

**PROPOSED REVISION TO THE CODE ADDRESSING THE
OBJECTIVITY OF ENGAGEMENT QUALITY REVIEWER AND OTHER
APPROPRIATE REVIEWERS**

[Version Post-September 14th , 2020 IESBA Meeting]

The below text is shown as marked up against the text presented at the September 2020 meeting.

SECTION 300

Requirements and Application Material

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.

- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
 - A professional accountant lobbying in favor of legislation on behalf of a client.
- (d) Familiarity Threats
- A professional accountant having a close or immediate family member who is a director or officer of the client.
 - A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
 - An audit team member having a long association with the audit client.
 - An individual who serves as an appropriate reviewer ~~on an engagement as a~~ safeguard having a close relationship with ~~the engagement partner~~ an individual who performed the work.
- (e) Intimidation Threats
- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
 - A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
 - A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
 - A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

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Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

- 300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:
- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
 - Having an appropriate reviewer who was not a member of the team review the work performed, or advise as necessary might address a self-review threat.

- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards* describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

Appropriate Reviewer

300.8 A4 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. Such an individual might be a professional accountant.

SECTION 325

OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

- 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.
- 325.2 ~~Appointing an engagement quality reviewer who has relationships with the work being reviewed or those responsible for performing that work might create T~~hreats to compliance with the fundamental principle of objectivity. ~~might be created in certain circumstances in which an individual is appointed as an engagement quality reviewer.~~
- 325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer. ~~As an engagement quality reviewer is an example of an appropriate reviewer, the application material in this section also applies to appropriate reviewers.~~
- ~~325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. [Therefore], the application material in this section might apply in circumstances where a professional accountant appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.~~

Commented [A1]: To make clear that the threats to objectivity arise specifically as a result of the relationship of the appointed EQR with the work he or she is reviewing or with those who performed the work.

Commented [A2]: As agreed by the Board, to reflect a narrower extension of the scope of the application material to circumstances where ARs are appointed to serve as a safeguard to address identified threats.

Application Material

General

- 325.54 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 ~~the~~ firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with [proposed] ISQM 2.
- 325.45 A2 An engagement quality reviewer is a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Commented [A3]: To align with language in ISQM 2

Identifying Threats

- 325.65 A1 The following are examples of circumstances where threats to the objectivity of an ~~individual~~ ~~professional accountant being~~ appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
- Two engagement partners each serving as an engagement quality reviewer for the other's engagement.

Commented [A4]: To revert to referring to a professional accountant as the application material has now been refocused from ARs to EQRs.

Commented [A5]: As the objectivity of EQR should be maintained not only at the time of the appointment, but also throughout the engagement, the 'being' is deleted.

- (b) Self-review threat
 - An ~~professional~~ accountant serving as an engagement quality reviewer on an audit engagement after previously serving as the engagement partner.
- (c) Familiarity threat
 - An ~~individual accountant~~ serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.
- (d) Intimidation threat
 - An ~~individual accountant~~ serving as an engagement quality reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

Evaluating Threats

- 325.~~76~~ A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual ~~being~~ appointed as an engagement quality reviewer include:
- The role and seniority of the individual.
 - 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.
 - When the individual was last involved in the engagement prior to being appointed as 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 in any previous involvement in the engagement.

Commented [A6]: Deleted "being" to make clear that the application material applies also after the EQR has been appointed. The objectivity of EQR should be considered not only at the time of the appointment, but also throughout the period the role is served.

Addressing Threats

- 325.~~87~~ A1 An example of an action that might eliminate ~~such~~ an intimidation threat is reassigning reporting responsibilities within the firm.
- 325.~~87~~ A2 An example of an action that might be a safeguard to address ~~such~~ a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Commented [A7]: To align with structure drafting convention.

Cooling-off ~~Requirement~~ Period

- 325.~~78~~ A3 [Proposed] ISQM 2 requires firms to establish policies or procedures that specify, as a condition for eligibility, a ~~two-year~~ cooling-off period ~~of no less than two years to address threats to objectivity created by an individual being appointed as before an engagement partner can assume the role of~~ engagement quality reviewer ~~after previously serving as the engagement partner. This serves to enable both compliance with the principle of objectivity and the consistent performance of quality engagements.~~

Commented [A8]: To reflect input received during the Board discussion on Monday.

Commented [A9]: To align to wording in para 19 of ISQM 2.

Commented [A10]: To reflect suggestion by PIOB Observer to include an explicit reference to acknowledge that objectivity is both an ethical issue and a quality management issue.

The wording "enable the consistent performance of quality engagements" is taken from ISQM 1.

325.8 A4 ~~Theis cooling-off period required requirement in by~~ [proposed] ISQM 2 is distinct from, and does not ~~amend or override~~ modify, the partner rotation requirements in Section 540, which are designed to address threats to independence created by long association with an audit client.

Consequential Amendments to Section 540

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

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Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 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.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

~~540.14 A1 An individual who has acted as the engagement partner and has met the cooling-off period required by paragraph R540.11 will meet the two-year cooling-off requirement specified in [proposed] ISQM 2 before being appointed as the engagement quality reviewer (see paragraph 325.7 A3).~~

Commented [A11]: Paragraphs 540.14 A1 and A2 deleted to avoid granular details and risk of misinterpretation. Replaced by new paragraph 540.14 A1 below.

Illustrative scenarios of the application of the ISQM 2 cooling-off period and the partner rotation requirements in Section 540 will be published in Staff FAQs to facilitate adoption and implementation.

~~540.14 A2 Even if an individual who has acted as the engagement partner has served the two year cooling-off period required under [proposed] ISQM 2 before being appointed as the engagement quality reviewer (see paragraph 325.7 A3), the partner rotation requirements in this section remain applicable depending on the roles and length of time the individual has served on the audit engagement.~~

540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by [proposed] ISQM 2 as a condition for eligibility before an engagement partner can assume the role of an engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner roles

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Commented [A12]: To mirror paragraph 325.8 A4.

To make clear that cooling off requirement under ISQM 2 is different from and does not in any way modify the partner rotation requirements in Section 540, and vice versa.