

Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

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Background

- The need for clarification on issues relating to an engagement quality control reviewer's (EQCR's) objectivity became apparent based on responses received to a 2015 Invitation to Comment issued by the International Auditing and Assurance Standards Board (IAASB).
- The fact that relevant ethical requirements, such as the IESBA Code, may not specifically address threats to objectivity, which also affect quality, that may arise in certain circumstances related to the EQCR's objectivity was noted by the IAASB.

Background

- In response to the aforementioned matters, the IESBA approved revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* addressing the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers in September 2020.
- Work to update the Code dovetailed with the IAASB's development of *International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews*, which was finalized in December 2020.
- The revisions provide guidance that supports ISQM 2 in addressing the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity.
- The enhanced guidance will become effective December 2022.

Revisions to Code Contents

Section 300 – Requirements and Application Material

Section 325 – Objectivity of an engagement reviewer and other appropriate reviewers

Section 540 – Long association of personnel (including partner rotation) with an audit client

Section 300

- Section focuses on identifying, evaluating, and addressing threats.

Threats

- Self interest
- Self review
- Advocacy
- Familiarity
- Intimidation





Section 300

Safeguards

- Assigning additional time and qualified personnel
- Reviewer who is not team member
- Different partners and teams for non-assurance services to an audit client
- Involvement from another firm
- Disclosure of referral fees/commission to clients
- Separate teams when dealing with confidential matters

Section 325 – Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

- Section outlines the following:
 - Professional accountants must comply with the conceptual framework in Section 120 to identify, evaluate and address threats
 - The appointment of an EQR who has involvement in the work being reviewed or close relationship with those responsible for performing the work might create threats to compliance with objectivity
 - Ability to achieve quality audit is dependent on compliance with quality standards
 - An EQR is a partner, whether within or external to the firm, appointed to perform the engagement quality review

Section 325 – Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Threats and associated examples

- Self interest
 - Two engagement partners each serving as EQR for each other's engagements
- Self review
 - Serving as EQR after engagement partner (EP) role
- Familiarity
 - Serving as an EQR but having a close relationship with or is an immediate family member of an individual who is involved in the engagement
- Intimidation
 - EQR on engagement has a direct reporting line to the partner responsible for the engagement



Section 325 – Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers

Threat evaluation [Factors to consider]

- Role/seniority of appointed EQR
- Nature of EQR's relationship with team members
- Timing of rotation

Addressing threats [Safeguards]

- Reassign responsibilities within the firm
 - Implement cooling off period
 - ISQM 2 requirement for firm to establish policy – 2 years before EP can be EQR
 - Distinct from the rotation periods required by Section 540 which are designed to address threats to independence caused by long association
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Section 540 – Long Association of Personnel (including partner rotation) with an audit client

Consequential amendments were also made to Section 540.

- Audit clients that are public interest entities
 - Subject to paragraphs R540.7 – R540.9, an individual shall not act in any of the following roles or a combination of such roles for a period of more than seven cumulative years (“time-on period”):
 - Engagement partner
 - Individual appointed as EQR
 - Any other key audit partner role
 - For calculation of the time-on period, the count of years shall not be restarted unless broken for a minimum of the cooling-off period

Section 540 – Long Association of Personnel (including partner rotation) with an audit client

- Cooling-off period

Role and associated time-on period	Required cooling off period
EP for seven (7) cumulative years	Five (5) consecutive years
EQR for seven (7) cumulative years	Three (3) consecutive years
Key audit partner other than EP or EQR for seven (7) cumulative years	Two (2) consecutive years

- Key emphasis: Rotation requirements in Section 540 are distinct from and do not modify ISQM 2 cooling-off requirements.

Effective date

- For part 4A – audits and reviews of financial statements for periods beginning on or after December 15, 2022
 - For part 4B – assurance engagements beginning on or after December 15, 2022
 - For all engagements within the scope of part 3: engagements beginning on or after December 15, 2022
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- *IESBA Part 4A – Independence related to audits and review engagements*
 - *IEBSA Part 4B – Independence related to assurance engagements*
 - *IEBSA Part 3 – Professional Accountants in Public Practice*