

25 March 2020

Stavros Thomadakis
Chair
International Ethics Standards Board for Accountants
539 Fifth Avenue
New York, 10017
USA

Dear Stavros,

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

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

The NZAuASB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the proposals is limited in this regard.


The NZAuASB supports the IESBA's objective to provide guidance addressing the objectivity of the engagement quality reviewer. However, we have serious concerns about the cooling off requirement for an engagement partner moving to the engagement quality review role being addressed in the IAASB's quality management standards. It is our strong view that all auditor rotation requirements should be addressed in the IESBA Code, and we urge the IESBA to give further consideration to that matter of principle.

We have also commented on the factors that may be relevant when evaluating the level of self-review threat in relation to an engagement. It is important, including from our perspective as a smaller jurisdiction, that the relevant factors include those which may have practical significance for the firm. In formulating this response, the NZAuASB sought input from New Zealand constituents.

As noted in our responses to the specific questions raised in the explanatory memorandum, the NZAuASB has concerns about the placement of the guidance.

Should you have any queries concerning our submission please contact , Sylvia van Dyk, Director – Assurance Standards, at sylvia.vandyk@xrb.govt.nz.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Buchanan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert Buchanan

Chair

Submission of the New Zealand Auditing and Assurance Standards Board

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

Schedule of Responses to the IESBA's Specific Questions

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

Response:

In general, the NZAuASB found the additional guidance to be helpful, however the NZAuASB firmly believes that any requirements relating to auditor rotation should be included in Section 540 of the IESBA Code, as discussed in our response to question 3.

The NZAuASB offers the following observations on specific paragraphs of the ED:

Paragraph 120.14 A2 The NZAuASB recommends the IESBA articulate more clearly the concerns being addressed by the guidance in paragraph 120.14 A2. As drafted, the guidance appears to assume that the professional accountant does not act with integrity and cannot be unbiased.

120.14 A2 (a) Self-interest threat: In smaller firms, engagement partners serving as engagement quality reviewer for each other's engagements is a situation that occurs regularly. It is only in the larger firms that this situation can be avoided, but even so it may still occur particularly in smaller firms or situations when deep industry knowledge is required.

120.14 A2 (b) Self-review threat: The example assumes that any previous experience with the engagement will create a self-review threat (i.e., the practitioner serves as engagement quality reviewer after serving as the engagement partner or *other engagement team member [emphasis added]*). An individual acting as engagement quality reviewer is under the same pressure whether they were previously the engagement partner or not. In addition, this analysis overlooks others on the audit such as the engagement manager and partner (and possibly technical or sign off panel partners) who have an impact on any critical decision relevant to the audit. It is also important to remember an engagement quality reviewer does not have a right of veto over the audit team and they perform more of a consultative role. The NZAuASB cautions the IESBA to take these factors into account, and carefully consider the drafting so as to avoid creating impractical situations for smaller firms in particular.

Paragraph 120.14 A3 Additional factors that may be relevant in evaluating the level of threats include:

- The number of partners in the office;
- The number and nature of engagements the firm performs;
- The timing of the engagements; and
- The seniority of the respective partners.

The NZAuASB recommends these factors be included in the list in paragraph 120.14 A3, again to avoid impractical consequences for the firm, particularly smaller firms.

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

Response:

The NZAuASB does not support placement of the proposed guidance in section 120 of the Code. Section 120 sets out the conceptual framework and applies to all professional accountants. The fundamental principles, of which objectivity is one, are addressed in section 110 with objectivity being discussed in subsection 112.

The NZAuASB's view is that the new material should be placed in section 540 *Long Association of Personnel (including Partner Rotation) with an Audit Client*. The purpose of the guidance is to address the movement between roles of various engagement team members, viz., partner rotation.

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?

Response:

The NZAuASB does not 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. Rather the NZAuASB encourages the IESBA to fully deliberate the issue and, if necessary, include a requirement in the Code along with the other auditor rotation requirements. Such deliberation should include consideration whether it is appropriate to apply a cooling off requirement to all entities for which an engagement quality review is required under proposed ISQM-1.

As noted in the NZAuASB's submission to the IAASB, the cooling off period for the engagement partner moving to the engagement quality review role cannot be considered in isolation but should be considered in conjunction with the other requirements of the IESBA Code. Our view has not changed in this regard.