

Ken Siong
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Dear Ken,

Exposure Draft – Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers

The Financial Reporting Council (FRC) welcomes the opportunity to comment on this exposure draft. As the UK’s Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g. where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

We support the aim of IESBA to enhance the Code by including additional material relating to an engagement quality reviewer’s objectivity. We further welcome the coordination between IESBA and the IAASB, and the proposed introduction of a cooling-off requirement where an Engagement Quality Reviewer has previously acted as engagement partner for that engagement.

We have some specific comments on the draft guidance, which are set out below in the responses to specific questions.

Responses to request for specific questions

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

Yes - However, the FRC notes that the additional material proposed for Section 120 is concerned with threats to objectivity arising from the EQR’s relationships, familiarity and status with the engagement team. The Code includes additional material in section 540 which deals with engagement partner rotation, including engagement quality reviewers, which considers threats to objectivity resulting from familiarity with the entity which is the subject of the engagement. It would be helpful to cross-refer between these two parts of the Code.

consultation document, specifically the observation that, "... the objectivity of the EQR is critical to the effectiveness of the engagement quality review."

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

Yes - The FRC agrees that this additional guidance fits within the Conceptual Framework of the Code, and the related material dealing with Independence and Professional Scepticism for Audits, Reviews and Other Assurance Engagements. We also welcome the commitment to ensure the Code will be updated to reflect any further relevant changes to the final version of ISQM1.

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 prescriptive in this regard?

The FRC strongly supports the introduction of a cooling-off requirement for Engagement Quality Reviewers, and we welcome the discussions between the IESBA and the IAASB to determine how best to achieve this outcome.

We note that the Code already includes requirements which relate to audit partner rotation for public interest entities. These include a cooling off period, and time spent as engagement quality reviewer is included in the calculation. We do not therefore see a fundamental barrier to including this additional cooling-off requirement within the IESBA Code, and indeed we support the Code taking a consistent approach in the treatment of ethical matters relating to cooling-off requirements. We are, however, content that the proposed inclusion of this requirement within ISQM2 will achieve the desired outcome.

If you have any questions on our response, or wish to discuss any of our observations in more detail please contact me on m.babington@frc.org.uk or +44-20-7492-2323.

Yours sincerely,



Mark Babington
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