

## Objectivity of Engagement Quality Reviewers—Summary of Significant Comments on Exposure and Task Force Proposals

### Executive Summary

#### **Key Task Force Proposal 1**

- Extend the scope of the proposed guidance addressing the objectivity of engagement quality reviewers (EQRs) to the objectivity of appropriate reviewers.

#### *Rationale*

- Seeks to respond to concerns among some respondents that a prescriptive cooling-off period (for engagement partners (EPs) before they can be appointed as EQRs on the same engagement) may further limit the availability of individuals to serve in an EQR role, thereby further limiting the audit market to larger firms.
- Recognizes that under proposed ISQM 1,<sup>1</sup> firms may determine that responses other than an engagement quality (EQ) review are appropriate to respond to assessed quality risks (e.g., other responses may include reviews of certain significant judgments by individuals within the firm who have specialized technical expertise).
- Recognizes, as suggested by a few respondents to the ED, that the proposed guidance should not be limited to EQRs but should apply broadly to any appropriate reviewer given the review function served (This approach was also considered at a prior Board discussion). This includes any review responsibilities other than an EQ review that firms may determine to be appropriate responses to assessed quality risks under proposed ISQM 1.
- Recognizes that an EQR is an appropriate reviewer under the Code.
- Maintains a principles-based approach in the Code to address the matter of the objectivity of EQRs while not precluding the IAASB from establishing in proposed ISQM 2<sup>2</sup> any requirement for a cooling-off period that it determines firms should specify in their policies and procedures to address circumstances where an EP is being considered for appointment to the EQR role. (A significant proportion of respondents support the establishment of such a cooling-off requirement.)
- Enables the proposed guidance to be more comprehensive as it would not be limited to EQRs.
- Retains an appropriate linkage to proposed ISQM 2 through including a cross-reference in the proposed guidance to the cooling-off requirement in ISQM 2.

#### **Key Task Force Proposal 2**

- Relocate the proposed guidance to a new Section 325 addressing the objectivity of appropriate reviewers.

<sup>1</sup> Proposed ISQM 1, [Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#)

<sup>2</sup> Proposed International Standard on Quality Management (ISQM) 2, [Engagement Quality Reviews](#)

- Relocate the description of an appropriate reviewer in section 300 to the new Section 325 to provide context for the guidance and explain that appropriate reviewers can be appointed for different purposes (not just to provide a safeguard).

*Rationale*

- Places the guidance in Part 3, which better reflects the broadened scope of the guidance to appropriate reviewers.
- Not inconsistent with how the Code already addresses some issues of fairly narrow scope (Section 321, for example, addresses the specific issue of second opinions.)
- Avoids any potential confusion with independence.

## I. Analysis of Responses

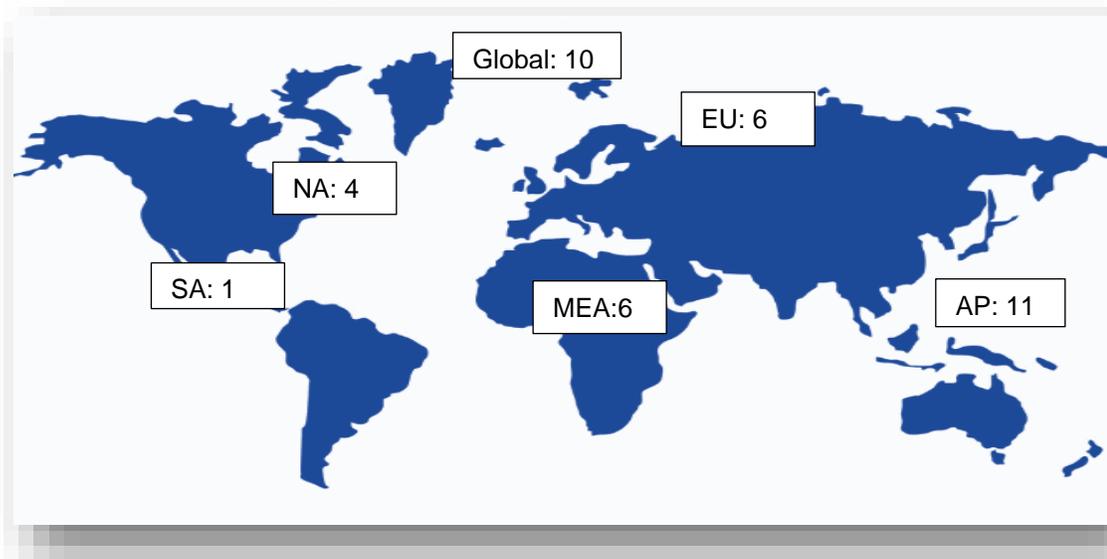
1. Thirty-eight responses were received from stakeholders across a range of categories and different jurisdictions ([Appendix 1](#) is a list of the respondents).

### *Responses by Stakeholder Category*

Regulators and audit oversight authorities	3
National standard setters (NSS)	7
Accounting firms	9
IFAC Member bodies and other professional organizations	19
<b>Total responses</b>	<b>38</b>

### *Responses by Geographical Area*

AP-Asia Pacific; EU-Europe; MEA-Middle East and Africa; NA-North America; SA-South America



### *Presentation of Respondents' Comments*

2. Summaries of the respondents' significant comments in this Agenda Item are used as a basis for supporting the changes proposed by the Task Force. These summaries do not include all the matters raised by respondents. However, in arriving at its conclusions, the Task Force considered all respondents' comments.

### *Indicators of the Level of Support for the ED*

3. With respect to the responses to questions no.1 and 2:

*Do you support the proposed guidance addressing the topic of the objectivity of an EQR? If so, do you support the location of the proposed guidance in Section 120 of the Code?*

There was strong support for both the proposed guidance and location in the IESBA Code addressing EQR objectivity:

- There was support from all the respondents (38) on the matter of the IESBA addressing the topic of EQR objectivity.

- There was a positive reaction from a substantial proportion of respondents (31) on the location of the proposed guidance.

4. With respect to responses to question no. 3:

*Do you agree with the IESBA that it would be more appropriate for the International Auditing and Assurance Standards Board (IAASB) to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 and that the Code should not be prescriptive in this regard?*

A significant majority of respondents supported a cooling-off requirement as an action to address threats to the objectivity of an EQR, specifically for an individual being considered for appointment to the role after previously serving as the EP. Some respondents, however, were opposed to a cooling-off requirement as they viewed it as too strict a rule that did not sufficiently allow for other considerations, with the potential for unintended consequences.

5. Significant matters raised in response to Questions 2 and 3 are discussed in **Section II** below.
6. The Task Force is grateful for the drafting suggestions made by respondents and has considered these carefully. The Task Force is proposing some changes as suggested by respondents for the IESBA's consideration. These are reflected in the proposed amendments in the marked-up version of the ED included in **Agenda Item 5-B**.

## II. Significant Matters and Task Force Proposals

### A. Location of the Proposed Guidance in the Code Addressing EQR Objectivity (ED Question 2)

#### *Background*

6. The objective of the project is to develop provisions for the Code addressing threats that might be created when an individual who was previously involved in an audit or other assurance engagement (whether as the EP or as another member of the engagement team) is appointed as the EQR on the same engagement. In doing so, the IESBA considered different possible locations in the Code for the proposed guidance. The IESBA did not consider that it would be appropriate to place the guidance in the International Independence Standards (IIS) as it is addressing the issue of the objectivity of the EQR and not an independence issue.
7. After considering possible locations in the Code, including in a new standalone section, the IESBA viewed Section 120 as the most appropriate location given that it already deals with separate topics pertinent to audits, reviews and other assurance engagements, i.e. the linkage between independence and the fundamental principles, and professional skepticism.
8. The IESBA also noted that while the proposed guidance is located within the subsection “*Considerations for Audits, Reviews and Other Assurance Engagements*” in Section 120, the scope of the guidance is effectively all the engagements for which an EQ review is determined to be an appropriate response to an assessed quality risk(s) under proposed ISQM 1.

#### *Summary of ED Responses*

9. A substantial proportion of the respondents (31) supported the location of the proposed guidance in the Code addressing the topic of EQR objectivity. The respondents agreed that this guidance would not be appropriate in the independence standards.
10. Three NSS<sup>3</sup> disagreed with the proposed location, believing that the examples of threats and safeguards should be integrated into Section 300.<sup>4</sup> Section 300 was preferred by a few respondents, including a firm, as the location for the application material regarding EQR objectivity. It was noted that paragraph 300.1 “sets out requirements and application material for professional accountants in public practice when applying the conceptual framework.”<sup>5</sup>
11. Two NSS<sup>6</sup> did not support placement of the proposed guidance in Section 120 as in their view, Section 120 sets out the conceptual framework which is applicable to all professional accountants (PAs). A few respondents were of the view that the new material should be placed in Section 540,<sup>7</sup> noting that PAs may turn logically to Section 540 for any cooling-off requirements.<sup>8</sup>
12. A respondent<sup>9</sup> noted that the proposed location in Section 120 amplifies the fundamental principle of objectivity while lessening the importance of the other fundamental principles. In addition, the respondent

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<sup>3</sup> APESB, AIPCA, CPA Canada

<sup>4</sup> Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

<sup>5</sup> BT

<sup>6</sup> APESB, NZAuASB

<sup>7</sup> Section 540, *Long Association of Personnel (including Partner Rotation) with an Audit Client*

<sup>8</sup> CPAAu, CPA Canada, NZAuASB

<sup>9</sup> KPMG

felt that the application material focuses on the narrow circumstance where PAs undertake the role of EQR and lessens the importance of objectivity for other roles PAs may undertake in an assurance engagement (such as an EP).

13. Another respondent<sup>10</sup> also suggested that Section 320,<sup>11</sup> which deals with professional appointments, would be a suitable location for a new subheading and topic area concerning matters relating to EQ reviews. The respondent then suggested that a cross-reference in Section 540 to Section 320 regarding EQ reviews would be helpful to users of the Code.

#### *Task Force's Response*

14. The IESBA has previously considered the arguments in support of various locations for the proposed guidance on EQR objectivity. In its deliberations, the Board agreed that it would not be appropriate to place the guidance in the IIS as the fundamental issue is about compliance with the fundamental principle of objectivity.
15. The Task Force does not believe that the respondents have raised arguments that would justify revisiting this position. Further, there would be a significant risk of confusing stakeholders by introducing guidance in a section of the Code that addresses the independence of audit firm personnel due to long association with the audit client. Nevertheless, the Task Force will consider adding a cross-reference in Section 540 to the location of the guidance in the Code (in proposed new Section 325 – see **Section C** below).
16. With respect to the comment from one of the respondents regarding a perceived undue narrow focus on EQRs vs other PAs more broadly, see further discussion and Task Force proposals in **Section C** below regarding the topic of “appropriate reviewers.”
17. Regarding the suggestion from another respondent regarding positioning of the guidance in Section 320, the Task Force did not believe this would be an appropriate location as that section addresses client and engagement acceptance, and changes of firms by a client.

#### **B. Cooling-off Requirement and Location for Such Requirement (ED Question 3)**

##### *Background*

18. In drafting provisions to address EQR objectivity, the IESBA recognized the importance of protecting the objectivity of the EQR and therefore considered whether the Code should prescribe a cooling-off period specifically to address the situation where an individual is appointed to an EQR role after having served on the engagement.
19. The IESBA was mindful that a strict prohibition on an individual serving in the EQR role in that situation, unless the individual has served a cooling-off period, may not be proportionate in certain circumstances. The IESBA took the view that any prohibition or limitation should result from the application of the conceptual framework to the specific facts and circumstances, and that the Code should remain principles-based.
20. After giving the matter due consideration, the IESBA considered that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2, following the proposed guidance set out in Section 120, and if so, the circumstances in which the

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<sup>10</sup> CPA Canada

<sup>11</sup> Section 320, *Professional Appointments*

requirement should apply, to whom it should apply, and what the minimum cooling-off period should be. The IESBA considered that this approach is appropriate on the grounds that:

- Under proposed ISQM 1, an EQ review may be performed for a variety of engagements (i.e., not only for audits of listed entities and engagements for which an EQ review is required by law or regulation), but also for engagements for which the firm determines that an EQ review is an appropriate response to assessed quality risks. The IESBA considers that it would be more appropriate for the scope of any cooling-off requirement to be specified in the standard that establishes the requirement for the appointment and eligibility of an EQR and the EQR's responsibilities relating to the performance and documentation of an EQ review, i.e., proposed ISQM 2.
- If the Code were to establish a cooling-off requirement, a breach of such a requirement would trigger a breach of the Code, which may call into question the firm's compliance with relevant ethical requirements. The IESBA is of the view that it would be more appropriate for a breach of such a requirement to be remediated as a quality issue through the firm's system of quality management.
- If a cooling-off requirement is to be established, it would be better located together with other eligibility criteria for the EQR in proposed ISQM 2 so that all the relevant material can be found in one place.

#### Cooling-off requirement

##### *Responses – Cooling-off Requirement (Agree)*

21. A significant proportion of respondents (27)<sup>12</sup> supported the establishment of a cooling-off requirement as they viewed a cooling-off period as fundamental in addressing the self-review threat when an individual is appointed to an EQR role after serving as the EP on the engagement. It was argued that it is unlikely that there are other actions that can effectively eliminate the threat or reduce it to an acceptable level in that situation. Accordingly, those respondents argued that there should be a prescribed cooling-off period for such individuals before they can step into an EQR role.
22. Some respondents<sup>13</sup> were of the view that such a cooling-off requirement should be located in the Code, consistent with the partner rotation requirements in Section 540.
23. A respondent<sup>14</sup> suggested that the Board consider clarifying that, in the case of an EP, the completion of a cooling-off period of less than five years before undertaking the EQR role does not result in a new 7-year term on the engagement under Section 540. Specifically, the respondent suggested that in addition to application material, the Code should include:
  - A required minimum cooling-off period of two years before an individual who has served as the EP could become the EQR for the audit of the same public interest entity (PIE); and
  - A requirement for consideration of a cooling-off period for others who have served as engagement team members, taking into account their former roles and responsibilities in addition to the nature and complexity of the PIE audit engagement and without a minimum duration.

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<sup>12</sup> AGSA, AOBSEC, BT, BDO, BICA, CPAAu, CPAC, Crowe, DTTL, FRC, GTIL, IRBA, ICAEW, IPA, IPAK, ISCA, IBRACON, JICPA, KICPA, KPMG, MIA, MICPA, MGNL, NBAA, NYSSCPA, NZAuASB, SAICA

<sup>13</sup> AGSA, AOBSEC, CPAC, FRC, GTIL, MIA, MICPA

<sup>14</sup> EY

*Responses – Cooling off Requirement (Disagree)*

24. Whilst acknowledging the Board's intention to safeguard the objectivity of the EQR and that a cooling-off period might be necessary depending on the facts and circumstances, many respondents (11)<sup>15</sup> did not support an absolute cooling-off requirement. They argued that it would increase the complexity of the Code and potentially confuse stakeholders with the long association requirements. They also pointed out that compounding such a cooling-off requirement with the long association requirements in the Code will make it unmanageable for firms, especially small- and medium-sized practices (SMPs), and potentially further limit the audit market to the largest firms that have the resources to meet the cooling-off requirement.<sup>16</sup>
25. A respondent<sup>17</sup> noted that while it supported the principle of a cooling-off period, it had concerns regarding the establishment of a bright line rule of two years as proposed in ISQM 2. Whilst it did not object to a two-year cooling-off period as a rule of thumb and that best efforts should be used to adhere to this cooling-off principle, the respondent considered that an absolute requirement will not always be in the best interests of promoting audit quality without taking into account specific engagement circumstances.
26. A few respondents,<sup>18</sup> noted that there may also be cases where it is not possible to identify an individual who has served the cooling-off period and has the necessary authority and expertise to effectively evaluate and challenge the significant judgments and conclusions made on the engagement. In these cases, the respondents argued that audit quality would be best served by appointing an individual with the most appropriate experience and expertise to challenge the engagement team's significant judgments and conclusions, applying any necessary safeguards to address any threats to objectivity. The respondents pointed out that appointing an individual who may not have the requisite authority or skills, but who is not barred as a result of serving the cooling-off period, might, in some cases, prove detrimental to audit quality.
27. In summary, respondents asked that the Board take into consideration other requirements in the Code when determining if a cooling-off period for an EP moving to an EQR role is appropriate. Respondents commented that a cooling-off period for an individual being considered for the EQR role after previously service as the EP is important as it is intended to safeguard objectivity, which impacts audit quality; that when a cooling-off period is applied appropriately, threats to objectivity are reduced to an acceptable level; and although a cooling-off period may be warranted in some circumstances, the Code should not be prescriptive in that regard and that the application of such a cooling-off period should be evaluated on a case by case basis.

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<sup>15</sup> AE, AICPA, APESB, ACCA & CAANZ, EY, GAO, ICAS, SMPC, IDW, PwC, WPK

<sup>16</sup> AE, APESB, ACCA, CAANZ, SMPC, IDW, PwC, WPK

<sup>17</sup> PwC

<sup>18</sup> APESB, PwC, SMPC

### Location of Cooling-off Requirement

#### *Responses – Location of Cooling-off Requirement*

28. Of the 27 respondents<sup>19</sup> who were in support of a cooling-off requirement, 16<sup>20</sup> respondents were in agreement that the cooling-off requirement would be more appropriate in ISQM 2 whilst 11<sup>21</sup> respondents were of the view that the requirement would be more appropriate in the Code.

#### *Location of Cooling-off Requirement – ISQM 2*

29. Respondents who supported locating the requirement in ISQM 2 agreed with the Board's view that the Code should not be prescriptive, that it should remain principles-based and that it would be more appropriate for the IAASB to determine a cooling-off requirement. It was noted that it would be more appropriate for any cooling-off requirement to reside within ISQM 2, as ISQM 2 is specific to the appointment and role of the EQR.
30. Additionally, some of those respondents suggested that the Board ensure that the long association provisions in Section 540 dealing with service in a combination of roles do not present any inconsistency with the provisions of ISQM 2 once finalized.

#### *Location of Cooling-off Requirement – IESBA Code*

31. Respondents who preferred including the cooling-off requirement in the Code maintained that cooling-off relates to the maintenance of objectivity, which they felt is an IESBA matter rather than a quality management issue. A respondent<sup>22</sup> felt that including a cooling-off requirement separately in ISQM 2 would diminish the overall effectiveness of the Board's effort to address EQR objectivity within the Code. Accordingly, the respondent recommended that any requirement for a cooling-off period should be included in the Code and not in ISQM 2.
32. Another respondent<sup>23</sup> encouraged the Board to fully deliberate the issue and, if necessary, include a requirement in the Code along with the other partner rotation requirements. The respondent added that such deliberation should include consideration of whether it would be appropriate to apply a cooling-off requirement with respect to all entities for which an EQR is required under proposed ISQM 1.
33. A respondent<sup>24</sup> was of the view that with the introduction of the new application material, the Code should be sufficient to address any threat arising and that ISQM 2 could include a cross reference to the Code in place of the requirement for a two-year cooling-off period. This view was also supported by another respondent<sup>25</sup> who suggested that the Board retain some flexibility in the Code for firms to determine what

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<sup>19</sup> IESBA received a total of 38 responses, 27 agreed to a cooling-off requirement while 11 disagreed. In general, respondents who disagreed mentioned that users might expect to see the specific matter of a cooling-off requirement addressed by IESBA and not the IAASB. Please refer to footnote 11 to sight the list of 27 stakeholder who were in agreement with a cooling-off requirement.

<sup>20</sup> BT, BDO, BICA, Crowe, DTTL, FRC, IBRACON, ICAEW, IPAK, IRBA, JICPA, KICPA, KPMG, NBAA, NYSSPCA, SAICA

<sup>21</sup> AGSA, AOBSEC, CPAAu, CPAC, GTIL, ICAS, IPA, MIA, MICPA, MGNL, NZAuASB

<sup>22</sup> EY

<sup>23</sup> NZAuASB

<sup>24</sup> SMPC

<sup>25</sup> ISCA

is an appropriate cooling-off period, especially in circumstances where the entity is not a PIE.<sup>26</sup>

34. In addition, a respondent<sup>27</sup> noted that for audit clients that are PIEs, the time-on period in paragraph R540.5 allows an individual to act in a combination of EP and EQR roles for a period of not more than seven cumulative years. The respondent noted that Section 540 does not explicitly prescribe a requirement for an individual to serve a cooling-off period in switching between the EP and EQR roles during the time-on period. The respondent suggested that the IESBA prescribe a cooling-off requirement at an appropriate location in the Code for an individual moving to an EQR role after serving as the EP for a PIE audit client.

#### *Task Force's Response*

35. Having regard to respondents' comments regarding the location of the proposed guidance in the Code (see [Section A](#) above), the Task Force carefully considered the various views from respondents as summarized above, including concerns about the strict cooling-off requirement in ISQM 2 and the potential unintended consequences in terms of further limiting the audit market to larger firms with access to a larger pool of EQRs.
36. To further inform its deliberations and as part of ongoing coordination with the IAASB on this project, the Task Force reached out to representatives of the ISQM 2 Task Force to discuss the significant comments received on the ED, especially concerns from some respondents about the strict requirement for a two-year cooling-off for EPs before they can be appointed to an EQR role on the same engagement. The ISQM 2 representatives noted that the IAASB has extensively deliberated the issue and believes a mandatory cooling-off period is in the public interest and is the most appropriate approach to drive consistency in practice. They added that the IAASB also believes it is important to ensure that there is separation from an individual's previous involvement in making significant judgments on the engagement, especially for an EP moving into an EQR role on the same engagement. The ISQM 2 representatives further explained that an EQ review is a specified response to an assessed quality risk under ISQM 1 and that firms may determine that responses other than an EQ review are appropriate to respond to assessed quality risks. For example, depending on the particular engagement circumstances, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by individuals within the firm who have specialized technical expertise, for audits of financial statements.
37. Given the significant weight of support from respondents for a cooling-off requirement to address the issue of the objectivity of an EP moving into an EQR role, the substantial support among respondents for the Code to take a principles-based approach to the matter, and the fact that firms may determine responses other than an EQ review to assessed quality risks, the Task Force does not believe there is sufficient basis

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<sup>26</sup> As defined in the Code, a PIE is:

(a) A listed entity; or

(b) An entity:

(i) Defined by regulation or legislation as a public interest entity; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

<sup>27</sup> ISCA

for the Board to revisit the position previously held and explained in the ED regarding whether there should be a cooling-off requirement and, if so, the location of that requirement. This position maintained that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2, following the proposed guidance set out in the Code, and if so, the circumstances in which the requirement should apply, to whom it should apply, and what the minimum cooling-off period should be.<sup>28</sup>

#### **Matter for IESBA Consideration**

1. Do IESBA members agree with the Task Force’s response above regarding the matter of a cooling-off requirement before an EP can assume the EQR role on the engagement, specifically:
  - (a) To maintain a principles-based approach in the Code to address the objectivity of an EQR based on the application of the conceptual framework to the engagement facts and circumstances; and
  - (b) To leave it to the IAASB to prescribe any cooling-off period and, if so, the length of that period it determines firms should specify in their policies and procedures before an EP can assume the EQR role?

#### **C. Appropriate Reviewer**

38. In the light of the discussions with the ISQM 2 Task Force (paragraph 36 above), the Task Force considered that the proposed guidance in the Code should as a matter of principle address the issue of objectivity for any individual assigned a reviewer role, whether for quality or other purposes, and not just in relation to the appointment of an individual to an EQR role in an audit or assurance engagement. Broadening the scope of the guidance would thus better complement the various review roles that may be determined appropriate under proposed ISQM 1.
39. The Task Force therefore explored how best to widen the scope of the proposed guidance in the ED to include individuals performing a review on different types of engagements. The Task Force considered provisions in the Code that address review roles and came to focus on the concept of an “appropriate reviewer” as described in Section 300 of the Code. The Task Force also noted the suggestion from respondents<sup>29</sup> that consideration should be given to broadening the scope of the proposed guidance to appropriate reviewers.
40. The Glossary of the Code describes an “appropriate reviewer” as follows:

*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 as an individual might be a professional accountant.*

*This term is described in paragraph 300.8 A4.*

<sup>28</sup> Agenda Item 5-E (Updated) of the IAASB’s April 1, 2020 videoconference includes the following proposed mandatory cooling-off requirement in proposed ISQM 2: “The firm’s policies or procedures established in accordance with paragraph 16(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or 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.”

<sup>29</sup> AICPA, ICAEW, SMPC

41. The Task Force noted that this description was developed during the Safeguards project based on the definition of an engagement quality control reviewer in extant ISQC 1.<sup>30</sup> In finalizing the revised safeguards provisions, the Board had intended the concept of an “appropriate reviewer” to be broad and principles-based.<sup>31</sup> The Task Force considers that the proposed guidance addressing the objectivity of EQRs should also apply to any individual who serves in the capacity of an appropriate reviewer given that in both cases there is a review function.
42. Equally, in view of the broad description of the concept of an appropriate reviewer, the Task Force considers that EQRs are appropriate reviewers. Therefore, to make this clear, the Task Force proposes an amendment to the description of an “appropriate reviewer” as follows:
- 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 by a firm or an individual professional accountant. Such an individual might be a professional accountant. An engagement quality reviewer appointed under [proposed] ISQM 2 is an appropriate reviewer.*
43. To make sure that this amendment would not have any unintended consequences where the Code refers to an appropriate reviewer, the Task Force reviewed the 44 paragraphs in the Code that make such reference (see **Agenda Item 5-E**). Based on its review, the Task Force agreed that the amendment to the description of an appropriate reviewer does not alter the meaning of these paragraphs.

**Matter for IESBA Consideration**

2. Do IESBA members agree with the Task Force’s response and proposal above regarding broadening the scope of the proposed guidance to appropriate reviewers?

Location of Guidance Addressing Objectivity of Appropriate Reviewers

44. Given the broadening of the scope of the guidance to cover the objectivity of appropriate reviewers, the Task Force explored a few possible locations in the Code. After deliberation, the Task Force agreed that the guidance would be better placed in a new standalone Section 325 (see **Agenda Item 5-B**). While this new Section would be addressing an issue of fairly narrow scope, the Task Force noted that the Code already has another Section that addresses another issue of similarly narrow scope, namely Section 321<sup>32</sup> dealing with second opinions.
45. To provide appropriate context for the new Section 325, the Task Force agreed that the description of an appropriate reviewer in paragraph 300.8 A4 would be better relocated to this new Section (see paragraph 325.3 in **Agenda Item 5-B**.) Further, the Task Force is proposing that this Section make clear that appropriate reviewers might be appointed for different purposes, including to apply a safeguard (as the concept is used in the Code) or to meet a quality management objective under [proposed] ISQM 1 or other applicable quality framework (see paragraph 325.2 in **Agenda Item 5-B**). Thus, as long as an

<sup>30</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*

<sup>31</sup> Depending on the particular facts and circumstances, such an appropriate reviewer might be appointed from within or outside the firm. Where detachment from the engagement team is especially important, the Code makes clear in provisions that specify actions that might be safeguards that such individuals are not members of the engagement team.

<sup>32</sup> Section 321, *Second Opinions*

individual meets the description of an appropriate reviewer, the guidance in Section 325 will apply in relation to the objectivity of that individual.

46. The Task Force did not consider that Section 300 would be appropriate for the location of the guidance as that Section contains material of a general and overarching nature for professional accountants in public practice regarding the application of the conceptual framework to their facts and circumstances. Nevertheless, the Task Force felt that it would be appropriate to signal in Section 300 that the Code addresses the matter of the objectivity of appropriate reviewers. The Task Force is therefore proposing to add an example involving an appropriate reviewer to the list of examples of familiarity threat in paragraph 300.6 A1(d) (see **Agenda Item 5-B**).
47. In addition to the above and in response to various suggestions from respondents, the Task Force is proposing some refinements to the various examples of threats, factors relevant to evaluating the level of the threats, and actions to address the threats. These are reflected in the proposed amendments in the marked-up version of the ED included in **Agenda Item 5-B**.
48. Representatives of the ISQM 2 Task Force have reviewed **Agenda Item 5-B**. Besides a few minor editorial suggestions, they have indicated their support for the proposals, including the clarification in paragraph 325.3 that appropriate reviewers include EQRs. The ISQM 2 Task Force has made a corresponding refinement to the cross-reference in the proposed ISQM 2 to the guidance in the Code that addresses the objectivity of appropriate reviewers, including EQRs.

#### **Matter for IESBA Consideration**

3. Do IESBA members agree with the Task Force's response and proposal above regarding relocating the proposed guidance to the new Section 325?

#### **D. Other Matters**

##### Engagement Team Members Reviewing Work of Less Experienced Team Members

49. Given the broadening of the scope of the guidance to appropriate reviewers, the ISQM 2 representatives raised the matter of whether engagement team members who review work of less experienced team members would be considered appropriate reviewers.
50. The Task Force noted that in developing the description of an appropriate reviewer in the Code, the Board had not considered this matter specifically. The Board's intent was to develop a description that would be sufficiently general to enable the application of a safeguard in a variety of assurance or non-assurance engagement circumstances. Having reflected on the matter raised by the ISQM 2 representatives, the Task Force believes that the context and objective of a review should guide whether an individual is suitable to serve as an appropriate reviewer. Thus:
  - If the aim under proposed ISQM 2 is an objective evaluation of the significant judgments and conclusions of the engagement team, it would not be appropriate for an engagement team member to serve in an EQR role. The individual who is appointed to serve in that role would need to be detached from the team.
  - If the aim under proposed ISA 220 (Revised)<sup>33</sup> is for more experienced staff members to review the quality of work performed by less experienced team members, the former would still need

<sup>33</sup> Proposed International Standard on Auditing (ISA) 220 (Revised), [Quality Management for an Audit of Financial Statements](#)

to have some degree of objectivity (which would mean at a minimum not reviewing work in which they actively participated or performed), but not the same level of detachment as would be needed for an EQR under proposed ISQM 2.

Under both proposed quality management standards, the relevant individuals appointed as reviewers would be appropriate reviewers under the Code given the different contexts.

51. The Task Force does not believe that the guidance in the proposed new Section 325 should result in additional objectivity considerations for individuals reviewing work of less experienced staff on an engagement team. Given the context of an engagement team, it would be accepted that there would necessarily be less detachment than compared with an EQR but nevertheless an expectation that individuals reviewing work of less experienced staff would not be reviewing work in which they actively participated or performed. With respect to self-interest and familiarity threats to objectivity that might be created in specific engagement teams, the Task Force believes that there are sufficient safeguards within the audit process in terms of the various layers of review, appropriate consultation and assignment of engagement team responsibilities to address those threats.

**Matter for IESBA Consideration**

4. Do IESBA members agree with the Task Force's view above?

## Appendix 1

### List of Respondents to the EQR Objectivity Exposure Draft

(Note: No members of the Monitoring Group responded to the exposure draft and there were no responses from those charged with governance.)

#	Abbrev.	Respondent	Region
<b>Regulators and Audit Oversight Authorities</b>			
1.	AOBSEC	Audit Oversight Board - Securities Commission Malaysia	AP
2.	FRC	UK Financial Reporting Council	EU
3.	IRBA	Independent Regulatory Board for Auditors	MEA
<b>National Standard Setters</b>			
4.	APESB	Accounting Professional & Ethical Standards Board	AP
5.	AICPA	American Institute of Certified Public Accountants	NA
6.	MIA	Malaysian Institute of Accountants	MIA
7.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
8.	GAO	US Government Accountability Office	NA
<b>IFAC Member Bodies and Other Professional Organizations</b>			
9.	ACCA/CAANZ	Association of Chartered Certified Accountants Chartered Accountants Australia and New Zealand	AP
10.	AE	Accountancy Europe	EU
11.	AGSA	Auditor General of South Africa	MEA
12.	BICA	Botswana Institute of Chartered Accountants	MEA
13.	CPAAu	CPA Australia	AP
14.	CPAC	Chartered Professional Accountants Canada	NA
15.	CPAM	The Malaysian Institute of Certified Public Accountants	AP
16.	IBRACON	Instituto dos Auditores Independentes do Brazil	SA
17.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
18.	ICAS	Institute of Chartered Accountants of Scotland	EU

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#	Abbrev.	Respondent	Region
19.	IDW	Institut der Wirtschaftsprüfer in Deutschland e.V.	EU
20.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
21.	IPA	Institute of Public Accountants	AP
22.	IPAK	Institute of Public Accountants Kenya	MEA
23.	ISCA	Institute of Singapore Chartered Accountants	AP
24.	JICPA	Japanese Institute of Certified Public Accountants	AP
25.	KICPA	Korean Institute of Certified Public Accountants	AP
26.	NBAA	National Board of Accountants and Auditors Tanzania	MEA
27.	NYSSCPA	New York State Society of Certified Public Accountants	NA
28.	SAICA	South African Institute of Chartered Accountants	MEA
29.	WPK	Wirtschaftsprüferkammer	EU
<b>Accounting Firms</b>			
30.	BT	Baker Tilly International	GLOBAL
31.	BDO	BDO International Limited	GLOBAL
32.	CROWE	Crowe Global	GLOBAL
33.	DTTL	Deloitte Touché Tohmatsu Limited	GLOBAL
34.	EYG	Ernst & Young Global Limited	GLOBAL
35.	GTIL	Grant Thornton International Limited	GLOBAL
36.	KPMG	KPMG IFRG Limited	GLOBAL
37.	MGNL	Moore Global Network Limited	GLOBAL
38.	PwC	PricewaterhouseCoopers International Limited	GLOBAL