Proposal of the Engagement Quality Control (EQ) Review Joint Working Group—Objectivity of the EQ Reviewer

Objective of the JWG Discussion

The objective of the discussion is to obtain the Joint Working Group’s (JWG) input on the proposed way forward with respect to addressing the objectivity of the engagement quality (EQ) reviewer, including addressing the key issue of when an individual who had previously been involved in the audit (e.g., in the role of the engagement partner) may subsequently fill the role of the EQ reviewer.

The proposals in this paper have been developed by the JWG.

Extract from the Minutes of the Joint IAASB and IESBA Meeting in September 2017

Objectivity of the EQC Reviewer

Mmes. French and Soulier introduced the topic, noting that the objective of the session was to obtain feedback on the proposed way forward with respect to how the IAASB and International Ethics Standards Board for Accountants (the SSBs) might coordinate their efforts in addressing the objectivity of the EQC reviewer as part of the IAASB’s project on quality management at the firm level. They noted that a key issue to consider was whether a specified “cooling-off period” should be established for situations in which a former engagement partner steps into an EQC reviewer role. It was noted that the proposals being brought forward were developed by the IAASB’s Quality Control Task Force (QCTF) with input from IAASB and IESBA Liaison members, as well as the SSBs’ staff.

IAASB and IESBA members broadly supported the proposed approach for moving forward, including the proposal to establish a joint working group, to be chaired by the Chair of the QCTF and with two representatives from each SSB. It was agreed that the purpose of the joint working group will be to develop recommendations on how the issues may be addressed.

IAASB and IESBA members agreed to hold a joint teleconference in February 2018 to consider the joint working group’s recommendations.

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1 In the context of this paper, the term “cooling-off period” relates to the period of time when an individual who had previously been involved in the audit, including in the role of the engagement partner, would not be eligible to fill the role of the EQ reviewer.

The International Independence Standards in the IESBA Code includes a different description of “cooling-off period” in relation to long association of personnel with an audit client (see Part 4A – Independence for Audit and Review Engagements, Section 540, Long Association of Personnel (Including Partner Rotation) with an Audit Client, paragraphs R540.5, R540.11 to R540.13). The IESBA Code notes that a familiarity threat to independence might be created as a result of an individual’s long association as an audit team member with the client, the client’s operations, senior management, or the financial statements (see paragraph 540.3 A1).
Introduction

1. At the September 2017 joint SSB meeting, the SSBs discussed the issue of the objectivity of the engagement quality reviewer and agreed to form a joint working group (JWG).\(^2\) The purpose of the JWG is to consider and develop recommendations on how the issues related to the objectivity of the EQ reviewer may be addressed, including:

   (a) How the provisions\(^4\) in the *International Code of Ethics for Professional Accountants (including the International Independence Standards)* (the IESBA Code or the revised and restructured Code) could be made more explicit, or could be better illustrative in relation to the objectivity of the EQ reviewer.

   (b) Whether there should be a specific requirement in the Code or the IAASB’s International Standards to explain how an individual stepping into an EQ reviewer role should address threats to the fundamental principle of objectivity that might be created when that individual was previously involved in the engagement. The JWG will also consider the appropriate location(s) of such requirements.

2. Since the September 2017 joint SSB meeting:

   (a) The IESBA has issued the revised and structured Code in April 2018.

   (b) The IAASB has continued to progress revisions to proposed ISQC 1 (Revised).\(^5\) The IAASB has not discussed any further proposals relating to the sections of proposed ISQC 1 (Revised) related to the engagement quality review, or to proposed ISQC 2,\(^6\) since September 2017, given the need to focus efforts on other key projects.

   (c) The ISQC 2 Task Force met in June 2018 and has held two teleconferences in Q3, 2018.

   (d) The JWG has held one teleconference in Q3, 2018.

3. The IAASB will discuss a draft of the exposure draft of proposed ISQC 2 (including the portions of proposed ISQC 1 (Revised) relevant to the engagement quality review) at its September 2018 meeting. The IAASB has revised its proposed timelines for the completion of its projects on proposed

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\(^2\) The members of the JWG are: Imran Vanker (Chair of the JWG effective June 2018, IAASB member and Chair of the ISQC 2 Task Force), Michael Ashley (IESBA member), Prof. Dr. Kai-Uwe Marten (IAASB member and member of the ISQC 2 Task Force), and Ms. Sylvie Soulier (IESBA member and liaison with the IAASB).

\(^3\) The September 2017 issues paper included an explanation of:

- How the IAASB proposes addressing the objectivity of the EQ Reviewer in ISQC 2;
- How the principles in the proposed Restructured IESBA Code of Ethics for Professional Accountants addresses the objectivity of the EQ reviewer;
- Issues identified with respect to the objectivity of the EQ Reviewer; and
- A proposed way forward to address the issues, which included the formation of the JWG.


\(^5\) Proposed International Standard on Quality Control (ISQC) 1 (Revised), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

\(^6\) Proposed ISQC 2, Engagement Quality Reviews
ISQC 1 (Revised) and proposed ISQC 2, and anticipates that exposure drafts of these standards will be approved in December 2018.

Options Considered by the JWG

4. The JWG is of the view that there is merit to exploring how best to address this topic in both the IESBA Code and proposed ISQC 2 to maintain the interconnectivity of the IESBA Code and the IAASB’s standards. The JWG also believes that it is important to highlight the importance of reinforcing the EQ reviewer’s objectivity, particularly given the unique relationship between the EQ reviewer and the engagement and engagement team. The JWG considered how the provisions in the IESBA Code\(^7\) relating to professional accountants’ compliance with the fundamental principle of objectivity could be used to illustrate the application of objectivity to the EQ reviewer.

5. The JWG discussed how to address the threats that may arise when an individual who was previously involved in the engagement (whether as the engagement partner or as a member of the engagement team) is appointed as the EQ reviewer. It is recognized that the individual’s previous role (for example, engagement partner versus engagement team member) will give rise to different levels of threats. In this regard, the JWG discussed four options as follows:

(a) Option A: Include a requirement in proposed ISQC 2 to prohibit an individual who was previously involved in the engagement from performing the EQ review for a specified period of time (i.e., a cooling-off period). This requirement would need to specify:

(i) To whom the cooling-off period would apply (e.g., the engagement partner and/or other engagement team members);

(ii) The length of time for the cooling-off period; and

(iii) The nature of engagements to which it should apply (see paragraphs 8–10 below).

(b) Option B: Include a requirement in proposed ISQC 1 (Revised) for the firm to establish policies or procedures to address the limitation or cooling off period of an individual who was previously involved in the engagement from performing the EQ review. The policies or procedures should be specific about:

(i) To whom the cooling-off period would apply (e.g., the engagement partner and/or other engagement team members);

(ii) The length of time for the cooling-off period; and

(iii) The nature of engagements to which it should apply (see paragraph 11 below).

(c) Option C: Establish provisions in the IESBA Code that either: (see paragraphs 12–14 below).

1. Require individuals stepping into an EQ reviewer role to be subject to a cooling-off period in circumstances when that individual was previously involved in the engagement.

   OR

2. Assist individuals stepping into an EQ reviewer role in identifying threats to objectivity that might be created when they were previously involved in the engagement (i.e., include new application material that is specific to EQ review situations).

\(^7\) See, for example, Part 1, Section 110, \textit{The Fundamental Principles}, paragraphs R112.1 to 111.2 A1.
Option D: Commission a Joint IAASB-IESBA Staff publication, or a separate non-authoritative publication to highlight how an individual who was previously involved in the engagement should deal with threats to objectivity that might arise when stepping into an EQ reviewer role (see paragraphs 15–16 below).

6. The advantages and disadvantages of each of the options are summarized below, and the options are not mutually exclusive.

7. Appendix to this paper includes examples that illustrate each of the options that are further discussed below.

Option A – Explicit “Cooling-Off” Period in Proposed ISQC 2

8. Option A would have the benefit of being unambiguous and located together with other eligibility criteria in proposed ISQC 2, and could therefore be consistently implemented in practice. It would also recognize that the risk to objectivity cannot be addressed through any combination of other safeguards for certain engagements. However, it may be seen as not scalable for the circumstances that are encountered in firms of different sizes and that perform different types of engagements. Also, the nature of a requirement relating to cooling off is that it is at a granular level that is inconsistent with the structure and drafting convention used in proposed ISQC 2. One of the IESBA representatives in the JWG cautioned that this approach might not always be appropriate because:

(a) There are limited circumstances in which threats to objectivity are at an acceptable level when an individual who was previously involved with the engagement steps into an EQ reviewer role (e.g., when the individual’s role in the engagement was related to a discrete issue, or to a matter that did not involve significant complexity or judgment).

(b) In some circumstances, there may be actions that the firm or the individual stepping into the EQ reviewer role can take to reduce threats to objectivity to an acceptable level (e.g., the individual’s EQ review work may be overseen by another, more senior individual(s) who meet the EQ reviewer eligibility requirements). Such an action is most likely to be appropriate in addressing self-review threats.

9. A key matter for the JWG’s future consideration is whether the requirement for a cooling-off period should apply only to audits of financial statements of listed entities. By way of example, the Public Company Accounting and Oversight Board’s (PCAOB) Auditing Standard (AS) 1220 prohibits the person that served as the engagement partner during either of the two audits preceding the audit subject to the EQ review from performing the EQ review of that engagement. The PCAOB standard only applies to audits of historical financial information of public companies or broker dealers (or interim reviews of historical financial information for such entities), and the prohibition only applies to the engagement partner.

10. In reflecting on the appropriateness of AS 1220 as a basis for the JWG proposals, the JWG noted that an EQ review undertaken in accordance with proposed ISQC 2 may be performed for a variety of engagements (i.e., not only audits of financial statements), and for audits of entities with different characteristics (i.e., not only publicly-listed entities). There was a view that the “bright line”
requirement in AS 1220 may not be appropriate for all the types of engagements that may fall within the scope of proposed ISQC 2.

**Option B – Requiring Policies or Procedures to Limit Involvement through Proposed Draft ISQC 1 (Revised)**

11. A key advantage to Option B is that it would require firms to establish policies or procedures that would be responsive to the firm’s identified quality risks and would, therefore, in terms of application, would be more scalable than option A. This approach is also closely aligned with the focus in proposed ISQC 1 (Revised) on the firm’s policies or procedures. However, because the requirement would not be in close proximity to the eligibility criteria for an EQ reviewer in proposed ISQC 2, this option may be seen as providing less clear direction than option A. Also, there is a risk that a requirement in proposed ISQC 1 (Revised) may not be consistently implemented in practice because the quality risk approach in proposed ISQC 1 (Revised) would allow firms the flexibility of determining when and in what circumstances a cooling-off period for an EQ reviewer would apply. Some may argue no policies or procedures could be established to address threats to the objectivity of an EQ reviewer for audits of listed entities in an effective manner.

**Option C (i) – Requirement in the IESBA Code for Cooling-Off Periods**

12. This option has the advantage of keeping the material on objectivity of the EQ reviewer in close proximity to the discussion about how to comply with the fundamental principle of objectivity in the IESBA Code. However, there are some structural and drafting challenges in doing so. For example:

- The IESBA Code already includes requirements relating to cooling-off periods, but they apply only to addressing threats to the independence of key audit partners for audits of public interest entities after they have served a specified time-on period in that role on the audit engagement.\(^\text{10}\) Those requirements are not intended to address threats to EQ reviewer objectivity for all audit clients, nor are they intended to address circumstances where an engagement partner or other member of the engagement team steps directly into the EQ reviewer role.

- Currently, the IESBA Code does not have a dedicated EQ reviewer section. Professional accountants, including those stepping into an EQ reviewer role, are expected to comply with the requirement to apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles, one of which is objectivity.\(^\text{11}\)

13. The IESBA representatives of the JWG cautioned against establishing prohibitions in the IESBA Code that cannot be supported by the requirement in paragraph R120.10 of the conceptual framework. They explained that, in general, a prohibition is established in the IESBA Code when:

- The circumstance or relationship creating the threat cannot be eliminated; or

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\(^\text{10}\) Paragraph R540.5 of the IESBA Code notes, subject to certain exceptions in paragraph R.540.7–.9 “…in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

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

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

\(^\text{11}\) See Part 1, Section 120 and Part 3, Section 300
Safeguards are not available or capable of being applied to reduce the threat to an acceptable level.

Option C (i) – Application Material in the IESBA Code for Assisting EQ Reviewers Identify Threats to Objectivity

14. The JWG was generally supportive of this option provided that the examples were positioned in Section 300 and were consistent with the structure and drafting convention in the IESBA Code. Any changes made to the Code arise from the IAASB project on engagement quality reviews and are not a project to revise the objectivity provisions of the Code.

Option D – Non-Authoritative Guidance to Highlight How EQ Reviewers Should Deal with Threats to Objectivity

15. The JWG generally agreed that this option should be implemented in concert with one or more of the other options.

16. The advantages of this option are that the guidance and examples can illustrate how the fundamental principles, conceptual framework or principles-based requirements can be applied in different circumstances in a holistic manner. However, there was a concern that this option alone might not be enough to provide sufficient direction on the issue of objectivity of the EQ reviewer because:
   - A staff publication does not have the same authority of the IAASB’s International Standards or the IESBA Code.
   - Over time, the staff publication may be easily missed by a user because it does not form part of the IAASB’s International Standards or the IESBA Code.

JWG Preliminary Views on the Options

17. The JWG recognizes the importance of reinforcing the objectivity of the EQ reviewer. The JWG is also mindful that strict prohibitions may be difficult to apply in practice in certain circumstances. The JWG is of the view that any prohibitions or limitations should result from application of the conceptual framework in the IESBA Code to the specific facts and circumstances, and a key consideration is whether the combination of engagement partner and EQ reviewer provides the appropriate expertise and objectivity. The JWG is not opposed to IAASB standards requiring a cooling-off period for individuals involved in the engagement before they can be appointed as EQ reviewer for certain types of engagements.

18. After considering the advantages and disadvantages of the options (separately and in combination), the JWG recommends the following approach, which is a combination of Options B and D:
   - Proposed ISQC 1 (Revised) should require that the firm’s policies or procedures address prohibitions or limitations on the eligibility of individuals who served as the engagement partner for certain engagements to act as an EQ reviewer. This should be supplemented by application material in proposed ISQC 1 (Revised) on the threats to objectivity that may arise and examples of how policies or procedures may address it.
   - Proposed ISQC 2 should include an eligibility requirement that the EQ reviewer is not subject to threats to objectivity related to the engagement or the engagement team that are not at, or have not been reduced to, an acceptable level. Within the context of the more general guidance on
relevant ethical requirements for EQ reviewers, there should be reference to the requirement in proposed ISQC 1 (Revised) for the firm to establish policies or procedures to prohibit or limit the eligibility of individuals stepping into an EQ reviewer role when they previously served as the engagement partner.

- Section 300 of the IESBA Code should include examples to assist the EQ reviewer in identifying threats to objectivity.
- A joint IAASB-IESBA Staff Publication or FAQ should be prepared to aid users in better understanding the enhanced provisions relating to the objectivity of the EQ reviewer that would be set out in proposed ISQC 1 (Revised), proposed ISQC 2 and the IESBA Code.

19. The ISQC 2 Task Force recognizes the views of the JWG and has considered them in preparing the draft material shown in the Appendix for inclusion in proposed ISQC 1 (Revised) and proposed ISQC 2. This material includes examples of when a specific cooling-off period may be warranted (e.g., for audits of financial statements of listed entities and other engagements for which an engagement quality review is required by law or regulation) and is set in the context and parameters of the JWG’s recommendations above.

Matter for IAASB and IESBA Consideration

1. The IAASB and IESBA are asked to share their views about the JWG’s preliminary views set out above in paragraphs 17–18 above and illustrated in the draft wording in the Appendix.
Possible Conforming or Consequential Amendments to IAASB Pronouncements and the IESBA Code Arising from the ISQC 2 Project

The following sets out the proposed examples and guidance addressing the objectivity of the EQ reviewer that could be included in proposed ISQC 1 (Revised), and proposed ISQC 2 and the IESBA Code based on the recommendations of the ISQC 2 Task Force, taking into account the views of the JWG.

A. Requirements and Application Material to be Included in Proposed ISQC 1 (Revised)\textsuperscript{12} and Proposed ISQC 2\textsuperscript{13}

\begin{verbatim}
EXTRACT OF REQUIREMENTS AND APPLICATION MATERIAL FROM PROPOSED ISQC 1 (REVISED)

Requirement

Engagement Performance

43. In designing and implementing responses to address the quality risks identified and assessed by the firm, the firm shall include the following responses related to engagement performance: ...

(e) Establishing policies or procedures addressing engagement quality reviews that address: (Ref: Para. A99-A109):

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(ii) The appointment of engagement quality reviewers to perform engagement quality reviews, including: (Ref: Para. A104–A106D)

a. The assignment of responsibility for the appointment of the engagement quality reviewer to an individual with the competence and capabilities, including objectivity and appropriate authority within the firm, needed to assume the responsibility; (Ref: Para. A104)

b. The criteria for eligibility to perform, or participate as an assistant in, the engagement quality review that fulfill the requirements in ISQC 2,\textsuperscript{1} including limitations on the eligibility of individuals as engagement quality reviewers who previously served as engagement partner on the engagement subject to the review; and (Ref: Para. A105-A106C)

\textsuperscript{1} Proposed ISQC 2, paragraphs 20 and 22

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\end{verbatim}
Application and Other Explanatory Material

... 

Appointment of the Engagement Quality Reviewer (Ref: Para. 43(e)(ii))

A104. Competence and capabilities that enable an individual to assume responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:

- The responsibilities of an engagement quality reviewer;
- The criteria in paragraph 20 of ISQC 2 regarding the eligibility of engagement quality reviewers, including those regarding the competence, capabilities, appropriate authority and objectivity of the engagement quality reviewer; and
- The nature and circumstances of the engagement subject to engagement quality review (e.g., the nature of the entity and the composition of the engagement team).

A105. ISQC 2 includes criteria on the eligibility of the engagement quality reviewer. When an external person is to be appointed to perform the engagement quality review, making relevant inquiries about the external person before making the appointment may assist the firm in obtaining the necessary information about whether the person meets the eligibility criteria to be an engagement quality reviewer. An external individual may be a partner or an employee of:

- A firm within the firm’s network, which is subject to the requirements for networks or services in accordance with paragraphs 60–65 of ISQC 1 (Revised);
- A service provider, which is subject to the requirements for service providers in paragraphs 66–67 of ISQC 1. (Revised). For example, a service provider may be:
  - A firm outside of the firm’s network;
  - A professional accountancy body whose members may perform audits or reviews of historical financial information, or other assurance or related services engagements; or
  - An organization that provides relevant quality management.

3 Proposed ISQC 2, paragraphs 20–22

A105A. In some cases, such as sole practitioners, small firms, or network firms, suitably qualified external persons may be contracted to perform the engagement quality review. When the firm contracts suitably qualified external persons, the requirements in paragraph 43(e)(ii)(b) apply.

A106. A threat to the objectivity of the individual responsible for the appointment of the engagement quality reviewer may arise in circumstances when the individual is a member of the engagement team. In such circumstances, a threat to the objectivity of the engagement quality reviewer is also created. In exceptional circumstances it may not be practicable for an individual, other than a member of the engagement team, to appoint the engagement quality reviewer, for example, in the case of a smaller firm or a sole practitioner.

A106A. In evaluating the competence and capabilities of the individual(s) who may be appointed as an engagement quality reviewer, the individual responsible for the appointment of the engagement quality reviewer(s) may consider the results of the firm’s monitoring activities, including the
inspection of completed engagements, and performance evaluations and the results of external inspections.

Limitations on the Eligibility of Individuals to Serve as Engagement Quality Reviewer

A106B. Relevant ethical requirements or law or regulation may establish requirements for a cooling-off period during which individuals are prohibited from serving as the engagement quality reviewer for engagements for which they previously served in another role. For example, the IESBA Code contains prohibitions, for audits of public interest entities, on individuals acting in any of the following roles, or combination of such roles, for a period of more than seven cumulative years, with a minimum cooling-off period of two years:

- The engagement partner;
- The individual appointed as the engagement quality reviewer; or
- Any key audit partner role.

A106C. An individual who has served as the engagement partner is not likely to be unable to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual’s objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level. In recurring engagements, the matters on which significant judgments are made and the facts and circumstances around those significant judgments are not likely to vary to a degree such that an objective evaluation of those judgments can be made by the individual who served as the engagement partner in the immediate previous period. Accordingly, this ISQC requires the firm to establish policies or procedures that limit the eligibility of individuals as engagement quality reviewers who previously served as engagement partner. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement and may include consideration of:

- Whether the engagement quality review is for an audit of a listed entity or an entity that has a significant public interest, or is otherwise required by law or regulation; and
- For engagement or classes of engagement for which the firm has determined that an engagement quality review is an appropriate response, the reasons for the assessment given to the quality risk.

In the case of an audit of the financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality review until two subsequent audits have been conducted.

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EXTRACT OF MATERIAL FROM PROPOSED ISQC 2

Requirement

Eligibility Criteria for the Engagement Quality Reviewer

20. The firm’s policies or procedures addressing the eligibility of the engagement quality reviewer established in accordance with ISQC 1 (Revised) shall require the firm to evaluate whether the
individual to be appointed as the engagement quality reviewer is eligible for that appointment by determining that the individual: (Ref: Para. A7, A14)

... (c) Is not subject to threats to objectivity related to the engagement or the engagement team that are not at, or that have not been reduced to, an acceptable level and complies with the firm’s policies or procedures that address the engagement quality reviewer’s objectivity (including, when applicable, limitations on the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner on an engagement subject to the review); and (Ref: Para. A12–A16);

(d) Complies with:

(i) Relevant ethical requirements; (Ref: Para. A15–A19)

(ii) When applicable, requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A20)

...

Application and Other Explanatory Material

...

Threats to the Objectivity of the Engagement Quality Reviewer (Ref: Para. 20(c))

A12. Threats to the engagement quality reviewer’s objectivity may arise in the following circumstances:

- A familiarity, self-review or self-interest threat may arise when the engagement quality reviewer was recently consulted on matters of significant complexity or judgment in the engagement.

- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another key member of the engagement team, as well as when close personal relationships are developed through long association with such personnel.

- An intimidation threat (either implicit or explicit) may arise when pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer is in the chain of command of the engagement partner).

- A self-review or self-interest threat may arise when the engagement quality reviewer was recently a previous member of the engagement team, in particular the engagement partner.

A13. Such threats are addressed through application of relevant ethical requirements for identifying, evaluating and addressing threats. Relevant ethical requirements may identify actions individuals are required to take or consider taking, for example, the IESBA Code provides requirements and guidance for identifying, evaluating and addressing intimidation threats in certain circumstances.

A14. ISQC 1 (Revised) requires the firm to establish policies or procedures that address limitations on the eligibility of individuals to be appointed to be the engagement quality reviewers who previously served as the engagement partner on an engagement subject to review. The firm’s policies or
procedures may specify an appropriate cooling-off period before an individual who served as engagement partner may be appointed to be the engagement quality reviewer. Such periods may vary depending on the nature and circumstances of the engagements subject to engagement quality review. ISQC 1 (Revised) provides guidance that, in the case of an audit of the financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted.

A15. In performing the engagement quality review, the engagement quality reviewer may not make decisions for the engagement team, as such actions may create a threat to the objectivity of the engagement quality reviewer. Accordingly, ISQC 1 (Revised) requires the firm to establish policies or procedures that address circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer.

Public Sector Considerations

A16. In the public sector, an auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, when applicable, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.

Relevant Ethical Requirements (Ref: Para. 20(d)(i))

A17. Relevant ethical requirements, as defined in this ISQC, are ethical requirements to which the engagement quality reviewer is subject. ISQC 1 (Revised) requires the firm, its personnel and others subject to relevant ethical requirements to fulfill their responsibilities in relation to the relevant ethical requirements, including independence requirements. Relevant ethical requirements ordinarily establish the principles of professional ethics. For example, the IESBA Code sets out the fundamental principles that establish the standard of behavior expected of a professional accountant, which comprise integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The IESBA Code also provides a conceptual framework that professional accountants are required to apply to identify, evaluate and address threats to compliance with the fundamental principles. It also addresses specific topics relevant to complying with the fundamental principles and includes requirements for independence when performing audits, reviews and other assurance engagements.

A18. Relevant ethical requirements may contain provisions addressing the long association of the engagement quality reviewer with the engagement. For example, the IESBA Code addresses threats that may arise from long association in the role of engagement quality reviewer in audits of financial statements of public interest entities in the context of:

- The audit client and its operations;
- The audit client’s senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.
A19. In addition, the IESBA Code also include prohibitions, for audits of public interest entities, on individuals acting in any of the following roles, or combination of such roles, for a period of more than seven cumulative years:

- The engagement partner;
- The individual appointed as the engagement quality reviewer; or
- Any key audit partner role.\(^{14}\)

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\(^{14}\) See, for example, R540.5-.9 of the IESBA Code.
B. Proposed Examples to be Included in the IESBA Code

PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

...  

Identifying Threats

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

(a) Self-interest Threats

• A professional accountant having a direct financial interest in a client.

• A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.

• A professional accountant having a close business relationship with a client.

• A professional accountant who serves as engagement quality reviewer for an audit engagement for which the accountant also has a reciprocal arrangement with the engagement partner.

• A professional accountant having access to confidential information that might be used for personal gain.

• A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant’s firm.

(b) Self-review Threats

• A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.

• A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

• A professional accountant who serves an engagement quality reviewer on an audit engagement one year after serving as the engagement partner.

(c) Advocacy Threats

...
(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- An engagement quality reviewer having long association with, is a close relationship with, or is an immediate family member of an audit team member.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.
- A professional accountant serving as engagement quality reviewer when the engagement partner for the audit engagement is also the accountant's direct report.