

**March 16, 2020**

**IFAC Small and Medium Practices (SMP) Committee Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers***

**INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IESBA (the Board) on this Exposure Draft (ED). The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMPC are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies representing 22 countries from all regions of the world.

**GENERAL COMMENTS**

The SMPC has been closely following the development of the Proposed International Standard on Quality Management 2, Engagement Quality Reviews (ISQM 2) by the International Auditing & Assurance Standards Board (IAASB) and submitted a [response](#) to the July 2019 Exposure Draft.

The SMPC is generally supportive of the IESBA proposals as it believes that the objectivity of an engagement partner stepping immediately into an engagement quality review role is a critical consideration that needs to be appropriately addressed. The Committee is also pleased to note the close coordination between the two Boards to address the objectivity of Engagement Quality Reviewer (EQR).

**SPECIFIC COMMENTS**

We have outlined our responses to each question (*in italics*) in the ED below.

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

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.

2. *If so, do you support the location of the proposed guidance in Section 120 of the Code?*

Yes, the SMPC supports the location of the proposed guidance in Section 120 of the Code.

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, and that the Code should not be prescriptive in this regard?*

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 2-year 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.

## **CONCLUDING COMMENTS**

We hope the IESBA finds this letter helpful in informing the Board's deliberations on the EQR project and its impact on the Code. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

*Monica Foerster*

Monica Foerster  
Chair, SMP Committee