

**Engagement Quality Reviewer Objectivity
Comments on ED Question 3**

ED Question 3:

Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

The respondents' responses are divided into four groups:

- A. Support for cooling off in IESBA Code
- B. Support for cooling off in ISQM 2
- C. Does not support for cooling off requirement
- D. No comment

A. Support – IESBA Code**1) Audit Oversight Board Securities Commission Malaysia**

The AOB is of the view that the cooling-off requirement of EQR which is part of the ethical requirements for professional accountants should be prescriptive in the Code which is in line with the partner rotation rules. The IESBA, an independent standard setting board that develops ethical standards and other pronouncements for professional accountants, should take the lead in addressing the objectivity of EQR.

In this regard, a breach of the cooling-off requirements of EQR is equivalent to a breach of independence requirements under the Code. Independence is fundamental to an audit engagement and the AOB strongly believes that breaches relating to ethical standards should not be tolerated.

2) Auditor General of South Africa

We disagree with the view of IESBA for the following reasons:

EQR whilst not a primary member of the audit team, fulfils a critical role, thus independence and objectivity is critical and would still apply to the person. Furthermore, the IESBA already expressed that threats to the objectivity of an engagement partner stepping into an EQR role are an important issue that needs to be addressed. It is highly unlikely that there are any other safeguards that can be effective to eliminate the threat or reduce it to an acceptable level.

Accordingly, there should be a prescribed cooling-off period specifically for Professional Accountants who were involved in an Audit, Review and/or Other Assurance Engagement who intend on stepping into an EQR role specific to that auditee.

To address the following (par 16 of the ED): “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 same approach followed when prescribing cooling-off period under R540.5 for Long Association of Personnel with an auditee can be followed.

The IESBA in consultation with the IAASB should determine the appropriate period for cooling off. Furthermore, we believe mitigation of the objectivity risk is important to warrant inclusion on the code. Recent reports and questions posed on credibility of audits necessitates that this risk be more actively

mitigated, and consequences of noncompliance be addressed with the required level of importance and attention.

General Comments

Under proposed ISQM 1, an EQ review may be performed for a variety of engagements (i.e., not only audits of financial statements, and not only for audits of listed entities), depending on whether the firm determines that an EQ review is an appropriate response to a quality risk. The proposed application guidance on the application of the conceptual framework to address the topic of the objectivity of an EQ review would be appropriate in those EQ reviews.

3) Chartered Professional Accountants of Canada

Through our consultation, some support was received for IESBA's position and particularly in trying to maintain the Code as principles-based and without unnecessary prescription.

However, it was noted that specific and prescriptive requirements exist currently within the Code with the majority of the view that requirements should be added to the Code for a cooling-off period for an engagement partner and for other engagement team members before becoming the EQR for the particular audit engagement where the client is a public interest entity. Locating specific EQR related cooling-off requirements within the Code would be consistent with the Long Association requirements and application material such that a professional accountant would find these matters in one anticipated source being the Code. Further, it was felt that this would avoid potential confusion from differing source locations and increase compliance.

Specifically, it is recommended 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 engagement partner could become the EQR for the audit of the same public interest entity, and
- A requirement for consideration of a cooling-off period for others who have served as engagement team members to be determined considering their former roles and responsibilities in addition to the nature and complexity of the public interest entity audit engagement and without a minimum duration.

4) CPA Australia

Consistent with CPA Australia's views expressed in our submission to the IAASB on Proposed ISQM-2 in June 2019, cooling-off requirements are akin to audit partner rotation requirements. Both cooling-off and rotation requirements attempt to address ethical issues relating to the fundamental principles of the Code, specifically, Objectivity and Independence (as a subset of Objectivity and Integrity). It is for this reason that CPA Australia believes that the concept of cooling-off should be placed with auditor rotation requirements in Section 540 of the Code.

5) External Reporting Board

The NZAuASB does not agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM-2. Rather the NZAuASB encourages the IESBA to fully deliberate the issue and, if necessary, include a requirement in the Code along with the other auditor rotation requirements. Such deliberation should include consideration whether it is appropriate to apply a cooling off requirement to all entities for which an engagement quality review is required under proposed ISQM-1.

As noted in the NZAuASB's submission to the IAASB, the cooling off period for the engagement partner moving to the engagement quality review role cannot be considered in isolation but should be considered in conjunction with the other requirements of the IESBA Code. Our view has not changed in this regard.

6) **Grant Thornton International Limited**

GTIL does not agree that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2.

When assessing the eligibility of an individual to be appointed as engagement quality reviewer, the firm's quality management policies and procedures set forth criteria for the eligibility of an individual to be appointed as an engagement quality reviewer. These criteria include compliance with relevant ethical requirements, such as the IESBA Code.

Objectivity of a professional accountant, regardless of the role they are serving in, is a fundamental principle of ethics, and compliance with the fundamental principles is achieved by application of the conceptual framework and other requirements of the Code.

Therefore, GTIL believes any cooling-off requirements recommended to eliminate or effectively reduce any threats to the EQR's objectivity, are more appropriately addressed and positioned in the Code. This approach would be similar to the mandatory rotation requirements for key audit partners (Section 540) when addressing threats to objectivity attributed to long association with an audit client.

Furthermore, we do not agree with the rationale that if such a requirement were put in the Code, failure to implement the required cooling-off period would result in a breach of the Code.

Breaches of the Code are failures to comply with the independence requirements in the Code for audit and review engagements. Threats to objectivity of the EQR in these instances, are not attributed to any service/relationship with the client or employing organization and would not be considered a breach of an independence requirement for the audit.

7) **Malaysian Institute of Certified Public Accountants**

The Code has been providing the similar cooling-off requirement for EQ reviewers (formally it is known as 'engagement quality control reviewers'). This shows that there is an inconsistency of the IESBA's stance and approach. Furthermore, the Code has been segregated clearly into audit engagement, review engagement and other assurance engagement. We do not see as to why the cooling-off requirement for EQ reviewers cannot be done under these categories. Besides, failure to compliance with the cooling-off requirement is a clear breach of fundamental principle of the objectivity. This should be regarded as a contravention of the Code. In conclusion, we are of the view that the cooling-off requirement should be included as part of the Code.

8) **Malaysian Institute of Accountants**

In the extant Section 540 of the Code, an individual is allowed to act in a combination of engagement partner and engagement quality control review roles on audit clients that are public interest entities, for a period of seven cumulative years, before the cooling-off period of three or five consecutive years. Accordingly, it would be more appropriate for the IESBA to determine the cooling-off requirement for EQR in the Code.

Although it is logical to have the eligibility criteria and cooling-off criteria within the proposed International Standard on Quality Management ("ISQM") 2, it is no different in approach from having the eligibility criteria for an Engagement Partner in ISA 220 and the cooling-off criteria in the Code. The IAASB could always either replicate the intended EQR cooling-off requirements in the Code in the proposed ISQM 2 or draw reference to the Code in the proposed ISQM 2. This also helps reinforce the importance for practitioners to always read ISQMs in conjunction with the Code rather than as separate documents.

ISQC 1 similarly has the same requirements for engagement quality control reviews but the current Section 540 already has guidance on the objectivity of engagement quality control reviewers. Therefore, the proposed introduction of ISQM 2 does not necessarily mean that the existing Section 540 could not be augmented to support the objectivity requirements of EQRs

9) Moore Global Network Limited

We believe that since the concept of cooling off is an ethical concept it would be more appropriate for IESBA to determine the duration of a cooling off period for those circumstances where an EQR is mandated. We believe that since EQR is likely to remain compulsory only in specific circumstances, it would be in the public interest for it to be clear that when EQR is mandated in those circumstances, a cooling off period is in place and the duration of that cooling off period is determined by IESBA in keeping with the fact that this is an ethical concept. This will be the simplest and most easily understood course of action – and simplicity and ease of understanding are clearly in the public interest.

EQR is not the only possible response to quality threats outside of the specific circumstances where it is mandated, therefore firms that find it challenging to implement a cooling off period will have the option to implement a different response to mitigate their quality threats outside of the specific, EQR mandated, ones.

Whilst IESBA considers that the scope of the cooling off may be better specified in the ISQM standards that establishes the requirement, EQR requirements do not only derive from ISQM 1 and the IESBA Code of Ethics also stipulates circumstances when an EQR is required such as fee dependence.

Minor editorial matters

Para 120.14A1 might be improved by mentioning the fact that quality risks relate to the achievement or otherwise of the firm's quality objectives. This would more usefully root the whole concept of the EQR within the sphere of being a role designed specifically to mitigate a risk or risks to those objectives.

Para 120.14A2 line 3 – should be 'threats'.

B. Support – ISQM 2

10) Baker Tilly International

We agree that it is appropriate for any cooling-off requirement to be included within the standard which establishes the requirement for an EQR and therefore any cooling-off requirement should be addressed in ISQM2. As noted above, we apply the same argument to guidance relating to objectivity and are of the view that the proposed guidance herein be included in the new ISQM2 as opposed to the Code.

11) BDO International

Yes, we agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in ISQM 2. We believe that there may be a risk with setting a prescribed minimum cooling-off period as threats to objectivity may persist beyond the end of this period. However, we have reviewed the proposed ISQM 2 standard papers to be discussed at the IAASB March Board meeting, and with the draft changes included in the proposed standard (paragraph 16A and application material A14) we believe that this risk would be adequately addressed.

As recommended in our response to ED ISQM 2, we continue to recommend that a cross reference in ISQM 2 to the applicable IESBA paragraphs in section 120 would be helpful for the reader.

12) Botswana Institute of Chartered Accountants

Yes, we agree with IESBA that it would be more appropriate for the IAASB to determine whether a

cooling-off requirement should be introduced in proposed ISQM 2 as it would be more appropriate for the scope of any cooling-off requirement to be specified in the standard that establishes the requirement for an EQ review and to also allow all the relevant material dealing with EQ review to be found in one place.

We also agree that the code dealing with a cooling-off requirement should not be prescriptive but should remain principle based to allow any prohibition or limitation to result from the application of the conceptual framework to the specific facts and circumstances.

13) Crowe Global

We agree that this matter ought to be addressed by the IAASB.

14) Deloitte Touche Tohmatsu Limited

We agree the Code should remain principles based, so a cooling-off requirement should not be included in the ethical standards. Rather, as the IAASB is including the eligibility requirements for the EQR in ISQM 2, any such cooling-off requirement (if deemed to be necessary by the IAASB) would be more appropriately included in ISQM 2.

15) Financial Reporting Council

The FRC supports introduction of a cooling-off requirements for EQR and welcome the discussion between the IESBA and the IAASB to determine how best to achieve this outcome.

The Code already includes requirements which relate to audit partner rotation for PIE. These include a cooling off period, and time spent as EQR is included in the calculation. We do not therefore see a fundamental barrier to including this additional cooling-off requirement within the IESBA Code, and we indeed support the Code taking the consistent approach in the treatment of the ethical matters relating to cooling-off requirements. We are content that the proposed inclusion of this requirement within ISQM 2 will achieve the desired outcome.

16) Independent Regulatory Board for Auditors

It is an imperative that a cooling-off requirement be introduced to address the self-review threat. While we would have preferred the IESBA Code to have directly addressed the cooling-off requirement, in the absence of this, we agree with the inclusion of a cooling-off requirement in ISQM 2. This is also relevant as a clear rule strengthens the ability of effective enforcement.

We acknowledge that the IAASB has proposed in paragraph 16A of proposed ISQM 2 included in Agenda Item 5-E that will be presented to the IAASB at its March 2020 meeting, a cooling-off period of two years, as a minimum, and would be supportive of firm policies or procedures, or other laws and regulations prescribing a longer period where relevant.

We support that a cooling-off period has been appropriately highlighted as an example of a safeguard or action in paragraph 120.14 A4 and appreciate that the cooling-off example has been highlighted as the first example of three possible safeguards or actions.

17) Institute of Chartered Accountants in England and Wales

We agree with the Board's rationale for the proposed approach, as described in the Explanatory Memorandum. Indeed, given that this guidance addresses the fundamental principle of objectivity directly, rather than forming part of the more specific set of independence requirements, we do not believe that it would be appropriate for the Code to specify an arbitrary cooling-off period.

18) Institute of Chartered Accountants of Scotland

We believe that many users might expect to see the specific matter of a cooling-off requirement addressed by IESBA and not the IAASB. Therefore, there might be merit in making a specific reference in the proposed new Code material to the cooling-off requirement in ISQM 2, even if just to highlight that it exists. This of course assumes that ISQM 2 will include such a requirement.

19) Institute of Public Accountants Kenya

We do agree that IAASB should determine whether a cooling off requirement should be introduced in the proposed ISQM 2. However, the code should not be prescriptive by defining a specific cooling off period but rather, consider a principles-based approach to that determination.

20) Instituto dos Auditores Independentes do Brasil

Yes. We agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2. However, we strongly recommend the inclusion of cross-references in both materials (ISQM 2 and the Code), in order to clarify the prescriptive in this regard and also in the section 540 as mentioned above.

21) Japanese Institute of Certified Public Accountants

We agree with the IESBA that the Code should not be prescriptive with regard to cooling-off period based on the principles-based approach and that it would be more appropriate for the IAASB to determine a cooling-off requirement.

In R540.20(a), it is stated that key audit partners shall not provide quality control for the audit engagement for the duration of the relevant cooling-off period. For that reason, we believe that prescribing matters related to the cooling-off period in the Code is more advantageous in terms of enabling comparisons with other roles, and also ensures perspicuity.

Nevertheless, in line with the assumption that the reviewing function is part of the quality control system of the firm, issues related to the cooling-off period for an EQR are handled as deficiencies in the quality control system. For that reason, we believe that the IESBA proposal is consistent with having lines of defense within the quality control system for firms.

22) Korean Institute of Certified Public Accountants

Given that the eligibility criteria for the EQR are established in the proposed ISQM 2, it would be better for the cooling-off requirements that hold similar nature with the criteria to be located together in the ISQM 2.

We are with the IESBA in that it would be more appropriate for the violation of cooling-off requirements to be dealt with from the perspective of a quality issue to be remediated through the firm's system of quality management, instead of being seen as the breach of the Code. In addition, it seems unnecessary for the requirements to be repeated in the Code, as commented on the question 1.

23) KPMG International

We agree that it would be more appropriate for any prescriptive requirements to reside within ISQM 2, as that standard is specific to the role of the EQR. Additionally, we suggest that the IESBA ensure the provisions in Section 540 of the Code, related to service in a combination of roles, do not present any inconsistency with the provisions of ISQM 2, once finalized.

24) National Board of Accountants and Auditors

We do agree with this proposal but we emphasize the proposed cooling-off period to be principle based as the number of cooling off period will depend on the entity and case by case circumstances.

25) New York State Society of Certified Public Accountants

Finally, we agree that the International Auditing and Assurance Standards Board (IAASB) is the more appropriate standard setter to determine whether a cooling-off period should be introduced in the proposed Internal Standards on Quality Management 2 (ISQM2). However, as the IESBA is proposing to introduce the concept of a cooling-off period into the Code through the proposed application materials, we suggest that, as part of the proposed safeguards, the IESBA add practical considerations to 120.14 A4 in order to assist practitioners when determining what might constitute “a period of sufficient duration.”

26) South African Institute of Chartered Accountants

SAICA agrees with the proposal to address the cooling-off period in the proposed ISQM 2 as the standard will be addressing EQRs and will ensure that the cooling-off is dealt with in the standard where the appointment and other requirements are discussed.

The Code is principle based and should, where possible, not set specific requirements or make rules.

The cooling off period for an EQR is important as it is intended to improve auditor independence, which impacts audit quality. Threats to independence are intended to be reduced to an acceptable level when the cooling-off period is applied appropriately. Although a cooling-off period requirement is warranted it should not be prescriptive as each case may be different.

C. Does not support

27) Accountancy Europe

Whilst we fully support the importance of safeguarding the objectivity of the EQR and agree that a cooling-off period might be required depending on facts and circumstances, we are not convinced that it is appropriate to mandate a specific one. We think that the interaction with the long association provisions included in the Code will be unmanageable, especially for small and medium practices.

We are concerned that smaller practices may not be able to manage the complexity of the provisions, and consequently decide not to engage in the audit of public interest entities (PIEs) anymore. Recognizing that audits of companies in some industry sectors require specific industry experience and expertise, it might even be difficult for larger audit firms to staff a certain audit with sufficiently experienced partners to provide high quality audits.

An impact assessment of the combination of all these requirements would need to be performed in order to ensure that such requirements would not deter smaller firms from providing audit services to PIEs. It would be very detrimental for the international standards boards to be seen as creating barriers of market entry that could generate market concentration in the long run.

The requirement of a cooling-off period adds additional complexity to the already very complex regime included in R540.14 to R540.17 that deals with the combination of key audit partner roles. Considering together these requirements with the proposed cooling off, it may turn out contradictory and unmanageable, highlighting the need to amend the long association section in a foreseeable future, where both concepts, the cooling-off and the combination, would need to be revisited in their totality.

28) Accounting Professional & Ethical Standards Board Limited (APESB)

APESB does not agree that it is more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM-2 as it is an ethical requirement.

We note that the IESBA Code comprehensively deals with Key Audit Partner (KAP) rotation, whether it is an EP, EQR, or other KAP. Accordingly, APESB does not support the IAASB, including a mandatory two-year cooling-off period when moving from EP to EQR in proposed ISQM-2 as it is disproportionate to require this in respect of all entities and such an approach introduces a rotation rule external to the IESBA Code.

APESB is of the firm view that if changes are required to the existing partner rotation requirements that there should be an evidentiary basis and a clear rationale for the inclusion of additional partner rotation requirements. Evidence from fact-based research has not been provided by the IAASB to support a mandatory two-year cooling-off period when moving from an EP to an EQR. Further, we note that the proposed ISQM-2 included a two-year cooling-off period as guidance in relation to audits of listed entities, which has now been elevated to a mandatory two-year cooling off to apply to all instances of where an EP moves to an EQR (refer to paragraph A 42 of IFAC Due Process Document). However, based on the submissions to the proposed ISQM 2, support for such an elevation is clearly varied (refer to Appendix C).

For IESBA's reference, APESB included the following comments in its submission to the IAASB on ED-ISQM 1 and ED-ISQM 2 on 1 July 2019:

APESB is concerned that the IAASB propose a cooling-off period for a previous Engagement Partner (EP) before they become an Engagement Quality Reviewer⁵ and the application material suggests a minimum period of two years for listed entities.⁶

We believe this is inconsistent with the requirements of the IESBA Code, which takes into account the possibility of multiple Key Audit Partner (KAP) roles (EP, Engagement Quality Control Reviewer (EQCR) or other KAP) and has rules in place where a combination of roles occur. APESB does not consider it best practice in standard-setting to have an aspect of rotation rules outside of the IESBA Code. We are strongly of the view this matter should be considered by the IESBA and addressed in the IESBA Code as:

- (i) KAP rotation is comprehensively dealt with in the IESBA Code;*
- (ii) There is no current prohibition in respect of movement between EP and EQCR, as long as, collectively the practitioner adheres to the applicable time on and time off periods when they perform a combination of KAP Roles. Further, if there is an independence threat for an EP moving to EQCR role, then it is dealt with by the conceptual framework of the IESBA Code; and*
- (iii) Audit partner rotation relates to ethical obligations, and it is advisable for all such ethical obligations to be dealt with in one place (the IESBA Code).*

29) American Institute of Certified Public Accountants

Aside from the cooling-off period, PEEC believes the substance of the examples of safeguards included in the proposal are addressed in paragraph 300.8 A2. So that the cooling-off period is addressed in the IESBA code, PEEC recommends adding the proposed cooling off example be added to paragraph 300.8 A2 with the following revisions.

- Implementing a period of sufficient duration before a professional accountant that was previously on the engagement team can be appointed as an EQR or appropriate reviewer.

PEEC believes this example is sufficiently broad to address the objectivity of all members of the engagement team who are appointed as appropriate reviewers as well as EQRs.

30) Association of Chartered Certified Accountants and CA Australia and NZ

We support the establishment of a cooling-off period to safeguard the objectivity of individuals previously involved in the engagement that is consistent with the existing cooling-off requirements imposed on partners involved in the audits of public interest entities (PIEs) in Section 540 of the Code. However, this needs to be carefully considered as it presents further challenges for small and medium practices (SMPs) in managing EQ reviews. For example, a sole practitioner or two partner practice may have to engage an external EQR if they have a cooling-off period, whereas larger firms will be able to manage this process internally.

We do not support the inclusion of cooling-off periods for EQRs in ISQM 2. In our joint submission to the IAASB on the Proposed ISQM 22, we expressed the view that the ethical requirements in relation to EQRs, including requirements in relation to cooling-off periods, should be located within the Code. Therefore, we believe that cooling-off requirements for EQRs should be included within a new standalone section on EQ reviews within Part 3 of the Code. This would be consistent with the IESBA's previous approach to cooling-off periods which has been to include them in the Code. As Section 540 prescribes cooling-off periods for key audit partners (including EQRs) involved in the audits of PIEs, having the cooling-off requirements for EQRs after having served on the engagement included in the auditing standards would force practitioners to consult two different sources in order to fully understand the requirements, which could lead to inconsistencies and errors in practice. We are also concerned about the potential risk of conflicting cooling-off requirements for EQRs.

When the cooling-off requirements are included in the Code, they should remain principles based and should not impose a stricter standard than the existing requirements for PIEs in section 540. This is consistent with part of the IESBA's views expressed in paragraph 16 of the Explanatory Memorandum which states that "a strict prohibition on an individual serving in the EQR role after having served on the engagement unless that person has served a cooling-off period may not be proportionate in the circumstances".

31) Ernst and Young Global Limited

No. We support including guidance in the Code to explain the application of the conceptual framework when considering the objectivity of the EQR. We also believe 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, we believe that any prescriptive requirement for a cooling-off period should be included in the Code and not in ISQM 2.

Objectivity is a fundamental principle of ethics, and as noted in our response to question one above, it is a critical element to an engagement quality review. In order to comply with the Code's fundamental principles, the professional accountant must identify, evaluate and address threats to the EQR's objectivity, including applying safeguards. And as recognized by the Board in paragraph 16 of the EM, a cooling-off period would serve to protect – or in other words safeguard - the objectivity of the EQR. Therefore, if the proposed guidance is included in the Code and any prescriptive cooling-off requirement is separately included in ISQM 2, the Code will not sufficiently address the application of the conceptual framework when considering the objectivity of the EQR. While we agree that the Code should remain principles-based, we believe that the threats to objectivity created when an accountant serves as an EQR on an engagement after serving as the engagement partner or other engagement team member are sufficiently significant that cooling-off is required. We are concerned that by including cooling-off as only an example of a safeguard in proposed paragraph 120.14 A4, and if a cooling-off requirement is

included only in ISQM 2, the Board risks understating the importance of EQR objectivity in the Code. We suggest that the Board coordinate with the IAASB in evaluating what an appropriate cooling-off time period would be. In addition, the Board should make it clear that in the case of a lead audit engagement partner involved in an audit engagement, the completion of a cooling-off period of less than five years before undertaking the EQR role would not result in a fresh, 7-year time-on rotation under the Code's Long Associations requirements in Section 540.

Should the Board decide not to include a prescriptive cooling-off requirement in the Code and this is instead included in ISQM 2, then we suggest that rather than listing a cooling-off period as an example of a safeguard in proposed paragraph 120.14 A4, the Code should include a direct reference to ISQM 2 to explicitly acknowledge that the cooling-off requirement included in ISQM 2 constitutes a safeguard under the Code.

32) Government Accountability Office

We agree with the IESBA that the Code should remain principles based and that prohibition or limitation of individuals serving in an EQR role should be based on the application of the conceptual framework to the specific facts and circumstances.

33) IFAC Small and Medium Practices (SMP) Committee

We are of the view that cooling-off relates to the maintenance of objectivity, which is an IESBA Code issue rather than a primarily quality management issue. We believe that with the introduction of the new application material, the IESBA Code should be sufficient on its own such that ISQM 2 should simply include a cross reference in place of the prescriptive requirement for a 2-year cooling-off period (as proposed in para 16A of ISQM 2 in Agenda Item 5-E for the March IAASB meeting).

The SMPC has previously raised with the IAASB that a 2-year cooling off period is not an appropriate way to safeguard independence in all cases. For example, for SMPs that lack a large pool of potential EQRs, it could even be detrimental if it were to result in a less suitably qualified individual being assigned the role when from a quality perspective, the outgoing engagement partner who has knowledge of the audit engagement would be better suited to perform the EQR.

If this issue is covered with guidance in the Code (as being proposed at present), firms will have the option to use the threats and safeguards approach, rather than necessarily stipulating a 2-year cooling-off period. Each firm would use professional judgement in their own circumstances and so, some might well use a 2year cooling-off period anyway. The IAASB would not then need to retain the 2-year cooling-off period in ISQM 2 and it should not be a prescriptive requirement in the Code.

34) Institut der Wirtschaftsprüfer in Deutschland e.V.

We believe it would be more appropriate for IESBA to determine whether a cooling-off period is needed and then to place that requirement, if any, in the Code because this matter relates to objectivity – which is only one aspect of quality. Requirements with respect to objectivity should be in the Code – not ISQM 2.

We do not agree with the arguments set forth in the Explanatory Memorandum as to why ISQM 2 rather than the Code is the appropriate place to address a cooling-off period. First, since the Code applies to a variety of engagements too, it seems to us that there is no barrier to having the Code, rather than ISQM 2, address any such requirements. Second, it is possible in these instances to remediate breaches of the Code through subsequent actions. Third, it would not have been difficult for ISQM 2 to refer to the requirement in the Code through its application material.

35) Institute of Singapore Chartered Accountants

We agree that flexibility should be retained in the Code for the firm to determine what is an appropriate cooling-off period for audit clients that are not PIEs.

For audit clients that are PIEs, we note that the time-on period requirements in paragraph R540.5 allows an individual to act in a combination of engagement partner role and EQR role for a period of not more than seven cumulative years (the “time-on” period). Section 540 of the Code does not explicitly prescribe a requirement for an individual to serve a cooling-off period between his above two roles during the time-on period.

We also note the proposed inclusion of paragraph 120.14 A2 (b) of an example of a self-review threat created in complying with the fundamental principle of objectivity in situations where the accountant serves as an EQR on an audit engagement after serving as the engagement partner or other engagement team member.

In our view, should an individual act in a combination of engagement partner role and EQR role for a PIE client during the time-on period, the individual should be required to serve a cooling-off period between these two roles. This serves to address the self-review threat to compliance with the fundamental principle of objectivity.

We recommend that IESBA prescribe a cooling-off requirement at an appropriate location in the Code for an individual moving on to an EQR role after serving as the engagement partner for a PIE client. This will avoid situations where an individual move from an engagement partner role to an EQR role during the time-on period for a PIE client without any cooling-off period.

36) PricewaterhouseCoopers International Limited

Principle of cooling-off

We continue to support the principle of a “cooling-off period” but do have concerns regarding the establishment of a bright line rule (2 years).

Focussing on audit engagements as the primary application, while we are comfortable with a 2-year cooling off as a rule of thumb and that best efforts should be used to adhere to this principle, we do not consider that a mandated requirement will always be in the best interests of promoting audit quality, taking into account potential specific engagement circumstances. There may be cases, albeit perhaps rare, where it is not possible to identify an engagement quality reviewer, who has served a cooling-off period, and who has the necessary authority and/or expertise to effectively evaluate and challenge the judgments. This may arise more commonly in smaller firms. In such cases, we believe that audit quality is best served by appointing the individual with the most appropriate experience and expertise to challenge the engagement team’s judgements and applying any necessary safeguards to address any threat to objectivity. Appointing an individual who may not have the requisite authority or skills, but who is not barred as a result of the cooling-off period might, in some cases, prove detrimental to audit quality.

Location of requirement/exception

We believe the implications and consequential effects of the potential locations for the requirement may not have been sufficiently explained. For example, we suggest there is a lack of clarity for the expected actions of the engagement partner in accordance with ISA 220 when becoming aware of deficiencies in the system of quality management related to non-compliance with the requirements of ISQM 2.

Our understanding is that a breach of the 2-year requirement in ISQM 2 (or indeed any eligibility

requirement in ISQM 2) is a deficiency in the firm's system of quality management and would be evaluated and remediated under ISQM 1. While that is rightly a matter that the firm has to address, it is not clear how the firm would apply the appropriate use of judgement in evaluating the impact of a breach of such as rule on objectivity and the ability of the firm to complete the engagement and issue the report (in situations where an alternative reviewer has not or cannot be appointed).

The only available action to the engagement leader is to request a replacement EQ reviewer from the firm. If the firm is unable to do so, the auditor's report cannot be issued. Therefore, we are concerned that the consequences of locating the requirement in ISQM 2 may unduly restrict the ability of the firm to reach a sensible outcome compared to an ability to evaluate the impact of a breach, were the requirement to be in the Code.

For this reason, we do not believe that placing the requirement in ISQM 2 is the appropriate location and that appropriate flexibility in exceptional circumstances, which we believe is in the interests of promoting quality, is best achieved by locating the requirement within the Code.

Recommendation

Accordingly, we recommend that the issue of cooling-off be addressed fully in the Code, and that the IESBA adopt a position of allowing an exception to the general rule where this is in the interests of audit quality. In recommending this, we draw an analogy to the content of the IIS addressing the application of the Key Audit Partner rotation requirements for PIEs and the exception contained in paragraph R540.7. Such an exception would involve the firm discussing the matter with those charged with governance including the reasons why the required cooling-off is not possible and/or in the interests of audit quality and the need for any safeguards to reduce any threat to objectivity, which is not at an acceptable level. Inclusion in the Code would also, in circumstances when the rule is inadvertently breached, permit the firm, in accordance with the provision in the Code today at R100.4, and in communication with those charged with governance, to evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles, and to take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily. We believe this would also address the audit engagement partner's responsibilities in accordance with ISA 220 for addressing a breach of ethical requirements/deficiency in the firm's system of quality management.

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We do not agree that it would be more appropriate for the IAASB to determine whether a cooling-off period should be introduced since this matter is linked to objectivity and therefore the Code.

We are also not in favor of introducing a specific cooling-off period. Introducing a cooling-off period would increase the complexity of the Code and make the interplay with the long association provisions of the Code unmanageable. This would, again, particularly affect SMPs negatively.

Overall, we would like to encourage IESBA to more diligently take the unique needs of SMPs into consideration when issuing new proposals.