

**Engagement Quality Reviewer Objectivity  
Comments on ED Question 1**

ED Question 1:

Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

The respondents' responses are divided into four groups:

- A. Full Support
- B. Support with amendments
- C. Does not support
- D. No comment

**A. Full Support****1) Accountancy Europe**

The proposed guidance addressing the topic of the objectivity of an EQR follows the fundamental principles and is in accordance with what stakeholders expect from an EQR. The exposure draft could have been more explicit on which problem we aim to solve with this new section, apart from filling a gap that the revision of the IAASB quality management standards revealed.

**2) Accounting Professional & Ethical Standards Board Limited (APESB)**

APESB does not support the proposed guidance addressing the objectivity of only the EQR in its current form. All EPs, EQRs and other Key Audit Partners (KAPs) are required to be independent, which is a higher ethical requirement than the fundamental principle of objectivity (which applies to all professional activities provided by professional accountants). It may also be confusing to separately address objectivity from the other components of independence, being the fundamental principle of integrity and the exercise of professional scepticism.

Professional accountants undertaking assurance engagements are subject to strict independence requirements in Parts 4A and 4B of the IESBA Code, which includes EPs, EQRs and other KAPs. Therefore, compliance with Parts 4A and 4B results in the EQR fulfilling their independence requirements under the IESBA Code, including compliance with the fundamental principle of objectivity.

The EQR Objectivity Proposals EM notes that when an EP subsequently becomes an EQR, "a self-review or self-interest threat might be created when judgements made by the individual in the previous engagement continue to influence subsequent periods, as is often the case in an audit of financial statements."<sup>1</sup> However, the APESB believes that this is also relevant to EQRs and other KAPs moving roles, not just the EPs moving to an EQR.

Further, it is unclear to APESB why the objectivity of the EQR is considered to be unique, and by specifically singling out the EQR, it appears to suggest that the EQR's objectivity is more important than the objectivity of the EP or other KAP.

Additionally, it implies that the fundamental principle of objectivity is more important than other fundamental principles, such as professional competence and due care. We respectfully suggest that in the context of assurance engagements, the fundamental principles of professional competence and due care and integrity are as important as the fundamental principle of objectivity. For example, an auditor

may meet all the independence requirements and be able to act objectively but may not have the necessary professional competence and skills to perform specific specialised audits (i.e., financial services entities).

The EQR Objectivity Proposals EM discusses the IAASB's view that if an EQR immediately becomes an EP, the threats to objectivity are significant and that a cooling off period is the most appropriate safeguard,<sup>2</sup> which is now intended to become a mandatory cooling-off period.<sup>3</sup> APESB strongly supports IESBA's view that imposing a mandatory two-year cooling-off period of two years when moving from an EP to an EQR is not proportionate in all circumstances. If there is any threat to independence (including in respect of objectivity) when an EP moves to an EQR, the conceptual framework in the IESBA Code can be applied to address the identified threat.

APESB is of the view that moving from EP to EQR may not always create threats to objectivity that need to be addressed. For example, assume a professional accountant acted as an EP in 2020 after serving in that role for two years, and an EQR reviewed the EP's judgements. In 2021, the original EP becomes the EQR, and a new EP is appointed that has not previously been involved in the engagement. Therefore, there have now been three separate professional accountants who have considered relevant judgements. Arguably, this could actually reduce threats to objectivity, as the new EP would approach the engagement and judgements with renewed vigour.

In respect of the identified threats in paragraph 120.14 A2, APESB makes the following comments:

a) "Self-interest threat

Two engagement partners who serve as an engagement quality reviewer for each other's engagement". APESB believes this threat may be equally applicable to the EPs and other KAPs.

b) "Self-review threat

The accountant serves as an engagement quality reviewer on an audit engagement after serving as the engagement partner or other engagement team member". APESB believes this threat would be equally applicable if an EQR subsequently serves as EP or another KAP moves to the EP role.

c) "Familiarity threat

The accountant who serves as engagement quality reviewer has a long association or close relationship with, or is an immediate family member of, an audit team member". Sections 540 and 940 of the IESBA Code include comprehensive rotation requirements and family and personal relationships are dealt with in Sections 521 and 921 of the IESBA Code, which apply to EPs, EQRs and other KAPs.

d) "Intimidation threat The accountant who serves as engagement quality reviewer for an audit engagement also has a direct reporting line to the engagement partner". APESB agrees that such an arrangement is inappropriate.

APESB is also of the view that the factors listed in proposed paragraph 120.14 A3 are equally applicable to evaluating the level of threats to the objectivity of an EP, EQR and other KAP. Another relevant factor might be if the audit client is a public interest entity.

APESB does not support all of the proposed safeguards in paragraph 120.14 A4 of the EQR Objectivity Proposals for the following reasons:

- "Implementing a period of sufficient duration (a cooling-off period) before the professional accountant is appointed as engagement quality reviewer."

APESB agrees that this may be an appropriate safeguard in certain situations; however, we do not agree that this should be a default requirement as proposed by the IAASB (refer discussion above and response to question 3 below) for all entities. This safeguard could be linked to the requirements in paragraphs R540.4 or R940.4 of the IESBA Code as applicable.

- “Having an appropriate reviewer review specific areas of significant judgement.”  
It may be more effective and efficient for the firm to implement the first safeguard. Further, in applying this safeguard to the above example would result in a fourth person being involved in reviewing judgements, which may be excessive.
- “Reassigning responsibilities within the firm.”  
This safeguard appears to replicate the first listed safeguard.

### 3) American Institute of Certified Public Accountants

PEEC agrees that the objectivity of an engagement quality reviewer (EQR) is important to the effectiveness of an engagement quality review and that the IESBA code should provide some principles-based application guidance.

PEEC believes the objectivity of all members of the engagement team is important. PEEC is concerned that the proposal disproportionately focuses on the objectivity of the EQR over other members of the engagement team as well as other professionals that may be appointed in the role of “appropriate reviewer” for the engagement. PEEC is also concerned that the proposal could discourage firms, especially small and medium sized practices, from voluntarily using an EQR or appropriate reviewer to address quality risks related to engagement performance. Accordingly, PEEC recommends the examples of threats included in the proposal be added as additional examples to the respective threats in paragraph 300.6 A1 and include the appropriate reviewer as another party. PEEC believes doing so will provide the necessary awareness of the threats to objectivity of an EQR and appropriate reviewer. The revised threats would read as follows (additions appear in boldface italic):

- Two engagement partners who serve as an EQRs or appropriate reviewers of each other’s engagements.
- The accountant who serves as an EQR or appropriate reviewer of an audit engagement after serving as the engagement partner or other engagement team member.
- The accountant who serves as an EQR or appropriate reviewer has a long association or close relationship with, or is an immediate family member of, an audit team member.
- The accountant who serves as EQR or appropriate reviewer for an audit engagement also has a direct reporting line to the engagement partner.

### 4) Association of Chartered Certified Accountants and CA Australia and NZ

We support the proposed guidance which explicitly addresses the topic of the objectivity of an EQR as we believe this is critical to the effectiveness of the EQ review. We welcome the introduction of additional application material within the Code as this enhances firms’ awareness of the threats to the objectivity of an EQR and the importance of applying appropriate safeguards to reduce the threats to an acceptable level.

We are encouraged by the IESBA’s close coordination with the International Auditing and Assurance Standards Board (IAASB) to ensure the guidance and terminology within the Code on the topic of EQR objectivity is consistent and compatible with the proposed ISQM 21. The proposed changes to the Code complement ISQM 2 and will ensure that EQRs continue to be robust and effectively support high-quality audits and other engagements. In light of this, we believe it would be helpful to refer to the ISQMs within

paragraph 120.14 A1 as being 'issued by the IAASB'.

**5) Audit Oversight Board Securities Commission Malaysia**

The AOB has no objection to the proposed guidance.

**6) Auditor General of South Africa**

Yes, the objectivity of the EQR is critical to the effectiveness of the EQ review.

**7) Baker Tilly International**

In general, we support the guidance which is included in the explanatory memorandum, subject to alignment and consistency with guidance included in ED-ISQM2 as set out above. The guidance presented in this exposure draft is more comprehensive regarding the threats to compliance with the fundamental principles (ED-120.14 A2) than the equivalent guidance in ED-ISQM2.A15.

We make the following comments in relation to the proposed guidance:

- 120.14 A2 (b) - we recommend including the "self-review threat" as the first item in the list as perhaps the greatest threat to objectivity of an EQR is that of reviewing an engagement on which they were previously the engagement partner, hence the suggestion of a cooling-off period. This section of the guidance would need to be updated to reflect any cooling-off period requirements in ED-ISQM2.
- 120.14 A3 – as above, we would recommend moving the second bullet relating to the length of time to be the first bullet point to reflect the comments we make above.
- 120.14 A3 – we suggest adding text to the end of bullet three as follows "and any subsequent relevant changes to the circumstances of the audit" to reflect that circumstances which were problematic when the EQR was previously an engagement team member may no longer be relevant to the audit (e.g. there may have been changes to systems and controls or disposals of parts of the business).
- 120.14 A4 – amend bullet point three to read "Having an appropriate independent reviewer review specific areas..."

**8) BDO International**

Yes, we support the proposed guidance:

- We believe the examples of threats are helpful;
- We agree with the factors that are included as relevant in evaluating the level of the threats; and
- We agree with the examples of safeguards or actions that might address the threats.

We propose the addition of the following factor to paragraph 120.14 A3

- The nature of the relationship with an engagement team member or engagement partner.

**9) Botswana Institute of Chartered Accountants**

We support the proposed guidance addressing the topic of the objectivity of an EQR. The guidance clearly provides background to explain the different types of threats to compliance with the fundamental principle of objectivity that might be created in circumstances where an individual is being considered for appointment as an EQR for a particular engagement.

**10) Chartered Professional Accountants of Canada**

We support the addition of the proposed guidance to the Code addressing the topic of the objectivity of an EQR. The objectivity of the EQR is critical to the effectiveness of the engagement quality review (EQ review) and we believe the proposed guidance provides helpful information about the types of threats to compliance with the fundamental principle of objectivity that may be created in certain circumstances

when a professional accountant is appointed as EQR.

However in considering the proposed application material addressing factors that are relevant in evaluating the level of the potential threats and the identified examples of safeguards or actions that may address potential threats, we received majority feedback from our consultation that there should also be requirements added to the Code for a cooling-off period for an engagement partner or other engagement team member before becoming the EQR for the particular audit engagement where the client is a public interest entity.

## 11) CPA Australia

If the cooling-off period for an EQR is seen as a discreet issue of Objectivity—rather than being a matter relevant to Independence—CPA Australia considers the additional guidance to be of value to professional accountants.

However, arguably, if it relates specifically to Independence, relevant considerations for all EP, EQR and KAP are already addressed in Parts 4A and 4B of the Code.

The EQR proposals are focused on the movement from EP to EQR and the potential self-review or self-interest threat “that might be created when judgements made by the individual in the previous engagements continue to influence subsequent periods.” While CPA Australia supports this guidance, we suggest that it should also apply to an EQR or KAP engaging in alternative roles on the same engagement.

The Explanatory Memorandum (EM) identifies examples of potential threats to Objectivity in paragraph 120.14 A2. CPA Australia suggests the following revisions:

### a) Self-interest threat

Further to the comments regarding applicability to other participants on the one audit engagement, this threat would be equally true for EPs and other KAPs.

### b) Self-Review threat

This threat equally applies to all three parties involved in the engagement, the EP, the EQR and KAP when they take on alternative roles.

### c) Familiarity threat

The threats to the FPs created by family and other personal relationships are addressed in Section 521 of the Code, further emphasizing that the proposed guidance may be better placed in Part 4A of the Code.

### d) Intimidation threat

While the arrangement described in the EM is considered inappropriate, it is unlikely in practice that this would occur. The intimidation threat is more likely pronounced between the KAP and the EP. Due to the level of experience required by the EQR, it is probable that the EQR and EP would have a similar level of influence in the firm.

CPA Australia is supportive of the factors included at paragraph 120.14 A3 of the EM which lists matters that are relevant when evaluating the level of threats to Objectivity as described in paragraph 120.14 A2. CPA Australia supports the examples of safeguards in paragraph 120.14 A4.

## 12) Crowe Global

We agree with the proposed guidance. It an appropriate threats and safeguards approach.

Smaller firms with a limited pool of potential EQ reviewers or who rely upon external EQRs might benefit from implementation guidance which could be presented outside of the Code.

## 13) Deloitte Touche Tohmatsu Limited

We support the proposed guidance addressing the topic of objectivity of the EQR. We suggest the following editorial changes to enhance clarity and consistency with other parts of the Code:

120.14 A2 Threats to compliance with the fundamental principle of objectivity might be created in certain circumstances in which a professional accountant is appointed as the engagement quality reviewer. The following are examples of threat that might be created:

[...]

(c) Familiarity threat

- The accountant who serves as engagement quality reviewer has a long association or close relationship with, or is an immediate or close family member of, an audit team member.

[...]

120.14 A4 Examples of safeguards or actions that might address such threats include:

- Implementing a period of sufficient duration (a cooling-off period) before the a professional accountant who was a member of the engagement team is appointed as engagement quality reviewer.

[...]

## 14) Ernst and Young Global Limited

Yes, we support including guidance specifically addressing the topic of the objectivity of the EQR. Because it is a response to an assessed quality risk, the engagement quality review has a heightened degree of significance in protecting stakeholders' and the public's interests. As noted in paragraph seven of the Explanatory Memorandum (the "EM"), many of the respondents to the IAASB's Exposure Draft Proposed International Standards on Quality Management (ISQM) 2, Engagement Quality Reviews (ED-ISQM 2) identified objectivity as critical to an effective engagement quality review. Indeed, an engagement quality review is by definition an objective evaluation. Given this heightened degree of significance of the engagement quality review, and that objectivity is a critical element in performing an engagement quality review, it is appropriate that the Code includes guidance specifically addressing how threats to the fundamental principle of objectivity might arise when a professional accountant is appointed as the EQR.

## 15) External Reporting Board

In general, the NZAuASB found the additional guidance to be helpful, however the NZAuASB firmly believes that any requirements relating to auditor rotation should be included in Section 540 of the IESBA Code, as discussed in our response to question 3.

The NZAuASB offers the following observations on specific paragraphs of the ED:

Paragraph 120.14 A2 The NZAuASB recommends the IESBA articulate more clearly the concerns being addressed by the guidance in paragraph 120.14 A2. As drafted, the guidance appears to assume that the professional accountant does not act with integrity and cannot be unbiased.

120.14 A2 (a) Self-interest threat: In smaller firms, engagement partners serving as engagement quality reviewer for each other's engagements is a situation that occurs regularly. It is only in the larger firms that this situation can be avoided, but even so it may still occur particularly in smaller firms or situations

when deep industry knowledge is required.

120.14 A2 (b) Self-review threat: The example assumes that any previous experience with the engagement will create a self-review threat (i.e., the practitioner serves as engagement quality reviewer after serving as the engagement partner or other engagement team member [emphasis added]). An individual acting as engagement quality reviewer is under the same pressure whether they were previously the engagement partner or not. In addition, this analysis overlooks others on the audit such as the engagement manager and partner (and possibly technical or sign off panel partners) who have an impact on any critical decision relevant to the audit. It is also important to remember an engagement quality reviewer does not have a right of veto over the audit team and they perform more of a consultative role. The NZAuASB cautions the IESBA to take these factors into account, and carefully consider the drafting so as to avoid creating impractical situations for smaller firms in particular.

Paragraph 120.14 A3 Additional factors that may be relevant in evaluating the level of threats include:

- The number of partners in the office;
- The number and nature of engagements the firm performs;
- The timing of the engagements; and
- The seniority of the respective partners.

The NZAuASB recommends these factors be included in the list in paragraph 120.14 A3, again to avoid impractical consequences for the firm, particularly smaller firms.

#### 16) Financial Reporting Council

Yes – However, the FRC notes that the additional material proposed for Section 120 is concerned with threats to objectivity arising from the EQR's relationships, familiarity and status with the engagement team. The Code includes additional material in Section 540 which deals with engagement partner rotation, including EQR which considers threats to objectivity resulting from familiarity with the entity which is the subject of the engagement. It would be helpful to cross-refer between these two parts of the Code.

The text could also be enhanced through inclusion of the language included in the consultation document, specifically the observation that. "...the objectivity of the EQR is critical to the effectiveness of the engagement quality review."

#### 17) Government Accountability Office

We support the proposed guidance addressing the objectivity of an engagement quality reviewer (EQR).

#### 18) Grant Thornton International Limited

GTIL supports the proposals in Section 120 addressing the topic of the objectivity of an EQR. We believe compliance with the Code is fundamental for professional accountants, to meet their responsibility to act in the public interest, and that the Code and the fundamental principles outline the behaviours associated with public expectations of professional accountants, regardless of the role they are acting in.

However, with respect to a familiarity threat as discussed in section 120.14 A2c of the proposal, the current definition of familiarity threat in the Code does not contemplate relationships between the professional accountant and other professional accountants in their firm/network. A familiarity threat is normally applicable to a long or close relationship between the professional accountant and the client, rather than with the audit team.

The use of a familiarity threat in this context appears to be inconsistent with how a familiarity threat is

used in other instances in the extant Code and does not support the example in the exposure draft. Furthermore, we believe it would be challenging to request partners to avoid familiarity with each other, particularly for smaller and medium-sized firms.

Therefore, GTIL recommends the Board revise the definition of familiarity threat to address internal relationships of the professional accountant. Alternately, the Board could consider adding application material to address these situations.

#### 19) IFAC Small and Medium Practices (SMP) Committee

Yes, the SMPC is supportive of the proposed guidance to address the topic of objectivity of an EQR. We also support the IESBA's view that a strict prohibition on an individual serving in the EQR role after having served on the engagement, unless the individual has served a cooling-off period, may not be proportionate in certain circumstances. We agree that any prohibition or limitation should result from the application of the conceptual framework relevant to the specific facts and circumstances and that the Code should remain principles-based.

One of the major roles of an EQ reviewer is to review the significant judgement being made and implemented by the engagement team. In this regard, we are of the view that the second bullet point in Para 120.14 A4 should be reconsidered. We question whether getting another "appropriate reviewer" to review specific areas of significant judgment in addition to the work of the EQR is indeed necessary or practical.

#### 20) Independent Regulatory Board for Auditors

We support the proposed guidance addressing the topic of the objectivity of an engagement quality reviewer. 6

We are pleased that no distinction is made between public interest entities and non-public interest entities or between listed and non-listed entities, and do not support the introduction of any other categorisation or distinction.

We support the proposal in paragraph 120.14 A2 of describing the self-review threat as serving formerly as an engagement partner or other engagement team member.

However, we do suggest that:

- An additional bullet be added to paragraph 120.14 A2(b), as follows: The accountant serves as a group engagement quality reviewer on a group audit engagement after serving as the engagement partner on a component of the group audit engagement. This example was included in paragraph A17B of proposed ISQM 2 included in Agenda Item 5-E that will be presented to the IAASB at its March 2020 meeting. It would be particularly important to include this example in the IESBA Code if the IAASB decide not to include the example in the final ISQM 2.
- The list of factors in paragraph 120.14 A3 be extended so that they are relevant to all four threats set out in paragraph 120.14 A2. The threats in paragraph 120.14 A2, being (a) Self-interest threat, (c) Familiarity threat, and (d) Intimidation threat, do not appear to be directly covered by the factors. For fulsome guidance to be provided, it is important that the factors include consideration that the threats may affect more than one professional accountant. Thus, the nature of the relationships between the professional accountants may need to be considered.
- It is important to note in the amendments to the IESBA Code that "Appointing a different

engagement quality reviewer” will be seen as an elimination of the threat.

#### **21) Institut der Wirtschaftsprüfer in Deutschland e.V.**

We support the general direction of the proposed guidance addressing the topic of objectivity of an EQR. However, we do have a number of concerns with the nature of some of the examples in paragraphs 120.14 A2 and 120.14 A4 as they relate to smaller firms.

In relation to 120.14 A2 (a) we note that in a firm with only two senior personnel involved in audits in which each of them is an engagement partner, there may be no choice but to revert to the other engagement partner as an engagement quality reviewer.

In relation to (b), when no other qualified audit personnel are available in the firm other than the former engagement partner, then there may be no choice but to revert to the former engagement partner as the engagement quality reviewer. We are very concerned about expanding the example to engagement team members other than the engagement partner because this would exacerbate the ability of small firms to choose an engagement quality reviewer.

Similar considerations apply to (c). There are family-owned firms that perform audits of financial statements, which means that there may not be any senior audit personnel available to be an engagement quality reviewer other than another family member or someone with whom there is long association or a close relationship.

In relation to (d), we note that in many small firms the managing partner of the firm may be the engagement partner on a number of audits. It would therefore be impossible for such a firm to provide an engagement quality reviewer who does not have a direct reporting line to the engagement partner.

Overall paragraph 120.14 A2 addresses a number of threats that may be very difficult to resolve in small firm. In this respect, the examples of safeguards or actions to address the threats set forth in paragraph 120.14 A4 may not be practicable in a small firm. If there are too few senior audit personnel, a cooling-off period, reassigning reporting responsibilities, or seeking another reviewer to review specific areas of significant judgment may not be practicable. We are also not convinced that requiring small firms to seek an engagement quality reviewer outside the firm is an appropriate measure.

We would like to point out that the way these paragraphs are written, they could be construed as discriminating against small firms and could be regarded as constituting anti-competitive provisions against such firms.

#### **22) Institute of Chartered Accountants in England and Wales**

We note that the IAASB has in effect requested that the IESBA issue guidance in this area. We do not see that the additional guidance proposed adds anything new that could not be derived readily from the Code as it stands. However, given the request to be more specific, we believe that, with the minor exception of the matter addressed below, the guidance is appropriate.

The guidance in paragraph 120.4 A4 refers to having an ‘appropriate reviewer’ review areas of significant judgement. Given that the EQR should be an appropriate reviewer, it may be helpful to specify that what is envisaged here is an additional appropriate reviewer.

#### **23) Institute of Chartered Accountants of Scotland**

We are supportive of the proposed guidance.

#### **24) Institute of Public Accountants**

The IPA believes the proposed guidance should mandate the cooling-off period for Public Interest Entities (PIEs). The IPA is of the view the expectation of users would be for the ethical code governing auditors to ensure the objectivity of EQCRs by mandating a coolingoff period.

The IPA also agrees the proposed guidance is suitable for engagements, other than PIEs, that have been determined by a firm to require an EQCR.

#### **25) Institute of Public Accountants Kenya**

Yes. ICPAK agrees with the proposed guidance as it enables entities to minimize threats that may arise, which will inhibit objectivity of the EQR. The guidance will enrich and guarantee the quality of Engagement Quality Reviews.

#### **26) Institute of Singapore Chartered Accountants**

The ED proposes addition of application material to Section 120 of the Code to address the objectivity of an EQR. The proposed guidance explains the application of the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principle of objectivity of an EQR.

For example, the proposed guidance provides that a self review threat might be created where an individual serves as an EQR after serving as the engagement partner and a safeguard that might address such threat includes implementing a cooling-off period before the individual is appointed as EQR.

We agree and support the above.

#### **27) Instituto dos Auditores Independentes do Brasil**

Yes. The Code to provide guidance in relation to this matter is crucial in order to allow firms to implement in their Quality Management certain conditions and circumstances for maintaining the EQR objectivity. However, the suggested paragraphs in the Exposure Draft might be viewed as a rule rather than a guidance once they are just providing one example for each threat without exploring better the relevant factors for the fundamental principles of objectivity. The proposed guidance should provide conditions, circumstances, relevant factors and rationale where the firms should consider in their Quality Management for the identification of threats, how to evaluate and to address them. In addition, the guidance could bring relevant factors and circumstances of the size of the firm and the complexity of the audit clients such as when the audit client is a public interest entity. We can give as an example of limited conditions the suggested paragraph 120.14 A3, where the factors described might be addressing just the Self-review threat and not the others.

In the suggested paragraph 120.14 A4, the Code could bring other examples of safeguards, especially in regards to other threats rather than Self-review one. As an example, the firms could consider whether they have implemented robust independent internal quality reviews.

In order to support our comments, we emphasize the prescription of the section 540 in the current Code related to “Long association of Personnel (including Partner Rotation) with an Audit Client” where the essence of the threats for the fundamental principle of objectivity is similar of the matter presented in this Exposure Draft. In that section, the reader could understand there are more relevant factors to evaluate the level of the threats and also provide more concept, in order to allow the firms to make their judgment and evaluation taking into consideration a combination of two or more factors when might increase the level of the threats.

### 28) Japanese Institute of Certified Public Accountants

We are in agreement with regard to the addition of general provisions, relating to the objectivity of an EQR, to the IESBA Code of Ethics.

### 29) Korean Institute of Certified Public Accountants

In relation with the objectivity of an EQR, we support that general ethical requirements in the IESBA Code address threats to objectivity that might be created, thereby enabling CPAs to be cautious about the issue. Just as proposed in the guidance, however, it would not be appropriate for the Code to specifically address circumstances in which threats could be created, factors to be considered in evaluating the level of the identified threats, and actions that might be safeguards to address such threats.

We believe it would be reasonable for the Code to include just general requirements with specified requirements to be referred to as in the ISQM 2 that covers the EQR in a comprehensive manner.

The Code could consider providing a reference as follow: "A CPA who performs audits, reviews or other assurance engagements could be exposed to threats that make him/her fail to comply with objectivity requirements, due to his/her previous involvement/engagements. For one, an individual could be appointed as the EQR immediately after having served as the engagement partner or having served on the engagement team. Those threats, safeguards and specific actions are described in the ISQM 2.

### 30) KPMG International

We agree on the importance of the objectivity of the EQR. We also believe that all professional accountants (PAs) performing audit, review and other engagements are expected to navigate their responsibilities within the basic tenets of the fundamental principles of integrity, objectivity and professional competence and due care. To expand considerations on objectivity in the Code for only one role that PAs may undertake in assurance engagements could have the unintended consequence of seemingly lessening the importance of objectivity for other roles, such as the engagement partner, or lessening the importance of the other fundamental principles applied by PAs involved in audit and other assurance engagements. Thus, this narrow application of the fundamental principles would benefit from additional context such as that found in [proposed] ISQM 2 paragraphs 6 and 7. Accordingly, we suggest that the introductory language for this section be expanded to include the following:

- the engagement quality review is to be an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon (footnote to ISQM 2);
- the EQR is not a member of the engagement team; and
- it is essential to apply the conceptual framework to evaluate the EQR's objectivity in relation to PAs on the engagement team or within the EQR's firm.

Additional comments on specific paragraphs are as follows:

#### Paragraph 120.14 A2

- Self-review threat – The threat to the EQR's objectivity is most relevant when the PA has served in a key role on the engagement team or has been involved in an area with significant judgment. We suggest this threat be edited to say "...after serving as the engagement partner or other key audit partner, or having been otherwise involved in an area of significant judgment on the audit

engagement.”

- Familiarity threat - As it is common for an EQR to be assigned from the same office as the engagement partner and other engagement team members, long association or a close relationship could arguably exist in most of these cases given these PAs would be colleagues. To narrow the focus to the key issue, we suggest this threat conform to the language of [proposed] ISQM 2 which references a “close personal” relationship, instead of broadening the threat to include long association and any “close” relationship.

Paragraph 120.14 A3

- Expand the first bullet point into the following two bullet points: “The experience and seniority of the professional accountant” and “The role of the accountant on the engagement team before becoming the engagement quality reviewer.”
- Consider adding the factor “The length of time the accountant was a member of the engagement team.”

Also, we suggest adding a new paragraph after paragraph 120.14 A3, as follows: “Paragraph 120.8 A2 includes general examples of conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats. The conditions, policies and procedures described in paragraph 120.14 A1 might also impact the evaluation of whether the threats to objectivity are at an acceptable level.”

Lastly, we recommend that the current IESBA definition of engagement quality review be aligned to that of the IAASB for consistency.

### 31) Malaysian Institute of Certified Public Accountants

MICPA supports the proposed guidance addressing the topic of the objectivity of an EQ reviewer.

We would also like to highlight that in practice, many have placed their focus on self-interest threat, self-review threat and familiarity threat of an EQ reviewer. Emphasis should also be placed on intimidation threat of an EQ reviewer. We believe that an accountant who serves as EQ reviewer, including both EQ review partner and assistant, for an audit engagement should not be a direct and an indirect reporting line to the engagement partner. For example, threat to compliance with the objectivity will be created in a situation where a head of audit is the person who evaluates the performance of an EQ review partner and has final say with regard to the career progression of an EQ review assistant, at the same time, the said head of audit is an engagement partner whose audit working papers are being reviewed by the EQ review partner and assistant.

As such, we recommend IESBA looks into this matter, such as providing examples of safeguard. We believe safeguards for this situation can be:

- (a) a person with higher authority performs the EQ review process; or
- (b) a committee within the firm addresses this.

We hope IESBA can also consider the impact to smaller firms where the above-mentioned suggestions may not be feasible.

### 32) Malaysian Institute of Accountants

We support the proposed guidance addressing the objectivity of an Engagement Quality Reviewer (“EQR”) as set out in the Exposure Draft. However, we strongly believe that a cooling-off period should be prescribed by the Code before an individual is appointed to the EQR role after having served on the

engagement.

**33) Moore Global Network Limited**

We support the proposed guidance. We have some minor editorial suggestions which are provided below.

**34) National Board of Accountants and Auditors**

We do agree with the proposed guidance since it will help firms mitigate expected threats to objectivity at an early stage hence put in place measures to curb the threats related to Engagement Quality Review (EQR).

**35) New York State Society of Certified Public Accountants**

The NYSSCPA strongly supports the IESBA's efforts to provide guidance regarding the specific threats an Engagement Quality Reviewer (EQR) may face with respect to his or her objectivity and suggest safeguards that can be implemented to reduce those threats to an acceptable level.

**36) PricewaterhouseCoopers International Limited**

Yes, we believe that the guidance contained in Section 120 is appropriate and helpful.

We believe that these considerations could potentially be applicable to professional accountants undertaking Agreed Upon Procedures. Therefore, an additional clause indicating that 120.14 may also be considered relevant for other types of engagements provided by professional accountants where an engagement quality reviewer (or equivalent) is appointed may be appropriate.

**37) South African Institute of Chartered Accountants**

SAICA agrees with the proposals on objectivity of an EQR, since this is intended to assist in improving audit quality.

**38) Wirtschaftsprüferkammer**

We are in general support of the rationale of the proposed guidance to safeguard the objectivity of the EQR.

However, we have some reservations towards the proposed threats (120.14 A2) and safeguards (120.14 A4) since they might be difficult to comply with by smaller firms. For example, when there is no other staff available within the firm other than the former engagement partner there is no other choice than getting back to the former engagement partner as the EQR (120.14 A2 (b)). This situation would even become more difficult to firms if extended to former engagement team members (120.14 A2 (b)). The proposals are therefore highly problematic for smaller firms and might make it difficult for them to choose an engagement quality reviewer. The same is true for 120.14 A2 (a) and (c). Likewise, it might be very difficult for SMPs to apply the proposed safeguards (120.14 A4).

Against this background, we are concerned that the proposals might particularly affect SMPs negatively, might bring about competitive disadvantages for them and lead to an increase of market concentration.