

**Long Association—  
Comparison of the Roles of the EQCR and the EP**

1. The nature of an engagement quality control review and the role and responsibilities of, and provisions pertaining to, the Engagement Quality Control Reviewer (EQCR) in professional standards are established in ISQC 1.<sup>1</sup>
2. The engagement quality control review is a process designed to provide an objective evaluation, before the report is released, of the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report. It is one part of a system of quality controls that the firm must establish in order to provide the audit firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.
3. Firms are required to establish an engagement quality control review process for all audits of financial statements of listed entities, and other audits and reviews of historical financial information and other assurance and related services engagements, if any, where the firm has determined that an engagement quality control review is appropriate.<sup>2</sup>
4. The role of the EQCR includes the following responsibilities:
  - (a) Discussion of significant matters with the Engagement Partner (EP);
  - (b) Review of the financial statements or other subject matter information and the proposed report;
  - (c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
  - (d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.<sup>3</sup>
5. The EQCR responsibilities also include consideration of:<sup>4</sup>
  - (a) The engagement team's evaluation of the firm's independence in relation to the specific engagement;
  - (b) Whether appropriate consultation has taken place on matters involving differences of opinion, or other difficult or contentious matters, and the conclusions arising from those consultations; and
  - (c) Whether documentation selected for review reflects the work performed in relation to the significant judgments, and supports the conclusions reached.

These responsibilities do not necessitate the EQCR having contact with the client and the client does not need to know who the EQCR is. Instead, the EQCR's role is to perform an internal quality control review function for the audit firm in respect of audit engagements. This means

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<sup>1</sup> 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*, paragraphs 35 to 43

<sup>2</sup> ISQC 1, paragraph 35

<sup>3</sup> ISQC 1, paragraph 37

<sup>4</sup> ISQC 1, paragraph 38

the EQCR will gain a level of familiarity with the issues in the audit engagement but will not usually have any familiarity with the client's management or those charged with governance.

6. The definition of an EQCR in the Code is consistent with the definition in ISQC 1:<sup>5</sup>

A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgments the engagement team made and the conclusions it reached in formulating the auditor's report.

This definition establishes the important criterion that the EQCR is not a member of the engagement team.

#### *The Role of the EP*

7. In contrast, the role of the EP is distinctly different from that of the EQCR. The role of the EP is described in ISA 220. The definition of an EP is as follows:<sup>6</sup>

The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

8. In addition, the EP is required to take responsibility for the overall quality on each audit engagement.<sup>7</sup> If matters come to the EP's attention through the firm's system of quality control that indicate that members of the engagement team have not complied with relevant ethical requirements, the EP determines what action should be taken.<sup>8</sup>
9. In contrast to the role of the EQCR, the EP is responsible for every part of the audit engagement, and has a significant degree of client contact to enable the EP role to be fulfilled. The EP will therefore gain familiarity over the years with the issues and subject matter of the audit engagement and also the client's management and those charged with governance. The EP is the individual in the firm who has the most influence on the outcome of the audit. The greater accountability and heightened public interest role of the EP is also evidenced in auditing standard proposals in various jurisdictions, including in revised ISA 700 to require the disclosure of the EP's name in the audit report for audits of financial statements of listed entities.<sup>9</sup> This evolution in audit reporting has been led by objectives, among others, of increased accountability and transparency leading to better investor protection as well as user confidence in audit reports and financial statements. This means shareholders and investors may know who the EP is, but will not know who the EQCR is.

#### *Differences of Opinion between the EQCR and the EP*

10. ISQC1<sup>10</sup> requires that firms have policies and procedures to address any differences of opinion that might arise between the EP and the EQCR. These provisions do not give the EQCR power to overrule the decision of the EP, or vice versa. They are therefore neutral in terms of differences between the two roles.

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<sup>5</sup> ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 7(c)

<sup>6</sup> ISA 220

<sup>7</sup> ISA 220, paragraph 8

<sup>8</sup> ISA 220, paragraph 10

<sup>9</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 45 and A56-58

<sup>10</sup> ISQC 1, paragraph 43

*The Explanatory Memorandum's (EM's) Rationale for the EQCR's Cooling-Off Period Remaining at Two Years*

11. The rationale for the proposal to extend the cooling-off period for only the EP was set out in the EM and was grounded in an analysis of the differences between the EP and EQCR roles, as described above. The Board considered that the perception of familiarity and self-interest threats was so much greater with the EP that it was therefore in the public interest to extend the cooling-off period for the EP.
12. The EM stated that “The IESBA also considered some stakeholder feedback that the longer cooling-off period should apply to the EQCR, as the EQCR plays an important role in an audit. While the IESBA agrees that the role of the EQCR is important, it concluded that the nature of the EQCR role gives rise to different threats to independence. The EQCR does not participate in the engagement or make decisions for the engagement team. In practice, the EQCR does not meet the client. The work of the EQCR is akin to an independent internal quality control process. Furthermore, any consultation between the engagement partner and the EQCR (e.g., on matters of judgment) is not intended to be so significant that the EQCR's objectivity is compromised.”
13. The Code already requires KAPs serving PIEs, including the EP and EQCR, to be subject to rotation as all KAPs have important roles on the audit engagement as they make key decisions or judgments on significant matters with respect to the audit of financial statements on which the firm will express an opinion. It is therefore important and in the public interest that KAPs be required to rotate and that a sufficient period of time be required to ensure a “fresh look” by the incoming partner.
14. Before issuing the ED, the Board had considered the possibility of having different cooling-off periods for different types of KAPs. The feedback from its e-survey of stakeholders including standard setters, audit committees, regulators and professional accountants (which yielded over 400 responses) and from other consultation showed that stakeholders supported the premise that the significance of any threats created very much depends on the role of the individual. The role of the individual in turn impacts the significance of the familiarity and self-interest threats that can be created.
15. When asked the question in the e-survey, 78.7 percent of respondents indicated that the EP should be subject to rotation because the threats to independence that would be created by the EP's long association with the audit client are so significant. However, the percentage which considered that the EQCR should be subject to rotation requirements at all was significantly lower at 57 percent, supporting the view that the roles are different in nature and the threats to independence that may be created by each are also different.
16. Survey respondents were also asked what they thought the cooling-off periods should be for the EP and the EQCR and the results were as follows, which also demonstrate a perception that the roles may be treated differently:

Proposed cooling-off period	None	1 yr.	2 yrs.	3 yrs.	4 yrs.	5 yrs.	Other
EP	9.5%	5.1%	26.6%	30.1%	5.4%	19.6%	3.8%
EQCR	13.5%	6.9%	30.4%	29.1%	3.1%	13.5%	3.5%

17. The Task Force also considered different jurisdictional requirements when it undertook a benchmarking exercise in 2013. From its benchmarking of 82 jurisdictions, the IESBA noted

that 39% of the 82 jurisdictions surveyed solely followed the audit partner rotation provisions of the Code, whether through laws and regulations or through the application of their member body ethical Code. The other 61% of the jurisdictions surveyed, while following the requirements of the Code as a baseline, had implemented stricter audit partner rotation laws and regulations in some way or another for listed companies and/or other PIEs. Two-thirds of these jurisdictions (about a third of the total survey sample) had laws or regulations which implemented stricter requirements only for the EP, either because they did not provide any rotation requirements for the EQCR, or because they had lesser requirements for the EQCR than the EP (either a longer time-on or shorter cooling-off). Notably in the European Union, rotation of the EQCR is not required as the EQCR is not regarded as a KAP. The research showed that EQCRs are subject to different rotation requirements in several jurisdictions, from which it is reasonable to conclude that this is as a result of the different nature of the roles and potentially the perception that the relationship between the EQCR and the audit engagement will create a less significant threat to independence.

18. Many stakeholders supported the Board's views that the independence and familiarity threats created by the long association of the EQCR are less significant than with respect to the EP. The IESBA also received some important stakeholder feedback that the longer cooling-off period should apply to the EQCR, as the EQCR plays an important role in an audit. While the IESBA agreed that the role of the EQCR is important and should continue to be subject to rotation, it concluded that the nature of the EQCR role and the relationship of the EQCR with the audit engagement gives rise to less significant threats to the independence of the audit, and that the public interest was better served by focusing on making the requirements for the EP stricter.

*Summary of Differences between the EQCR and the EP Regarding the Familiarity Threats created by the Long Association with an Audit Client*

19. The following table summarizes the key differences between the roles of the EQCR and the EP and their respective familiarity with the client and its financial information. The information is derived from the analysis of the roles of the EQCR and the EP.

Role and Familiarity with:	Client	Financial information
EP	High level of contact with senior management and TCWG  Leader of the engagement team with overall responsibility for the audit engagement.	High level of familiarity with financial and other information about the Client  Responsibility for all judgments made.
EQCR	Little, if any contact with the client's management and TCWG.  Not part of the engagement team.	Quality control – significant judgments only.