quality reviewer" (EQR). The Explanatory Memorandum (EM) to proposed ISQM 2 included a specific request to respondents for input on whether there is a need for guidance in the proposed ISQM 2 to address the matter of cooling off as an eligibility requirement for the EQR (e.g., where an individual has served previously as an EP on the same engagement), and whether such guidance should be located in proposed ISQM 2 or the Code.
6. Paragraphs 23-28 of the EM to ED-ISQM 2 summarize the IAASB's discussion of the eligibility of an individual to be appointed as the EQR immediately after serving as the EP, as well as the IAASB's coordination with the IESBA on the matter.

Responses to ED-ISQM 2

7. Overall, respondents agreed that the objectivity of the EQR is critical to the effectiveness of the engagement quality review (EQ review). The general consensus among respondents was that threats to the objectivity of an EP stepping directly into an EQR role are an important issue that needs to be addressed.
8. Considering the responses to ED-ISQM 2, the IAASB came to the view that when an individual is appointed as the EQR immediately after serving as the EP, the threats to the individual's objectivity are significant. Consequently, the IAASB concluded that a cooling-off period was the most appropriate safeguard. This view recognized that the EQR is responsible for objectively

BASIS FOR CONCLUSIONS:
OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

evaluating the significant judgments made by the engagement team and the conclusions reached thereon. In recurring engagements, the matters on which significant judgments are made may not vary and therefore significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. The ability of an EQR to perform an objective evaluation of significant judgments is therefore affected when the individual was previously involved with those judgments as the EP. In such circumstances, the IAASB agreed that it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular the self-review threat, to an acceptable level.

9. Following coordination with the IAASB, the IESBA determined that it is necessary to address the issue of EQR objectivity holistically in the Code. The IESBA considered that this would be best achieved by having guidance in the Code that explains clearly the application of the conceptual framework when considering the objectivity of the EQR. This guidance would then provide the context for and support any specific provisions the IAASB might determine necessary to promulgate in proposed ISQM 2 to address the specific matter of an individual being appointed to the EQR role after having served on the engagement team (especially in an EP role).
10. Given the IAASB's timeline to finalize proposed ISQM 2, the IESBA therefore decided to start a project on an accelerated basis to develop appropriate guidance in the Code on the topic of EQR objectivity, in coordination with the IAASB to ensure consistency and interoperability of the proposed guidance with ISQM 2.

Exposure Draft

11. In January 2020, the IESBA released the Exposure Draft (ED), [*Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*](#).
12. Thirty-eight responses were received from stakeholders across a range of categories and different jurisdictions.
13. There was support from all the respondents for the IESBA to address the topic of EQR objectivity in the Code.
14. With respect to the question of a cooling-off requirement for an individual being considered for appointment as the EQR after immediately serving as the EP on the engagement, a significant proportion of respondents supported the establishment of a cooling-off requirement as they viewed a cooling-off period as fundamental to addressing the self-review threat in such a situation. There were, however, mixed views as to whether such a requirement should reside in ISQM 2 or the Code, as further discussed in section IV below.
15. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by the IESBA Consultative Advisory Group (CAG).

III. Scope and Location of the Guidance

Scope of the Guidance

16. While the proposed guidance addressed the objectivity of an EQR, a few respondents believed that consideration should be given to broadening the scope of the guidance to appropriate reviewers. They argued that doing so will provide the necessary awareness of the threats to the objectivity of appropriate reviewers more broadly.

IESBA Decisions

17. The IESBA noted that the Glossary of the Code describes an “appropriate reviewer” as follows:

An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed, or service provided. Such as an individual might be a professional accountant.

This term is described in paragraph 300.8 A4.

18. The concept of an appropriate reviewer was developed in the Safeguards project. The IESBA determined that appointing such an individual to review relevant work performed might be effective as a safeguard to address identified threats to compliance with the fundamental principles or to independence. The description of an appropriate reviewer was developed based on the definition of an EQCR in extant ISQC 1.¹ In finalizing the revised safeguards provisions, the IESBA determined that the concept of an appropriate reviewer should be broad and principles-based.²
19. Given that an EQR meets all the attributes of an appropriate reviewer as described in the Glossary, and is therefore an example of such a reviewer, the IESBA determined that the scope of the guidance addressing the objectivity of an EQR should be broadened to encompass any individual who serves in the capacity of an appropriate reviewer for purposes of implementing a safeguard against identified threats. (See paragraph 325.4.)
20. The IESBA considered whether the scope should be further broadened to cover individuals acting as appropriate reviewers for purposes other than safeguards. On balance, the IESBA determined not to extend the scope beyond appropriate reviewers used to provide a safeguard in circumstances addressed by the Code because of the potential for unintended consequences.

Location of the Guidance

21. The IESBA proposed Section 120 as the most appropriate location for the guidance given that it already deals with separate topics pertinent to audits, reviews and other assurance engagements. The IESBA did not consider that it would be appropriate to place the guidance in the International Independence Standards (IIS) as the guidance is addressing an objectivity issue and not an independence issue.
22. There was support from a substantial proportion of respondents on the proposed location of the guidance. A few respondents believed that the guidance would be better integrated into Section 300.³

IESBA Decision

23. Given the broadening of the scope of the guidance to cover the objectivity of appropriate reviewers, the IESBA explored a few possible locations in the Code. After deliberation, the IESBA determined that the guidance would be better placed in a new standalone Section 325 but with an expanded title, *Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*. While this

¹ International Standard on Quality Control (ISQC) 1, [Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements](#)

² Depending on the particular facts and circumstances, an appropriate reviewer might be appointed from within or outside the firm. Where detachment from the engagement team is especially important, the Code makes clear in provisions that specify actions that might be safeguards that such individuals are not members of the engagement team.

³ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

new Section would be addressing an issue of fairly narrow scope, the IESBA noted that the Code already has a separate Section that addresses another issue of similarly narrow scope, namely Section 321⁴ dealing with second opinions.

24. The IESBA did not consider that Section 300 would be an appropriate location as that Section contains material of a general and overarching nature for professional accountants in public practice regarding the application of the conceptual framework to their facts and circumstances. Nevertheless, the IESBA determined that it would be appropriate to flag in Section 300 that the Code addresses the matter of the objectivity of appropriate reviewers. The IESBA therefore added to the list of examples of familiarity threat in paragraph 300.6 A1(d) an example of a circumstance where an individual is being considered to serve as an appropriate reviewer.

IV. Cooling-off Requirement

Location of the Cooling-off Requirement

25. In developing provisions to address EQR objectivity, the IESBA recognized the importance of protecting the objectivity of the EQR and therefore considered whether the Code should prescribe a cooling-off period specifically to address the situation where an individual is appointed to the EQR role immediately after having served as EP on the engagement.
26. A significant proportion of respondents supported the establishment of a cooling-off requirement to address the matter of an EP moving directly into the EQR role on the same engagement. Views on the location of the cooling-off requirement were, however, somewhat split. Nevertheless, there was a clear preponderance of support among respondents across all stakeholder categories, including some regulatory respondents, for the Code to take a principles-based approach to addressing threats to the objectivity of an individual being appointed as EQR, leaving ISQM 2 to specify a requirement for firms to establish policies or procedures for a cooling-off period in such a situation.
27. The IESBA came to the view that any prohibition in that situation should result from the application of the conceptual framework to the specific facts and circumstances, and that the Code should remain principles-based. The IESBA agreed that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2, following the guidance set out in Section 325, and if so, the circumstances in which the requirement should apply, to whom it should apply, and what the minimum cooling-off period should be.⁵
28. Separately, however, the PIOB commented that while the Code should remain principles-based whenever possible, the requirement of a cooling-off period for an EP who moves to an EQR role, as proposed in ISQM 2, should also be established in the Code to ensure consistency of both IAASB and IESBA standards.

⁴ Section 321, *Second Opinions*

⁵ ISQM 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 EP can assume the role of EQR.

IESBA Decisions

29. The IESBA acknowledged the clear support from respondents for a cooling-off requirement to address circumstances where an individual is being considered for appointment to the EQR role immediately after having served as the EP on the engagement. However, given the balance of respondents' views on the location of the cooling-off requirement and following further coordination with the IAASB, the IESBA reaffirmed that the Code should establish the principles-based guidance as a foundation to support the establishment of the cooling-off requirement in ISQM 2.
30. While the IESBA acknowledged that including a similar requirement in the Code, as advocated by the PIOB, might support perceptions of a stronger Code, the IESBA did not believe that such duplication would be appropriate, especially given the extensive efforts between the IESBA and the IAASB in coordinating a holistic and comprehensive response to the issue. This coordinated approach was also well supported by the two Boards' CAGs. Nevertheless, to recognize the importance of the cooling-off requirement, the IESBA determined to:
- (a) Add a clear cross-reference in Section 325 to ISQM 2 indicating that ISQM 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 EP can assume the role of EQR. This matches a corresponding cross-reference in paragraph A15 of ISQM 2 to the principles-based guidance in the Code addressing the objectivity of an individual being appointed as an EQR. This cross-reference also has the benefit of acting as a signpost for users looking in the Code as to whether there is a cooling-off requirement addressing this particular issue; and
 - (b) Clearly state that the cooling-off requirement serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. Such a statement duly recognizes that objectivity has a dual character as an ethical principle and a quality precondition.

(See paragraph 325.8 A3.)

Interaction of Cooling-off Period Addressing EQR Objectivity with Cooling-off Required Under Long Association Provisions

31. The PIOB commented that the IESBA should clarify that the cooling-off period addressing threats to the objectivity of an EP when moving to the role of EQR is different from and does not substitute the cooling-off period required in Section 540⁶ addressing independence and familiarity threats created by long association with an audit client.
32. The PIOB also commented that Section 540 should explicitly explain the implications of the cooling-off period addressing threats to objectivity on the 7-year "time-on" period allowed with an audit client. It added that restrictions on the different key audit partner (KAP) roles allowed during that time of service should be clarified. It provided an example that an EP who has served for five years will not be able to become an EQR during the remaining "time-on" period, after which he or she will be also affected by the cooling-off period set in Section 540.

⁶ Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

IESBA Decisions

33. The IESBA acknowledged that stakeholders may have questions regarding the interaction between the cooling-off period addressing EQR objectivity in ISQM 2 and the cooling-off period required in different circumstances under the long association provisions of the Code. The IESBA considered whether guidance can be provided in the Code to clarify such interaction. After considering options and further deliberation, the IESBA determined that providing guidance in the Code without a sufficient level of detail could potentially confuse stakeholders, especially given that different scenarios can arise in practice. Conversely, including comprehensive application guidance in the Code could result in an unbalanced Code as well as alter its main purpose, moving it towards also being an implementation guide.
34. Instead, the IESBA resolved to:
- (a) Commission IESBA Staff to develop a Questions & Answers publication to explain in detail the interaction between the cooling-off period addressing EQR objectivity in ISQM 2 and the cooling-off period required under Section 540; and
 - (b) Make it clear that the cooling-off period required by ISQM 2 is distinct from, and does not modify, the partner rotation requirements in Section 540, and vice versa (see paragraphs 325.8 A4 and 540.14 A1).

V. Other Matter

Applicability of the Guidance to Professional Accountants in Business (PAIBs)

35. During its deliberations, the IESBA noted that paragraph 250.11 A6 in the Code refers to an appropriate reviewer in the context of applying safeguards.⁷ Section 250, however, applies to PAIBs only.
36. Given that Section 325 is in Part 3 and therefore applies only to professional accountants in public practice (PAPPs), the IESBA noted that it would not apply to circumstances where PAIBs use appropriate reviewers, as in paragraph 250.11 A6. The IESBA considered three options for addressing this matter:
- Option A: Develop a new section in Part 2 that would parallel the guidance in Section 325.

While this option would comprehensively address the issue of objectivity of appropriate reviewers, whether used by PAPPs or PAIBs, it would represent a significant expansion of the original scope of the project.
 - Option B: Broaden the scope of the guidance in Section 325 to cover PAIBs.

This option would require further changes to the guidance to make it applicable to both PAPPs and PAIBs. The guidance would also need to be relocated to Part 1.
 - Option C: No further action.

⁷ Section 250, [Inducements, Including Gifts and Hospitality](#), notes that an example of an action that might be a safeguard to address threats created by offering or accepting an inducement is having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the accountant with respect to the individual or organization from which the accountant accepted the inducement.

IESBA Decisions

37. The IESBA determined to go with Option C. The IESBA acknowledged that this would leave a small gap in coverage in the Code. However, as there is only one reference to appropriate reviewer in Part 2, the IESBA did not believe that there was a compelling need to develop a new Section, as under Option A, or significantly expand the guidance in Section 325 to cover PAIBs, as would be the case under Option B. The IESBA noted that in any event, the conceptual framework would remain fully applicable.
38. The IESBA considered that if Part 2 of the Code is further developed in future and there is increased guidance addressing PAIBs' use of appropriate reviewers, it would have an opportunity to develop guidance similar to Section 325 in Part 2.

VI. Effective Date

39. Some respondents to the ED have called for a period of stability, particularly with respect to the newly enhanced conceptual framework after the Revised and Restructured Code became effective in June 2019.
40. The IESBA noted that this project was a strategic commitment to respond to public interest concerns about aligning the Code with ISQM 2 in relation to the matter of EQR objectivity. Given the principles-based nature of the final provisions and the fact that they are not extensive, the IESBA does not anticipate a significant burden as regards their implementation.
41. The IESBA therefore set the effective date of the final provisions to be aligned with the effective date of ISQM 2, i.e., under Part 4A, for audits and reviews of financial statements for periods beginning on or after December 15, 2022. For Part 4B, the provisions are effective for assurance engagements beginning on or after December 15, 2022. Finally, for all other engagements within the scope of Part 3, the provisions are effective for engagements beginning on or after December 15, 2022.
42. The IESBA resolved to allow early adoption.

The *International Code of Ethics for Professional Accountants (including International Independence Standards)*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Ethics Standards Board for Accountants', *International Code of Ethics for Professional Accountants (including International Independence Standards)*, 'International Federation of Accountants', 'IESBA', 'IFAC', the IESBA logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © January 2021 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, save for where the document is being used for individual, non-commercial use only. Contact permissions@ifac.org.



**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org