

**ISQM 2 – Question 4(a): Need for a Cooling-Off Period and Related Guidance Thereon – Agree but with further comments**

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

*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?*

**1 Monitoring Group****03\_ISQM 2\_IFIAR**

While the application material relating to objectivity refers to a minimum cooling off period of 2 years or more if local regulations are more stringent, the exposure draft would be enhanced if the requirements set this out as a criteria for EQ reviewers of listed and/or public interest entities.

**04\_ISQM 2\_IOSCO**

Cooling off periods for individuals who served as engagement partners (as contained in ISQM 2; paragraph A5) need to be reflected properly – especially in cases of listed entities.

**3 Regulators and Oversight Authorities****07\_ISQM 2\_FRC**

We believe that a "cooling-off" period is critical to audit quality in safeguarding objectivity and is therefore in the public interest. In that regard, we would support a requirement that defines an appropriate period that an individual who had previously been involved in the audit, including in the role of the engagement partner, would not be eligible to fill the role of the EQ reviewer. Whilst we recognise that the requirement in paragraph 16, and the application material in A5, together encourage firms to determine an appropriate period, leaving such a decision solely to firms may result in inconsistencies across practice which is not in the public interest.

**08\_ISQM 2\_IRBA**

In the absence of the IESBA addressing issues related to cooling-off in the IESBA Code, we recommend that the cooling-off guidance included in paragraphs A5 and A14 be elevated to a requirement in ISQM 2.

A further question to consider is whether the cooling-off period for a transition from being an EQR to an engagement partner, or vice versa, should be the same for PIEs (as defined) and non-PIEs. The IESBA Code does not generally see this in the same light, i.e. it has different requirements for the auditors of PIEs versus the auditors of non-PIEs. Additionally, the IESBA Code requires the firm to consider all individuals that may require a rotation period (R540.4). This may seem like a provision that needs to include, specifically, the eligibility of the various roles related to the engagement.

**09\_ISQM 2\_IAASA**

We would also support the inclusion (in paragraph 16) of a cooling-off period for both the engagement partner and senior audit staff before they are permitted to assume the role of engagement quality reviewer for an engagement.

## 84\_ISQM 2\_NASBA

We believe a “cooling off” period should be required. The guidance regarding a “cooling off” period for an individual before being able to act as the engagement quality reviewer is presented as application guidance. More guidance and specificity are needed in order to avoid inconsistencies.

## 4 National Auditing Standard Setters

### 12\_ISQM 2\_CAASB

Canadian stakeholders expressed some concern with the cooling-off period proposed in ED-ISQM 2. Canadian stakeholders agree that a cooling-off period is appropriate for audits of listed companies. However, in some cases in smaller firms or engagements other than audits of listed entities, continuity of knowledge can contribute to the overall quality of an engagement. Requiring a cooling-off period may result in the loss of knowledge of the client or of specialized technical areas and could have a detrimental effect on engagement quality. Paragraph 28 of the EM indicates that the firm may determine that no cooling-off period is necessary for certain types of engagements. However, this is not clear in the standard. ED-ISQM 2, paragraph 16 indicates that the firm shall establish limitations on the eligibility to be appointed as EQR. This suggests that there must always be a cooling-off period.

Further, paragraph A5 states that “an individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual’s objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level.” Although this paragraph is application material, the wording “is not likely” sounds very much like a requirement.

We suggest the following revisions to address the above concerns:

16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that, where appropriate, include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner.
- A5. An individual who has served as the engagement partner ~~is not likely to~~ may not be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because ~~it is not likely that~~ the threats to the individual’s objectivity with regard to the engagement and the engagement team ~~can~~ may not be able to be reduced to an acceptable level. ... Accordingly, this ISQM requires the firm to establish policies or procedures that limit, where appropriate, the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation or relevant ethical requirements. In the case of an audit of financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted. For engagements other than audits of listed entities, the firm may determine that no cooling-off period is necessary, or the firm’s policies or procedures may specify a different cooling-off period.

### 15\_ISQM 2\_CFC

We believe a cooling off period is a good principle to be stability however we do not support a prescriptive number of years (i.e. two years for example) since this should vary depending on the nature of the engagement and the firm.

## 16\_ISQM 2\_HKICPA

We agree ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue of "cooling-off" period. However, we would recommend more guidance, in addition to paragraph A5 to help support consistent application in practice.

## 19\_ISQM 2\_KSW

We are supportive of the concept of a "cooling off" period. However we appreciate more guidance which facts and circumstances should be taken into account when determining a suitable cooling-off period.

## 5 Accounting Firms

### 23\_ISQM 2\_BTI

We believe that the IAASB is being naïve in its contention in the explanatory memorandum that including the two-year cooling off period in the application material will mean that this will not become a de facto cooling off requirement. In our experience, this sort of application material often becomes an expectation from regulators and others.

It is disappointing that the IAASB wishes to "place the onus on the firm" to address this issue. Therefore, if the IAASB believes that such a cooling off period is appropriate, and we agree that such a requirement is reasonable, then the Board should be bold enough to include this in the requirements. As it currently stands, it will be difficult to achieve consistent application of the standard in this regard.

### 25\_ISQM 2\_BDO

While we are supportive of the requirement in paragraph 16 that the firm shall establish policies that include limitations on the eligibility of an individual to be appointed as an engagement quality reviewer for an engagement on which the individual previously served as engagement partner, we note the following:

- We agree with the guidance in paragraph A5 on why a 'cooling-off' period is necessary, although using the term 'not likely' in the first sentence seems to leave an opening for not having a cooling-off period at all (which is confirmed in paragraph 28 of the ED-ISQM 2 Explanatory Memo). For engagements where an objective engagement quality review is considered necessary, we cannot envision a situation where it would be appropriate to have no cooling-off period. If the IAASB wants to allow this possibility, perhaps there should be wording in the application guidance that states that no cooling-off period would be extremely rare.
- As use of the word 'previously' leaves the determination of the exact length of the cooling-off period up to the firm (for non-listed entity audits), this may be an area where the IAASB may want to consider providing clearer implementation materials for firms.
- We support the rest of the guidance on the cooling-off period in paragraph A5, including the 2-year period for listed entities although we note that that there is a risk that the 2-year cooling-off period (which is similar to PCAOB AS 1220) within the application guidance will become a rule of thumb or may be seen as a presumptive requirement.

### 26\_ISQM 2\_CASI

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.

## 27\_ISQM 2\_CHI

Guidance is needed to assist firms in applying the policies and procedures that will be required to design and implement ED-ISQM 2. We agree that a cooling off period is appropriate for listed and certain other types of public interest entity engagements. Guidance will assist firms in determining the appropriate length of a cooling off period that upholds the public interest, as well as determining the type of engagements to which there need be no cooling off period or a short period.

## 28\_ISQM 2\_DTTL

DTTL is supportive of the new requirement for firms to establish policies or procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner, as well as the related application material indicating that such limitations may be accomplished by establishing a specified “cooling-off” period during which the individual is precluded from being appointed as the reviewer.

We believe it is appropriate for the firm to determine the “cooling-off” period rather than one being prescribed by either the IAASB or IESBA.

With respect to determining the “cooling-off” period, we are supportive of the flexibility provided in ED-ISQM 2, specifically the guidance provided in paragraph A5 indicating that determination of a suitable “cooling-off” period depends on the facts and circumstances of the engagement (and applicable provisions of law or regulation or relevant ethical requirements). DTTL recommends further emphasizing this flexibility by including in the application material language from paragraph 28 of the Explanatory Memorandum to ED-ISQM 2 indicating that for certain types of engagements the firm may determine that no “cooling-off” period is necessary, or that the firm’s policies or procedures may specify a different “cooling-off” period.

## 29\_ISQM 2\_DTL

We agree that a cooling-off period is required, and we feel this requirement should be strengthened. Our proposal would be to include some sort of ‘third-party’ rule, much like the UK’s FRC ethical standard on independence. An EQR, we feel, should be as independent as reasonable to be able to give an objective view of significant judgements and matters.

## 31\_ISQM 2\_EYG

We support inclusion of guidance regarding a “cooling-off” period before certain individuals can act as the engagement quality reviewer because such guidance is appropriate to support objectivity; however, we believe that the guidance should be further clarified.

We recognize that paragraph A5 may be intentionally vague to accommodate different types of engagements but believe that it may be open to misinterpretation and result in inconsistent application. If the statement “it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted” is intended to be interpreted in a manner that results in a firm setting a policy requiring a minimum two-year cooling off period for audits of listed entities, then we believe this guidance should be elevated to a requirement. In fact, we believe this should be a requirement in the IESBA Code and not ISQM 2 (see our response to Q4 (b)). However, if it is determined that the cooling-off period is to be dealt with in ISQM 2, then we believe that the period needs to be further clarified. Specifically, because the cooling-off period required by the IESBA Code for an engagement partner depends on how long the individual served as the lead audit engagement partner, the cooling off period could exceed two years. Accordingly, we suggest that any requirement or guidance in ISQM 2 be worded such that it is not contradictory to the IESBA Code. We would support a mandatory cooling-off

period of two years, or such longer period required under the auditor rotation guidance in the IESBA Code, before an individual that previously served as the engagement partner could be appointed as the engagement quality reviewer for an audit of a listed entity. However, it may be better to reference the requirement to adhere to the partner rotation requirements under the IESBA code (see our response to Q4 (b)).

### 33\_ISQM 2\_HM

Guidance on the appropriate length of a cooling-off period between ceasing to act as engagement partner and appointment as engagement quality reviewer would be helpful, as well as explanatory material setting out the rationale for any minimum thresholds set.

### 34\_ISQM 2\_KPMG

We support the IAASB's rationale for inclusion, at paragraph 16, of a requirement for the firm's policies and procedures that set forth the criteria for eligibility to be appointed as an EQ Reviewer to include limitations on the eligibility of an individual to be appointed as EQ Reviewer for an engagement on which the individual previously served as Engagement Partner. We agree with the IAASB's view, as set out in the related application material at paragraph A5, that *"when an individual has served as an engagement partner, he/she is not likely to be able to perform the role of the EQ Reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual's objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level. In recurring engagements, the matters on which significant judgements are made and the facts and circumstances around those significant judgements are not likely to vary to a degree such that an objective evaluation of those judgements can be made by the individual who served as the engagement partner in the immediate previous period"*.

We consider the related guidance is clear and helpful, and believe the example of a cooling-off period, accompanied by guidance that such a period would be determined based on the facts and circumstances of the engagement and applicable provisions of laws/regulations or relevant ethical requirements, but that the period would likely need to be for at least two subsequent audit cycles, to be helpful and appropriate.

We do not believe that this should cause practical difficulties for smaller practices since the proposed standard allows, for example, such reviewers to be appointed from other member firms within a network, or outside the network when necessary.

In addition, we note that other "key audit partners" may be involved in an engagement and we suggest the IAASB explore expansion of the proposed requirement to also address such key audit partners, as similar concerns regarding objectivity may also apply if such a key audit partner were to be appointed as an EQ Reviewer. We recognise that judgement would need to be exercised, considering the specific role of the key audit partner and the extent to which he/she has been involved in significant judgements. We suggest that the IAASB consider developing guidance to recognise this situation and to help a firm to determine whether and when such key audit partners may also need to be subject to a cooling-off period.

### 35\_ISQM 2\_KI

Guidance on a "cooling off" period should be included in ISQM 2 for completeness.

### 36\_ISQM 2\_MZRS

We believe this appears reasonable. We also believe that such a cooling-off period should not be less than 2 fiscal years, but not significantly more as well, if we want to ensure this safeguarding measure practicality.

### 38\_ISQM 2\_MNP

We believe there is a need for guidance in proposed ISQM 2 regarding “cooling-off” periods. The contemplated threats to an engagement quality reviewer’s objectivity, specifically the self-review and self-interest threats, may not be addressed by the relevant ethical and independence requirements in specific jurisdictions. Therefore, including guidance in the proposed ISQM 2 regarding “cooling-off” periods with respect to the audit of financial statements of a listed entity will assist in achieving consistent application in practice. We believe that continuity of knowledge can contribute to the overall quality of an audit engagement. Proposed ISQM 2 should include guidance regarding the appropriate level of involvement of an individual who previously served as the engagement partner on future engagements, recognizing that there may be unforeseen circumstances where the previous engagement partner serves as the only level of continuity on an audit engagement.

Further guidance regarding the eligibility of “key audit partners” to perform the role of the engagement quality reviewer immediately after serving as a key audit partner on an engagement may be useful in implementing the proposed standards. We believe that providing such guidance is necessary to ensure there is clarity on the eligibility of key audit partners to perform the role of the engagement quality reviewer in such circumstances and to achieve consistency in practice.

### 39\_ISQM 2\_MSI

We believe a two year cooling off period should be a requirement for audits of listed entities. For other engagements we feel that there could be more flexibility under certain circumstances.

### 40\_ISQM 2\_NI

Guidance is always helpful but smaller firms should be given some flexibility in applying a strict period

### 41\_ISQM 2\_NSW

We agree with the need for such guidance. However, in our view the language in paragraph A5 is quite weak. It says that “it is not likely” that threats to the individual’s objectivity can be reduced to an acceptable level, but we struggle to see circumstances in which it would be permissible for the engagement partner to become the engagement quality reviewer immediately.

Even though the two-year period is mentioned in the application guidance rather than the mandatory requirements, it is possible that regulators will treat this as a requirement. In these circumstances, it would be helpful if the IAASB’s rationale for choosing two years was explained. However, if the IAASB wants “consistent application in practice” (as noted in paragraph 27 of the explanatory memorandum), we believe that this can only be achieved by making the period a mandatory requirement.

### 42\_ISQM 2\_PKFI

We recommend that the IAASB reconsiders its use of the word “unlikely” in paragraph A5 of ED-ISQM 2, which states:

“it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted.”

We believe that the use of the word “unlikely” effectively makes this application guidance a de facto requirement. A cooling off period of two subsequent audits before the previous engagement partner can act as the engagement quality reviewer, would not be practicable for many smaller firms to implement. In order to support the scalability of ED-ISQM 2 the firm should be given more flexibility for determining the duration

of the cooling off period. Accordingly, we recommend that the IAASB amends the wording in paragraph A5 of ED-ISQM 2 and avoids stipulating a specific timeframe in the proposed standard.

#### 43\_ISQM2\_PKFSA

We believe that there is a need for guidance in proposed ISQM 2 regarding a “cooling-off” period. However, in its current form we believe that the guidance is ambiguous and contains inherent inconsistencies. For example, Para 26 and 28 of the Explanatory Memo to ISQM 2 contain contradictory views. Para 28 also appears to be inconsistent with para A5 of the Application Guidance.

From these three references, it is unclear whether or not a firm may establish a policy for no cooling-off period on engagements other than audits of listed entities, in certain circumstances.

We believe that a degree of flexibility in establishing cooling off periods should be retained in the proposed standard.

Further, we recommend that the IAASB reconsiders its use of the word “unlikely” in paragraph A5 of ED-ISQM 2.

We believe that the use of the word “unlikely” effectively makes this application guidance a de facto requirement. A cooling off period of two subsequent audits before the previous engagement partner can act as the engagement quality reviewer, would not be practicable for many smaller firms to implement. In order to support the scalability of ED-ISQM 2 the firm should be given more flexibility for determining the duration of the cooling off period.

#### 44\_ISQM 2\_PwC

We support the criteria for eligibility to be appointed as an engagement quality reviewer and for individuals who may assist the reviewer. We also support the concept of a “cooling off period”. However, we believe the matter of a cooling-off period should be addressed by the IESBA within the Code of Ethics. We recommend the IESBA establishes 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. That principle should apply to all audits for which an EQR is required in accordance with ISQM 1 and not be limited only to audits of listed entities.

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.

We recommend extending the cooling off period to cover all engagements requiring an EQR, not merely listed engagements. However, we believe the matter should be addressed by the IESBA through the Code rather than through the IAASB’s standards.

## 6 Public Sector Organizations

### 46\_ISQM 2\_AGSA

Guidance should be provided with respect to cooling off periods, the duration and whether judgement can be applied where risks can be mitigated.

In addition to question 4 above, we recommend that guidance be provided on instances where an engagement quality reviewer was employee of the audit client/auditee.

### 47\_ISQM 2\_ACAG

ACAG believes additional guidance is required in relation to rotation requirements and the related 'cooling off' period for engagement quality reviewers to address instances where:

- an individual only performs the engagement quality reviewer role; or
- where the engagement quality reviewer role has been performed before or after other roles, such as that of the engagement partner.

ED-ISQM 2 is silent on the maximum length of service for an engagement quality reviewer and the related 'cooling off period'. The only reference to a 'cooling off period' is included in paragraph A5 and relates to when a partner of a listed entity becomes the listed entity's engagement quality reviewer. The lack of guidance in ED-ISQM 2 is inconsistent with the Code, which stipulates specific guidelines for time served and the related 'cooling off period', depending on type of engagement and role the individual performs on that engagement.

Further to responding to the question, ACAG has concerns over the explanatory memorandum material paragraph 28 that states that there may be circumstances where no cooling-off period is necessary.

*'28. The IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm's policies or procedures may specify a different cooling-off period. The IAASB is of the view that ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue.'*

ACAG does not believe there will be any instances where no cooling-off period would ever be appropriate:

- given the nature of engagements where an engagement quality reviewer is required to be appointed; and
- irrespective of the engagement, long standing associations, even for the engagement reviewer role, will give rise to familiarity and self-review threats.

### 50\_ISQM 2\_OAGNZ

Yes, we agree with the requirements for eligibility, subject to the proposed standard providing guidance on the "cooling-off" period before being able to act as the engagement quality reviewer.

### 51\_ISQM 2\_OAGA

Given the fact that "significant judgements" consistently impact multiple years of financial reporting, we support the requirement of a "cooling-off" period. We would further support that the standard include a minimum three year "cooling-off" period for entities with significant public interest, including listed entities. The purpose for a three-year "cooling-off" period is it permits the engagement team sufficient time to assess prior significant judgements independently. Furthermore, three years is a common review period, for

example the significant assumptions for pension liabilities are typically reviewed and adjusted on a three year basis. Using the same period, allows for the new engagement leader to review these estimates independently from the prior engagement leader.

#### **52\_ISQM 2\_OAGC**

We do not feel there is a need for additional guidance in the standard concerning cooling off periods beyond that already provided.

#### **53\_ISQM 2\_PAS**

We think that firms will need to carefully weigh the risks and length of a cooling off period to the benefits of assigning a knowledgeable EQR to an engagement.

#### **54\_ISQM 2\_SNAO**

We would suggest including a cooling-off period within the requirements. The cooling-off period would be decided by the firm and included in their policies and procedures for engagement quality reviews.

#### **55\_ISQM 2\_GAO**

In general, we believe that the engagement quality reviewer should be an individual who was not previously assigned to the engagement. Further, we believe that the standard should focus on the requirements for the engagement quality reviewer to maintain sufficient objectivity, for example, those included in paragraphs 16 and 17 that pertain to the reviewer's competence, capability, and compliance with ethical matters related to objectivity. We believe that a cooling off period is appropriate only as an exception to the requirement in limited circumstances, such as those that might arise in a small organization with limited staff.

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

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

In this environment, we agree that a cooling-off might be necessary in specific circumstances, for example when the engagement partner had to make past contentious decisions, but definitely not in all situations.

#### **58\_ISQM 2\_IBR-IRE**

Having criteria for the reviewer, such as mentioned in par. 16 and developed in par. A4 and A5, might make it more difficult for smaller firms to apply it. More flexibility should be proposed for smaller firms.

#### **59\_ISQM 2\_BICA**

Proposal for "cooling-off" period from appointment as engagement quality reviewer is important for former engagement partners.

Paragraph A5, last but one sentence, however, gives "cooling-off" period as an example rather than a requirement. This makes it more as an option than a requirement. From regulatory perspective it will be difficult to hold firms accountable as "cooling off" period is just given as an example.

We are not able to identify any other way for the former engagement partner to be appointed as Engagement Quality Review subsequent to their period as engagement partner without self-review and self-interest threat being increased apart from allowing "cooling-off" period. The words "for example" should therefore be deleted to make "cooling-off" mandatory.

Paragraph A5 further suggest "cooling off" period of two years post audit of a listed entity. That notwithstanding, the period does not come out as a minimum requirement but only as statement (or

observation). This is probably so because “cooling off” period is only given as an example in the same paragraph. In our opinion the period should be given as a minimum requirement for listed entities.

In addition, the two year is considered at low given that judgements performed by the engagement partners can span to two years. An example is where there has been restatement of prior year financial statements, in which case the impact could be in prior year and current year. We suggest that a minimum of three year be made a mandatory requirement.

The element of independence is best enforced where there is clear guidance with minimal ambiguity and making it crystal clear that “cooling off” period is a requirement for listed and public interest entities together with setting minimum timeframe.

#### **61\_ISQM 2\_CaICPA**

Paragraph 16 – A cooling off period is necessary for the EQR to not be dealing with his or her own decisions, but the Board could consider whether the length of the cooling off period should be a matter of firm policy. There are arguments in favor of variable cooling off periods, although this would be difficult to implement. However, no more difficult and subjective than the other elements of this proposal.

#### **62\_ISQM 2\_CAQ**

We recommend additional clarity related to the “cooling off” period. The guidance should include any relevant distinctions among “cooling off” periods for different types of entities subjected to audit services provided by accounting firms which require an engagement quality review as outlined in ED-ISQM 1 paragraph 37(e) (e.g., listed entities versus those determined by the firm would have varying degrees of risk resulting in varied cooling off periods). This will help firms develop risk-based, scalable policies and procedures to comply with the requirements.

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

We note that cooling off periods need to be carefully considered as they present further challenges for SMPs in managing engagement quality reviews.

#### **64\_ISQM 2\_CICC-AIC**

This standard does not guide what to do in firms that have few (small) partners or individual professional practitioners, without incurring disproportionate costs. A practical and simple guide on quality management standards should clarify issues like this.

#### **65\_ISQM 2\_CCC-ICPARD**

This standard does not provide guidance on what to do in firms that have few (small) partners or individual practicing professionals, without this incurring disproportionate costs. A simple, practical guide to quality management standards should clarify issues such as this.

#### **67\_ISQM 2\_EXPERT**

In general, we are supportive of the idea of a “cooling-off” period for an auditor before being able to act as the engagement quality reviewer for reasons of independence. In our view, an appropriate “cooling-off” period would be two to three years for the engagement quality reviewer himself and one to two years for an assistant to the engagement quality reviewer.

## 69\_ISQM 2\_FACPCE

We agree that it is necessary to establish a “cooling-off” period after having been in charge of an engagement to be able to act as a quality reviewer of that engagement. We agree with the description wrote in the document. These restrictions should also apply to the assistants of the quality reviewers.

## 71\_ISQM 2\_SMPC

We are therefore concerned to note that the IAASB is seeking to go beyond the requirements of the IESBA Code, by looking beyond the notion of long association with the client to association with the engagement itself, i.e., where an individual becoming EQR had previously served as the engagement partner. In para 16, the IAASB purports that such an individual’s objectivity will be compromised, by requiring limitations on eligibility in all cases. However, para A5 suggests that it is not likely that threats to objectivity can be reduced to an acceptable level, although it also implies that there is still exception in very rare circumstances. In our view, para 16 should be revised to reflect this, as whilst we appreciate that there could be risks to objectivity by such a move in certain circumstances, this may not be the case in all engagement circumstances where an EQR is performed. There may be possible safeguards available apart from subjecting the individual to a cooling off period. The approach taken should mirror that of para 21(c).

As an example, a cooling off period only makes sense where the individual had made one or more decisions of a contentious nature and no other quality related measures had been taken at that time (e.g., previous EQR, consultation or external advice). The IAASB itself recognizes the value of such measures in discussing the issue of objectivity in para A24. Indeed, in a small firm environment, requiring a cooling off period unless absolutely essential (risk cannot be reduced to an acceptably low level by other means) may well deprive the EQR of the services of the best placed individual, and thus be detrimental to engagement quality.

## 74\_ISQM 2\_ICAEW

We agree that it is appropriate to suggest a cooling off period in the application material. Two years seems a reasonable length of time for listed entities. Like all bright lines in application material, it risks being treated as if it were a requirement by regulators, possibly rightly so in this case. We struggle to imagine any circumstances in which the threats could be reduced to an acceptable level where the engagement quality reviewer has been the engagement partner for a listed entity in the last two years.

## 77\_ISQM 2\_ICPAU

ICPAU agrees with the “cooling- off” period requirement in the ED- ISQM 2 as it is in line with the requirements embedded in the Restructured and Revised Code for Professional Accountants and we would propose to have the same located within the ED ISQM 2.

## 78\_ISQM 2\_IBRACON

We believe it might be needed to establish a cooling-off period depending on the nature and circumstances of the firms and their engagements. However, we do not agree with the inclusion of a 2 years period as set in paragraph A5, as it can be considered a rule and each firm needs to address it in its system of quality management.

## 80\_ISQM 2\_ICJCE

We consider appropriate to establish a cooling off period as a measure to deal with the threats to the objectivity of the engagement quality reviewer when previously it has performed as an engagement partner. We believe that the minimum cooling off period should be a requirement instead of a guidance.

## 81\_ISQM 2\_IMCP

Yes, however It should be in line with the Ethics Code.

## 88\_ISQM 2\_SAICA

SAICA is of the view that the manner in which the guidance contained in paragraph A14 of ED-ISQM 2 is set out is appropriate. There is however a gap in relation to cooling-off requirements that has been identified.

In relation to Public Interest Entities (PIEs), the cooling off of the engagement quality reviewer is dealt with in Section 540 of the International Code of Ethics for Professional Accountants, namely Long Association. The question is then around entities that are not PIEs and whether there should be a cooling-off period for that individual before being able to act as the engagement quality reviewer again.

It is our view that ED-ISQM 2 should be expanded to include a requirement for the firm to establish policies or procedures regarding a cooling off period for individuals before being able to act as the engagement quality reviewer; perhaps as point 16 (d).

In relation to the guidance contained in paragraph A14 of ED-ISQM 2, we suggest that the application material be expanded to allow for local law, regulation or professional standards to impose additional requirements in relation to a cooling off period applicable to the engagement quality reviewer.

## 8 Individuals and Others

### 90\_ISQM 2\_TAS-CAA

A cooling off period is necessary for an individual before being able to act as the engagement quality reviewer as this ensures that the reviewer is objective and mitigates self-review and self-interest threats to objectivity. We also support the notion that, for listed entities, there may be no such safeguards in place. We also believe that two years is too short a period and a consideration should be made to lengthen the time to say at least 3 years. Before prescribing an actual length of time consideration should be made to align with all other standards and regulations for example the CPC prescribes the following;

- i. 290.155 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.
- ii. 290.156 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- iii. 290.157 If the individual has acted in any other capacity as a key audit partner for seven

Consideration should also be made that different jurisdictions may prescribe a cooling off period through their legislation for example the ZSE prescribes rotation of auditors after five years. Thus, we suggest that the ED consider setting a minimum number of years, e.g. 3 years, and allow entities to consider more stringent measures if legislation in their jurisdictions allow.