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Dear Board Members

Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers

We are pleased to have the opportunity to respond to the proposals laid out in the IESBA Exposure Draft, *Proposed revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*. We set out below our overall comments on the proposals followed by detailed responses to the questions raised.

Overall Comments

It is imperative that the IESBA and IAASB liaise closely to ensure that there is appropriate guidance available to support the objectivity of Engagement Quality Reviewers (EQR), whilst ensuring that overlap and inconsistency between the Code and ISQM2 are avoided. For example, ED-ISQM2 includes requirements relating to objectivity (ED-ISQM2.16(b) along with guidance on threats to the Objectivity of the Engagement Quality Reviewer (ED-ISQM2.A15-16), with different guidance relating to the types of threats that may arise to those included in this exposure draft; furthermore, ED-ISQM2.A24 includes reference to the impact of ongoing discussions relating to the engagement on objectivity of the EQR which is not included in the proposed Code guidance.

As objectivity is a fundamental principle within the Code, we can understand why the IESBA consider that adding guidance to the Code relating to the objectivity of the EQR may be appropriate. However, ED-ISQM2 also includes guidance relating to the objectivity of the EQR (such as the requirement in ED-ISQM2.16(b) to “*Comply with relevant ethical requirements, including that the threats to objectivity of the EQR...are eliminated or reduced to an acceptable level*” and associated application material providing guidance in this regard).

We consider that it would be more appropriate to keep all guidance relating specifically to the objectivity of the EQR within the new ISQM2 (as reflected in para. 17 of the explanatory memorandum which states that it is “*more appropriate for the scope of any cooling-off requirement to be specified in the standard that establishes the requirement for an EQ Review*”). This will have the advantage of

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simplicity and clarity for firms and EQRs in keeping the requirements and guidance in a single location; furthermore, the Conceptual Framework of the Code applies to all accountants and this guidance is relevant only for a small sub-population of professional accountants in public practice.

Although we believe that it would be more appropriate to have all guidance related to objectivity of an EQR in a single location, if, following this consultation, the IESBA and IAASB conclude that both the Code and ISQM2 should contain guidance relating to safeguarding the threats to objectivity, it is imperative that any guidance in the Code and application material to ISQM2 is consistent and fully aligned.

Response to request for specific comments

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

Response: 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...*”

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

Response: As set out in our general comments above, we believe that the guidance should be in a single location and that it is more appropriate that this guidance be incorporated into the new ISQM2 where the requirements relating to objectivity of EQRs are established.

If, however, following this consultation, the IESBA considers it essential to include guidance in the Code, we have the following observations. Given that the EQR guidance would relate only to Professional Accountants in Public Practice, we believe that including the proposed guidance in Section 300 may be more appropriate. As noted in 300.1, this section “sets out requirements and application material for professional accountants in public practice when applying the conceptual framework”.

We agree with the IESBA’s conclusions that this guidance would not be appropriate in the independence standards, or that it warrants a standalone section in the Code. Furthermore, if guidance is included in the Code, we also agree with the statement in the last sentence of para.15 of the explanatory memorandum and urge the IESBA to ensure that the scope of this guidance aligns fully with ISQM1 and ISQM2 when those standards are finalised.

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 ISQM2 as discussed in Section III.C above, and that the Code should not be in this regard?

Response: 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.

Yours faithfully,



Dr Paul Winrow

Director of Professional Standards