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Our ref SRA/288

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Dear Mr Siong

Exposure Draft: Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We agree on the importance of the objectivity of the engagement quality reviewer (EQR) and support the Board's coordination efforts with the International Auditing and Assurance Standards Board (IAASB). We do have some concerns with the language of the specific proposals related to the threats and see a need for additional context around the fundamental principle of objectivity being applied in the narrow circumstance where a professional accountant undertakes the role of an EQR.

The appendix to this letter provides our responses to the specific questions posed in the Exposure Draft. We have suggested revisions to the wording of the application material, and provided additional factors relevant to evaluating the level of threats for your consideration.

Please contact Karen Bjune at kbjune@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix A: Responses to Specific Questions

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

We agree on the importance of the objectivity of the EQR. We also believe that all professional accountants (PAs) performing audit, review and other engagements are expected to navigate their responsibilities within the basic tenets of the fundamental principles of integrity, objectivity and professional competence and due care. To expand considerations on objectivity in the Code for only one role that PAs may undertake in assurance engagements could have the unintended consequence of seemingly lessening the importance of objectivity for other roles, such as the engagement partner, or lessening the importance of the other fundamental principles applied by PAs involved in audit and other assurance engagements. Thus, this narrow application of the fundamental principles would benefit from additional context such as that found in [proposed] ISQM 2 paragraphs 6 and 7. Accordingly, we suggest that the introductory language for this section be expanded to include the following:

- the engagement quality review is to be an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon (footnote to ISQM 2);
- the EQR is not a member of the engagement team; and
- it is essential to apply the conceptual framework to evaluate the EQR's objectivity in relation to PAs on the engagement team or within the EQR's firm.

Additional comments on specific paragraphs are as follows:

Paragraph 120.14 A2

- *Self-review threat* – The threat to the EQR's objectivity is most relevant when the PA has served in a key role on the engagement team or has been involved in an area with significant judgment. We suggest this threat be edited to say "...after serving as the engagement partner or other key audit partner, or having been otherwise involved in an area of significant judgment on the audit engagement."
- *Familiarity threat* - As it is common for an EQR to be assigned from the same office as the engagement partner and other engagement team members, long association or a close relationship could arguably exist in most of these cases given these PAs would be colleagues. To narrow the focus to the key issue, we suggest this threat conform to the language of [proposed] ISQM 2 which

references a “close personal” relationship, instead of broadening the threat to include long association and any “close” relationship.

Paragraph 120.14 A3

- Expand the first bullet point into the following two bullet points: “The experience and seniority of the professional accountant” and “The role of the accountant on the engagement team before becoming the engagement quality reviewer.”
- Consider adding the factor “The length of time the accountant was a member of the engagement team.”

Also, we suggest adding a new paragraph after paragraph 120.14 A3, as follows: “Paragraph 120.8 A2 includes general examples of conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats. The conditions, policies and procedures described in paragraph 120.14 A1 might also impact the evaluation of whether the threats to objectivity are at an acceptable level.”

Lastly, we recommend that the current IESBA definition of engagement quality review be aligned to that of the IAASB for consistency.

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

The placement in Section 120 amplifies the fundamental principle of objectivity and seemingly lessens the importance of the other fundamental principles. Further, the application material focuses on the narrow circumstance where PAs undertake the role of EQR, and ignores other roles PAs may undertake in an assurance engagement. If the IESBA retains the proposed language and location, users of the Code might inadvertently expect further guidance on changing roles to be included following paragraphs 540.14-540.17, given that the placement is not intuitive. As such, we suggest adding the following application material after paragraph 540.17 to cross reference to Section 120: “The provisions in Section 120, and not those in Section 540, address considerations related to the objectivity of the engagement quality reviewer, including service as the engagement quality reviewer after previously serving on the audit engagement.”

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?*

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.