

**ISQM 2 – Question 4(b): Location of the Guidance (or Requirement) – Disagree**

Question 4(b) in the EM to ED-ISQM 2 asked respondents:

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

**3 Regulators and Oversight Authorities****84\_ISQM 2\_NASBA**

Yes, if more guidance is provided regarding a “cooling off” period, we believe it should be included in the IESBA Code and linked with proposed ISQM 2, rather than including this directly in ISQM2.

**4 National Auditing Standard Setters****10\_ISQM 2\_AICPA**

No, we believe both the guidance and any requirement for a cooling off period should be maintained within the IESBA Code. However, if guidance is retained within this standard, we believe it should be limited to illustrative examples as demonstrated in our response above.

**11\_ISQM 2\_AUASB**

*Guidance regarding a “cooling off” period should reside in the IESBA Code*

The AUASB strongly recommends that all guidance relating to the independence and objectivity of the Engagement Quality Reviewer (EQR) should reside in the IESBA Code as it already addresses these matters. Specifically the inclusion of alternative guidance regarding “cooling-off” periods in ISQM 2 increases the risk of inconsistent application and increases complexity for practitioners who may need to consider two different sources when addressing this issue. The AUASB recommends that the application material in ISQM 2 relating to any “cooling-off” period of the (EQR) should be removed from this standard and a reference to the IESBA code instead be considered (if this application guidance is to be retained).

The AUASB strongly recommends that all guidance relating to the independence and objectivity of the EQR should reside in the IESBA Code as it already addresses these matters. The inclusion of alternative guidance regarding “cooling-off” periods in ISQM 2 increases the risk of inconsistent application and increases complexity for practitioners who may need to consider two different sources when addressing this issue.

**17\_ISQM 2\_IDW**

We believe that since rotation requirements are located in the part of the IESBA Code relating to independence for audits and reviews, cooling-off periods, if any, should also be included in the Code and therefore not in ISQM 2.

**20\_ISQM 2\_MAASB**

We see no need for the specific guidance in ISQM 2 on a “cooling-off” period for that individual before being able to act as the engagement quality reviewer as it is dealt with in the IESBA’s Code.

Not applicable

## 21\_ISQM 2\_NZAASB

The NZAuASB is concerned that the IAASB has extended well beyond its mandate in establishing ethical provisions in the proposed ED. Further, the NZAuASB is concerned that the IAASB's interpretation of the IESBA long association provisions (1) are inconsistent with those provisions and (2) establish de facto requirements. The NZAuASB is strongly opposed to the inclusion of this guidance in the final ISQM 2 and urges the IAASB to leave the application of the IESBA Code to the IESBA to develop guidance as appropriate.

The basic tenet underlying the IESBA Code is that professional accountants (or their firms, as applicable) comply with the fundamental principles, including independence, and apply the conceptual framework. That conceptual framework requires the professional accountant to identify, evaluate and address threats to the fundamental principles and independence.

In its long association project, the IESBA considered the familiarity and self-review threats and related safeguards and included examples and guidance where a partner may change roles during the "time on" period. This explicitly caters for an engagement partner moving between the role of the engagement partner and the engagement quality review role. The NZAuASB therefore does not consider that it is within the mandate of the IAASB to evaluate the threats and safeguards in a different way than that assessed by the IESBA.

In addition, the IESBA's rotation rules apply to public interest entities and the IAASB's proposed application material relates to listed entities. This is inconsistent with the IESBA Code and is likely to add to the confusion and complexity by applying multiple rules from multiple sources.

The cooling off period for the engagement partner moving to the role of the engagement quality review role cannot be considered in isolation but must be considered in combination with the already complex requirements of the IESBA Code.

The NZAuASB adopted the revised long association requirements of the revised and restructured IESBA Code in order to align with international requirements but raised significant concerns with the IESBA when these proposals were developed. In New Zealand, these new rules have created significant supply pressures on New Zealand auditors.

The NZAuASB therefore has even further concerns that the IAASB is now adding additional cooling off "requirements" in its standards. We strongly disagree that this application material will not result in de facto requirements because if the two year cooling off period is not followed, this will be questioned by regulators. This will add complexity and confusion to an already complex area as well as increase the supply pressure on eligible engagement quality reviewers even further.

The NZAuASB is not supportive of the guidance in paragraph A5 and urges the IAASB to defer the application of the IESBA Code to the IESBA to develop guidance as appropriate.

## 22\_ISQM 2\_NBA

We do not agree. We think that it is more appropriate to deal with this matter in the IESBA Code.

## 5 Accounting Firms

### 28\_ISQM 2\_D TTL

D TTL recommends that guidance regarding a "cooling-off" period be located in the IESBA Code. In addressing the long association of personnel with an audit or assurance client, the Code is already focused

on matters regarding familiarity and self-interest threats, which may affect an individual's objectivity and professional skepticism. Inclusion of guidance within the Code regarding a "cooling-off" period before being able to act as an engagement quality reviewer would provide a consistent source of authoritative guidance.

### 30\_ISQM 2\_ETY

But we think it should be included in the IESBA Code as for the engagement partner rotation requirement for harmonization and consistence purposes.

### 31\_ISQM 2\_EYG

No, we believe that this guidance should be located in the IESBA Code because the cooling-off period is relevant to the engagement quality reviewer's compliance with the IESBA Code's fundamental principle of objectivity. Because we see the objectivity of the EQR as an ethical matter, we believe it should be remanded to IESBA to revise the Code as appropriate. However, we believe that it is important that close coordination occur between IAASB and IESBA such that this topic is addressed in a manner that is consistent with the objectives of ISQM 2 and the Code. Also, we believe it is important to align the effective dates of the relevant revisions to the Code with that of ISQM 2 to the extent possible.

It is also appropriate to relocate this guidance to the IESBA Code because we believe that the long association provisions for the engagement partner in the IESBA Code may otherwise be interpreted to allow for the appointment of an engagement quality reviewer that served as the engagement partner in the prior period. The requirement for a cooling-off period before an engagement partner can be appointed as an engagement quality reviewer would be an important caveat for firms to take into account when applying the long association provisions that address changes in the roles of key audit partners on audit engagements. Relocating the guidance to the IESBA Code would also avoid establishing requirements that are contradictory to the cooling-off provisions established by IESBA, which could exceed two years depending on how long the individual served as lead audit engagement partner.

### 32\_ISQM 2\_GTIL

We are supportive of preserving the objectivity of the EQ reviewer and of a requirement for firms to establish policies or procedures that put in place threats to safeguard the objectivity of the EQ reviewer. However, we do not support the guidance included in paragraph A5 of ED-ISQM 2 in relation to the establishment of a cooling off period. In our view such matters should be dealt with by the IESBA not by the IAASB.

### 41\_ISQM 2\_NSW

We consider that, as this is ethical guidance, it should be located in the IESBA code with a cross-reference from ISQM 2.

### 44\_ISQM 2\_PwC

We also support the concept of a "cooling off period", and agree that threats to objectivity may arise where such a period is not adopted. However, we believe the matter should be addressed by the IESBA within the Code of Ethics.

In addressing the matter, we suggest the IESBA should establish a principle that ordinarily, in the case of an audit of financial statements, an engagement partner would not be able to act as the engagement quality reviewer until two subsequent audits have been conducted. In that respect, we do not agree with the limitation to audits of listed entities in paragraph A5. If a firm has determined that an EQR is required or is an appropriate response to an identified quality risk for an engagement in accordance with ISQM 1, the principle should apply. A threat to objectivity is not determined by, or restricted to, entities of a specific type.

In addressing the matter in the Code of Ethics, we do, however, support the position adopted in proposed ISQM 2 that this principle be addressed through the firm establishing policies and procedures that address eligibility. In addressing the matter, we consider it important that the IESBA reflect on whether there are circumstances, in particular in the context of smaller practitioners, where there may be potential risks to quality from mandating a minimum specific period. Whilst we anticipate this situation to be rare, it would not seem to be in the public interest that there may be circumstances when a compliant audit could not be performed because it is not possible to identify an engagement quality reviewer who could meet this criterion. We suggest that the IESBA be asked to consider whether there are additional safeguards that can be put in place in these rare circumstances.

## **6 Public Sector Organizations**

### **50\_ISQM 2\_OAGNZ**

We believe the primary location for this “cooling-off” guidance should be in the IESBA code. However, we believe that the proposed standard should make specific reference to the IESBA code requirements over and above the references to compliance with “relevant ethical requirements”.

Apart from the need to keep the proposed standard up-to-date if the IESBA code changes, we do not see any reason why the relevant IESBA code requirements could not be replicated in the proposed standard, or why the proposed standard could not set out a minimum cooling off period for individuals who served as the previous engagement partner becoming the engagement quality reviewer.

In this sense, we think paragraph A5 in the proposed standard should be enhanced so that it is more precise in this regard.

## **7 Member Bodies and Other Professional Organizations**

### **56\_ISQM 2\_AE**

Additionally, we think matters relating to cooling off periods are better suited to be included in the IESBA Code of ethics. IESBA’s mandate includes independence, and this should remain as is, we do not think that there is any need for duplication in the IAASB’s suite of standards and could even create precedent. Of course, this would not prevent the IAASB from providing examples in a document alongside the standard (Frequently Asked Questions or similar).

### **57\_ISQM 2\_APESB**

Refer response to question 4(a) above. APESB does not support the inclusion of this guidance in ED-ISQM 2.

### **60\_ISQM 2\_CAI**

We are of the view that any guidance issued should be in the IESBA code and cross-referenced in ISQM2 as the IESBA code is the primary document dealing with threats to integrity, objectivity and independence.

### **63\_ISQM 2\_CAAZ-ACCA**

The detail of those ethical requirements should be located in the IESBA Code, including requirements in relation to cooling-off periods required to maintain independence.

#### 66\_ISQM 2\_CPAA

We do not support inclusion of a cooling off period as this is addressed in the Code of Ethics issued by IESBA.

Response: N/A

#### 67\_ISQM 2\_EXPERT

However, in our opinion, this guidance should be located in the IESBA Code of Ethics as the IESBA Code should remain the only reference document regarding independence regulation and there is no need to duplicate such requirements in another standard.

#### 69\_ISQM 2\_FACPCE

We think that prescriptions on “cooling-off” periods should be located in the IESBA Code, instead of the ISQM 2, where a reference to the IESBA Code should be made.

#### 75\_ISQM 2\_ICAP

Based on our above response to question 4 (b), we do not support the inclusion of guidance in proposed ISQM2.

#### 76\_ISQM 2\_ICAS

However, we believe that guidance on the determination of this “cooling off” period, would be better located in the IESBA Code of Ethics. As the scope of IESBA’s mandate encompasses independence, we do not believe that there is any need for duplication in the IAASB’s suite of standards.

#### 83\_ISQM 2\_MICPA

Such guidance should be located in IESBA Code.

#### 86\_ISQM 2\_NRF

Since the cooling-off period is intended to address threats to objectivity, this should be dealt with within the Code of Ethics and not within the ISQM 2.

We refer to the above.

#### 89\_ISQM 2\_WPK

Provisions or guidance regarding the cooling off **should only be allocated in the IESBA Code of Ethics corresponding to the mandate of IESBA**. A repetition of provisions or guidance would not have positive impact on audit quality. If the guidance regarding the cooling off would be in line with the IESBA Code of Ethics no additional guidance is deemed necessary. Otherwise it would confuse the individual, the oversight and the public interest.

Assurance matters should be included in the IAASB Handbook and ethical matters should be in the IESBA Handbook. Repetition should be avoided. Cross referencing and aligning the terminologies is of high relevance and importance.