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**Agenda Item
B**



Objectivity of Appropriate Reviewers

Sylvie Soulier, Task Force Chair

IESBA CAG Meeting
Virtual Meeting
September 1, 2020

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Objectives of the Session

-  To consider the significant comments raised by respondents to the January 2020 Exposure Draft (ED), [*Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*](#) and from the IESBA at the June 2020 meeting.
-  To obtain Representatives' views on the Task Force's responses and revised proposals.

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Agenda of the Session

- Exposure draft questions
- Analysis of responses
- Report back on CAG Feedback (Dec 2019)
- Feedback from IESBA June 2020 Meeting
- Section 325 – Proposed Text
- Feedback from PIOB (July 2020)
- Next steps

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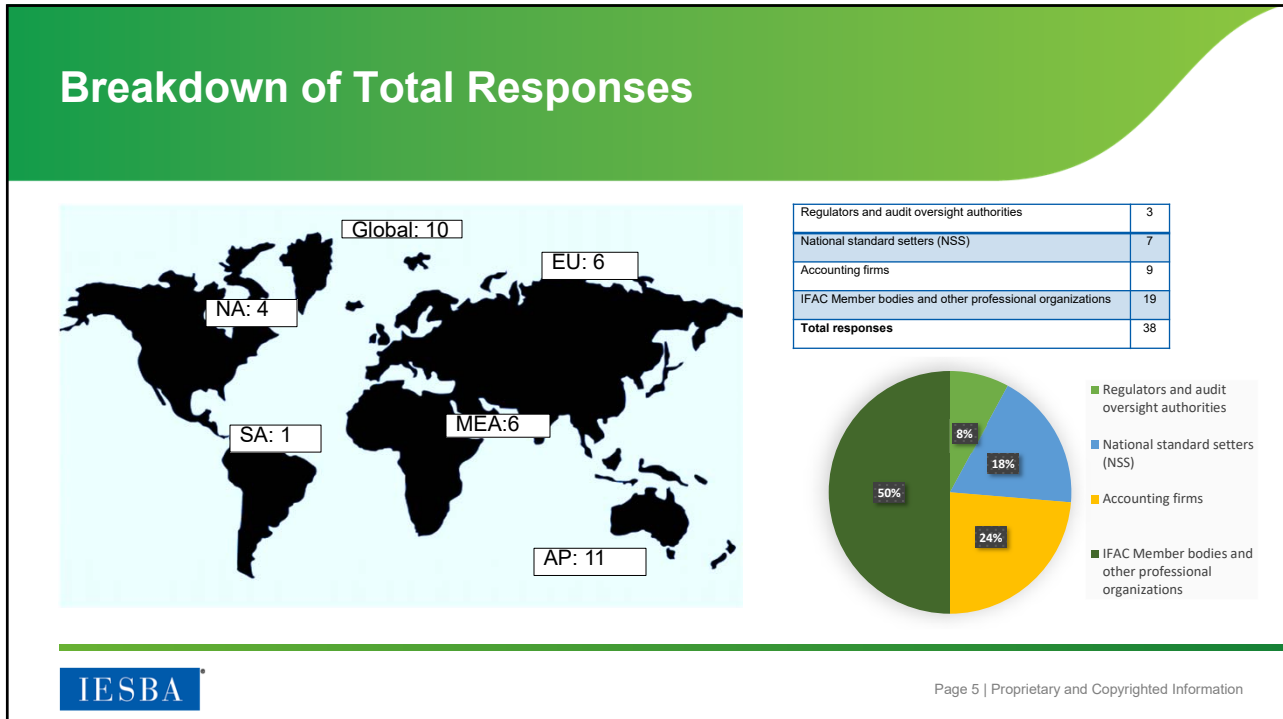
Exposure Draft Questions

- 1) Do you support the proposed guidance addressing the topic of the objectivity of an EQR?
- 2) If so, do you support the location of the proposed guidance in Section 120 of the Code?
- 3) Do you agree with the IESBA that it would be more appropriate for the International Auditing and Assurance Standards Board (IAASB) to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 and that the Code should not be prescriptive in this regard?

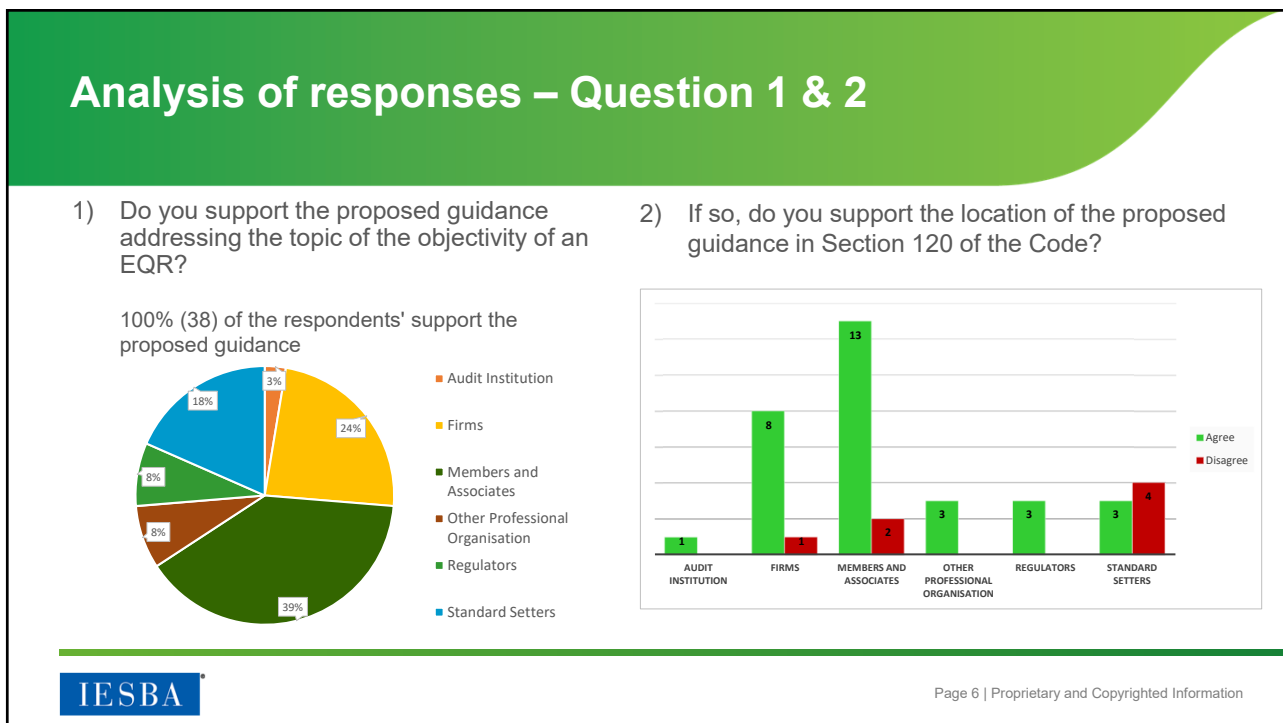


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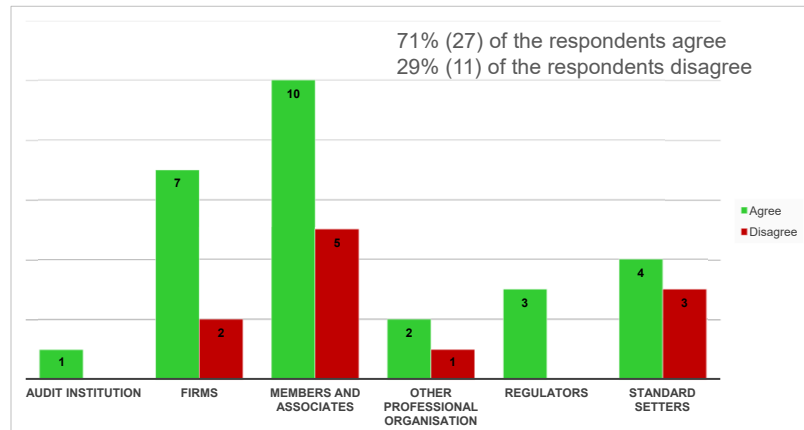
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Analysis of responses – Question 3

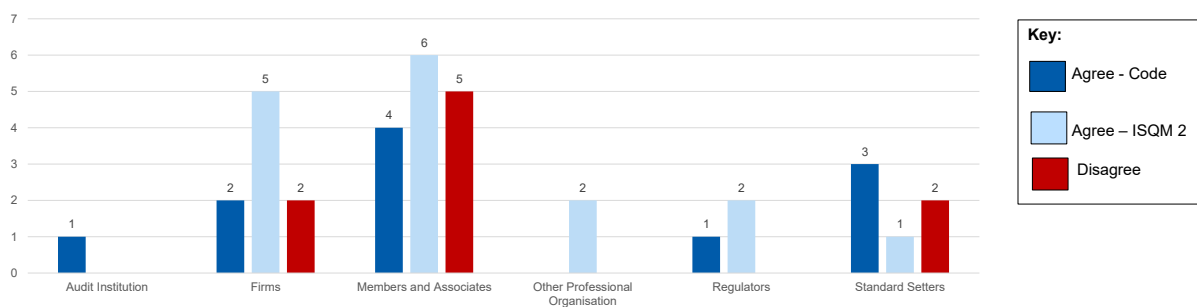
3) Do you agree with the IESBA that it would be more appropriate for the International Auditing and Assurance Standards Board (IAASB) to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 and that the Code should not be prescriptive in this regard?



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Analysis of responses – Question 3 (continued)

3) Do you agree with the IESBA that it would be more appropriate for the International Auditing and Assurance Standards Board (IAASB) to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 and that the Code should not be prescriptive in this regard?



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Analysis of responses



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Report Back from CAG (Teleconference Dec 2019)

Expressive Draft
January 2020
Comments due: March 18, 2020

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Reviewers

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Report Back from CAG (Teleconference Dec 2019)

- Location of proposed guidance in Section 120
 - Section 120 is located within the subsection addressing audit, review and other assurance engagements only
 - Recommend that the TF consider other section i.e. S300 or S400
 - Task Force Response:
 - ✓ Broadening of scope to extend to “Appropriate Reviewer”
 - ✓ New section 325 to reflect the broadening of the scope
 - ✓ Further discussion in the following slides
- Align the effective date with the effective date of ISQM 2
 - Task Force Response: aligned to ISQM 2 effective date

Exposure Draft
January 2020
Comments due: March 18, 2020

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Report Back from CAG (continued)

- Location of cooling – off requirements
 - Introduce a mandatory cooling-off requirements for PIE
 - Task Force Response:
 - ✓ ISQM 1 establishes requirements for audit engagements requiring an EQR:
 - Under proposed ISQM 1, in addition to audits of listed entities or entities that the firm determines are of significant public interest, an EQR may be an appropriate response to an assessed quality risk(s) for other engagements
 - ✓ ISQM 2 sets out:
 - the requirement for eligibility of an EQR and
 - the requirement for firms to establish policies or procedures that specify a cooling-off period as one of the actions to safeguard threats to objectivity of the EQR

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Report Back from CAG (Teleconference Dec 2019)



Do Representatives have further comments on the matters discussed?

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Feedback from IESBA June 2020 Meeting (Agenda Item B-1)

1. Location of cooling – off requirements
2. Extension of Scope of Guidance to Appropriate Reviewer
3. Section 325

Exposure Draft
January 2020
Comments Due: March 16, 2020

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Feedback from IESBA June 2020 Meeting

1. Cooling Off Requirement & Location of the Requirement

Cooling Off Requirement:

- an EQ review is a specified response to an assessed quality risk under ISQM 1
- to ensure that there is separation from an individual's previous involvement in making significant judgments on the engagement, especially for an EP moving into an EQR role on the same engagement
- firms may determine that responses other than an EQ review are appropriate to respond to assessed quality risks

Task Force Proposal:

- Consistent with ED, Code to retain a principles-based approach
- In coordination with IAASB, ISQM 2 to set a cooling-off requirement

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Feedback from IESBA June 2020 Meeting

2. Appropriate Reviewer – Broadening of Scope

The Task Force considered:

- Suggestion from respondents that consideration should be given to broadening the scope of the proposed guidance to appropriate reviewers
- Location of the ED proposal linked to para 300.8 A4 *Appropriate Reviewer*
- Concept of "Appropriate Reviewer" developed during the Safeguards project
 - o Based on extant ISQC 1
 - o Broad and principle-based
 - o Individuals from within or outside the firm
 - o Code makes clear that specific actions might be safeguards

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Feedback from IESBA June 2020 Meeting

2. Appropriate Reviewer – Broadening of Scope (continued)

Feedback from IESBA:

- Consideration of other attributes of AR are not equally being addressed
- Received input in relation to the examples of threats
- Wording suggestion to align with the structure drafting conventions in the Code
- Whether there would be a need to re-expose

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Feedback from IESBA June 2020 Meeting

3. Location - Section 325

Creation of new section 325

- broadening of the scope of the guidance to cover the objectivity of ARs
- did not consider that Section 300 would be appropriate
- appropriate reviewers might be appointed for different purpose:
 - o including to apply a safeguard (as the concept is used in the Code) or
 - o to meet a quality management objective under [proposed] ISQM 1 or
 - o other applicable quality framework (see [paragraph 325.2](#) in **Agenda Item B-2**)

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Section 325 – Proposed Text (Agenda Item B-2)


Overall consistent with exposure draft content

Principle-based and following the conceptual framework

Mirror the drafting structure in Section 310 - 360

Minor amendments to reflect respondents' comments and suggestions

Section 325
Objectivity
of
Appropriate
Reviewer



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Section 325 – Proposed Text (Agenda Item B-2)

SECTION 325
OBJECTIVITY OF APPROPRIATE REVIEWERS
Introduction

Mirror construct of Section 310 - 360

325.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.


Explains expansion of scope and link to quality management objectives

325.2 A professional accountant might appoint an appropriate reviewer to review work performed in an audit, other assurance or non-assurance engagement for different purposes, for example:

- To apply a safeguard to reduce the threats to compliance with the fundamental principles or, where applicable, to independence to an acceptable level.
- To meet a quality management objective under [proposed] ISQM 1 or other applicable quality framework.

Description of Appropriate Reviewer, previously **300.8 A4** and updated to reflect link to ISQM 2

325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an appropriate reviewer.



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Section 325 – Proposed Text (Agenda Item B-2)

Amended to reflect expansion of scope

Reference to EQR deleted due to expansion of scope and reflected in 325.2 and 325.7 A2


Application Material

General

325.4 A1 ~~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 by a firm or an individual professional accountant. Such an appropriate reviewer might be a professional accountant. An engagement quality reviewer appointed under [proposed] ISQM 2 is an example of appropriate reviewer.~~

Engagement Quality Reviews

120.14 A1 ~~Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. [Proposed] ISQM-1 establishes a firm's responsibilities for its system of quality management and requires the firm to design and implement responses to assessed quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2.~~



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Section 325 – Proposed Text (Agenda Item B-2)

Amended to reflect expansion of scope to appropriate reviewer

Identifying Threats

325.5 A1~~120.14 A2~~ Threats to compliance with the fundamental principle of objectivity might be created in certain circumstances in which an individual professional accountant is appointed as an appropriate engagement quality reviewer. The following are examples of circumstances where such threats that might be created:

- (a) Self-interest threat
 - ~~Two engagement partners~~ individuals each serving as an engagement quality appropriate reviewer for the each other's engagement.
- (b) Self-review threat
 - ~~The A professional accountant~~ serves as an engagement quality appropriate reviewer on an audit engagement after previously serving as the engagement partner, or other engagement team member.
- (c) Familiarity threat
 - ~~The An individual accountant~~ serves as an appropriate engagement quality reviewer has a long-association or close relationship with, or is an immediate family member of, an audit team member, another individual who is involved in the engagement.
- (d) Intimidation threat
 - ~~An individual The accountant~~ serves as an appropriate engagement quality reviewer for an audit engagement also has a direct reporting line to the engagement partner responsible for the engagement.



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Section 325 – Proposed Text (Agenda Item B-2)

Evaluating Threats

325.6 A1120.14 A3 ___ Factors that are relevant in evaluating the level of such threats to the objectivity of an individual being considered for appointment as an appropriate reviewer include:

Additional examples as recommended by stakeholders

- The role and seniority of the individual professional accountant.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- WhenThe length of time since the accountant individual was last a member of involved in the engagement team prior to being appointed as appropriate engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual accountant in any when previously involvement a member of in the engagement team.

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Section 325 – Proposed Text (Agenda Item B-2)

Addressing Threats

325.7 A1120.14 A4 An Eexamples of safeguards or an actions that might eliminate a safeguards to address such an intimidation threatss include is reassigning reporting responsibilities within the firm.:

Explains link to quality management objectives as per ISQM 2

- Implementing a period of sufficient duration (a cooling-off period) before the professional accountant team is appointed as engagement quality reviewer.
- Having an appropriate reviewer review specific areas of significant judgment.
- Reassigning reporting responsibilities within the firm.

325.7 A2 An example of an action that might be a safeguard to address such a self-review threats is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an appropriate reviewer. [Proposed] ISQM 2 sets out a requirement for firms to establish policies or procedures that specify a cooling-off period to address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner.

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Matters for CAG Consideration

Do Representatives agree with the Task Force's responses to the various matters summarized above on:



1. Location of cooling off requirements
2. Broadening of the scope
3. Location of Section 325

(Except for the matter of re-exposure, which the IESBA will be asked to conclude at its September meeting)

Feedback from PIOB July 2020 (Agenda Item B-1)

- Interaction of cooling-off period addressing EQR objectivity with cooling-off in Long Association provisions (Section 540)
- Cooling-off requirements should be explicit in the Code
- Coordination between the IESBA and IAASB in relation to the scope of application of a cooling-off requirement



Feedback from IOB July 2020 (continued)

Pros:

- Supports a perception of a stronger Code
- Possible benefit for jurisdictions adopting the Code only and not IAASB standards
- Facilitates stakeholders looking for all “cooling-off requirements” in one place



Cons:

- Duplication is not optimal from the coordination perspective and not so beneficial
- May suggest that the Code automatically requires cooling-off as the default response to any threat to objectivity
- Overemphasizes the matter of cooling-off of EQR over the objectivity of ARs in general

Paragraph 325.7 A2 (Agenda Item B-2)

Addressing Threats

325.7 A1 420.14 A4 ~~An E~~ Examples of safeguards or an actions that might eliminate a safeguards to address such an intimidation threatss includeis reassigning reporting responsibilities within the firm.:

- ~~Implementing a period of sufficient duration (a cooling-off period) before the professional accountant team is appointed as engagement quality reviewer.~~
- ~~Having an appropriate reviewer review specific areas of significant judgment.~~
- ~~Reassigning reporting responsibilities within the firm.~~

Explains link to quality management objectives as per ISQM 2

325.7 A2 An example of an action that might be a safeguard to address such a self-review threats is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an appropriate reviewer. [Proposed] ISQM 2 sets out a requirement for firms to establish policies or procedures that specify a cooling-off period to address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner.

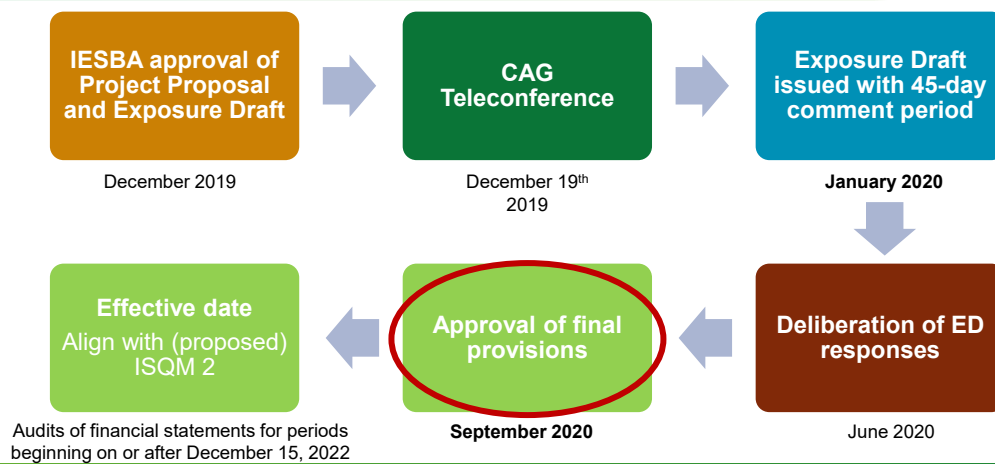
Feedback from IOB July 2020



Do Representatives agree with the Task Force's responses to IOB comments?

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Next Steps



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