

Objectivity of Engagement Quality Reviewer

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IESBA CAG Teleconference
December 19, 2019

ISQM 2: Questions Included in Exposure Draft

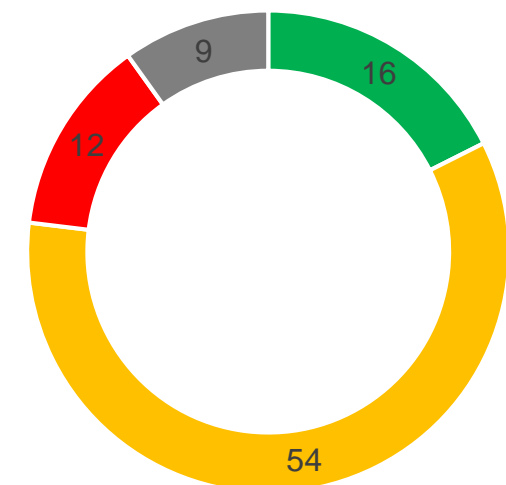
- Q4(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

- Q4(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

ISQM 2: Responses to Q4(a)

What the IAASB Heard:

- Need for a cooling-off period requirement in ISQM 2 or in the IESBA Code.
- Flexibility of cooling-off period depending on the nature and circumstances of the engagement.
- Guidance on cooling-off period in paragraph A5 of ED-ISQM 2 would become a de facto requirement.
- More guidance consistent with the provisions of the IESBA Code will be needed to drive consistent implementation.
- Some apparent confusion about whether the IESBA Code already addresses this particular cooling-off circumstance.

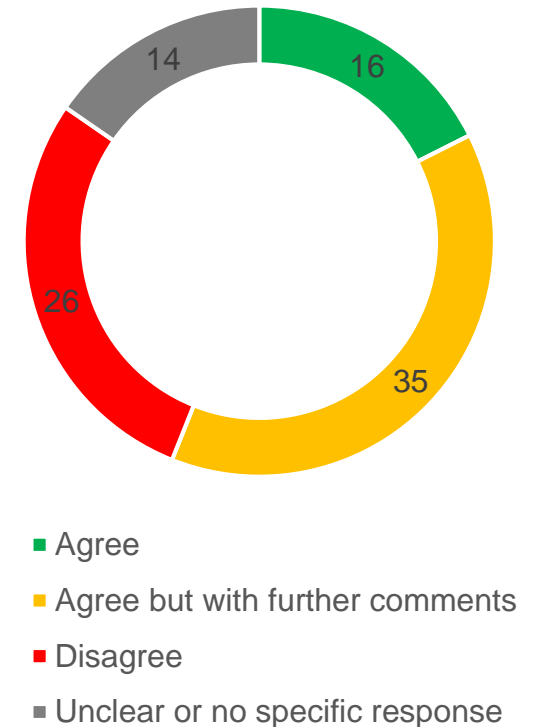


- Agree
- Agree but with further comments
- Disagree
- Unclear or no specific response

ISQM 2: Responses to Q4(b)

What the IAASB Heard

- Comments on the location of any guidance (or requirement) for a cooling-off period for an individual moving into an EQ reviewer role were about evenly split between a preference for ISQM 2 or the IESBA Code.
- Comments that a cooling-off period should be addressed in ISQM 2 in the absence of a requirement in the IESBA Code.
- Some views that that the guidance could reside in either location as long as appropriate cross-references were provided, while others noted no harm in having the guidance in both places.



IAASB Considerations

Agenda Item A1

Proposed Application Material on EQR Objectivity

- Acknowledgement of strong support from respondents for a mandatory cooling-off period
 - View that when an individual steps into an EQ reviewer role after having served as the EP, no safeguards or other actions would eliminate the threats or reduce them to an acceptable level

Explicit “Cooling-Off” Period

- Whether a requirement for a specified cooling-off period should be in the Code or ISQM 2?
- Whether the scope should include listed entities, public interest entities (PIEs), all audited entities, or even more broadly all entities subject to an assurance engagement, for which an EQ review is required or for which the firm determines an EQ review is an appropriate response to assessed quality risks?

IESBA Representatives: Feedback to ISQM 2 TF

Proposed New Application Material on EQR Objectivity

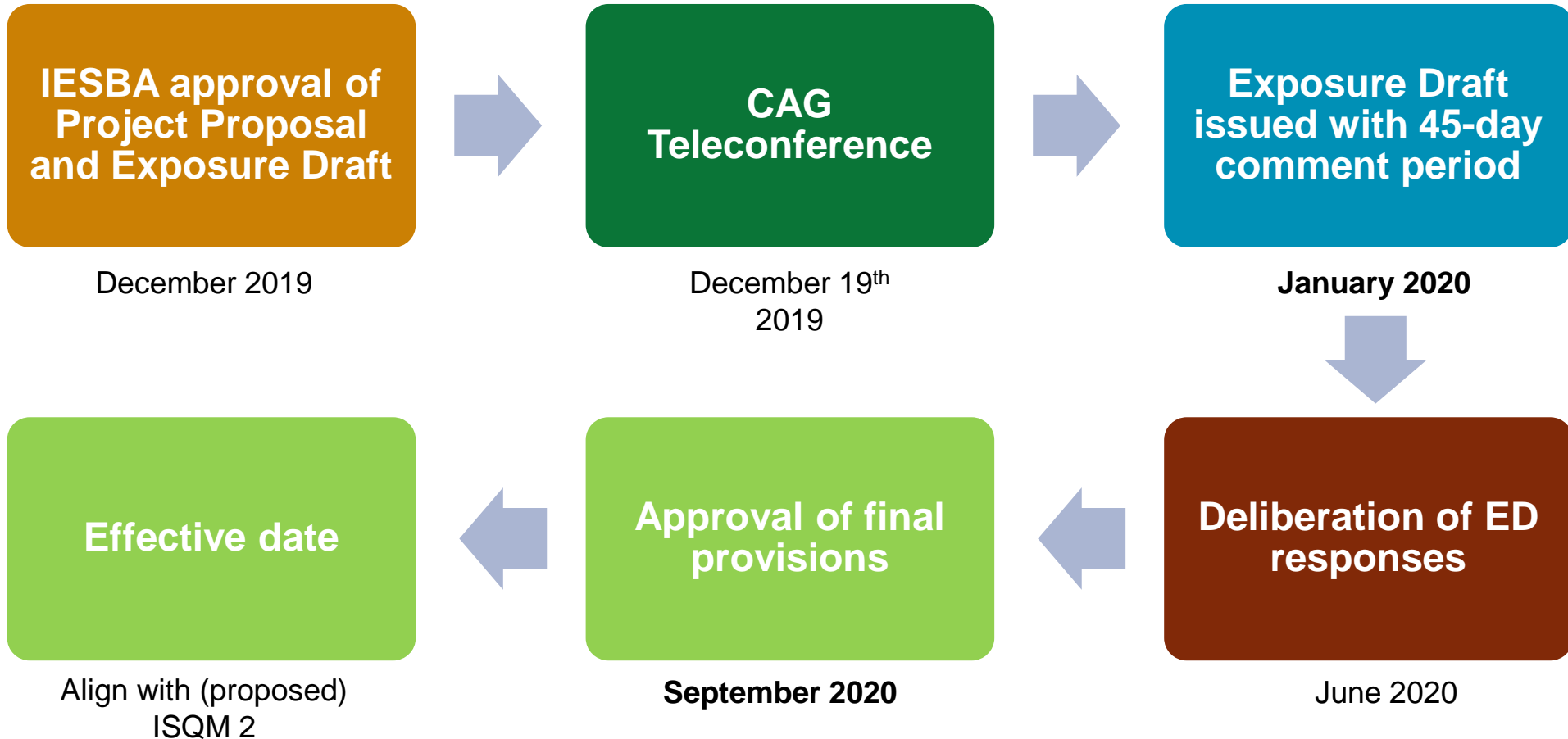
- Present a holistic approach to identifying, evaluating and addressing threats, consistent with conceptual framework
 - Code does not have a dedicated EQR section
- ⇒ Propose adding application material at end of Section 120 to describe:
- The different types of threat that might be created when an individual is appointed EQR immediately after having served on the audit engagement team
 - Factors that are relevant in evaluating the level of such threats
 - Actions that might be safeguards to address the threats

IESBA Representatives: Feedback to ISQM 2 TF

- IAASB to establish in proposed ISQM 2:
 - Whether a cooling-off requirement should be introduced, following the proposed guidance set out in Section 120
 - If so, what the minimum cooling-off period and the scope of the requirement should be, and to whom it should apply

The firm's policies or procedures established in accordance with paragraph 16(b) shall address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies and procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer

Proposed Accelerated Project Timeline



Matters for CAG Consideration

Proposed Application Material on EQR Objectivity

1. Do Representatives agree with the proposed application material to address the issue of EQR objectivity?
2. Do Representatives agree with the proposed placement of the new application material in Section 120?

Explicit “Cooling-Off” Period

3. Do Representatives agree that it would be best to leave it to IAASB to address the need for a specific cooling-off period in ISQM 2, based on the guidance in the Code aligned to the conceptual framework?



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