



Proposed ISQM 2, *Engagement Quality Reviews* (ED-ISQM 2)

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IAASB CAG Meeting

September 11, 2019

Agenda Item J.1



International Auditing
and Assurance
Standards Board

Introduction

Exposure Draft
February 2019
Comments due: July 1, 2019

International Standard on Quality Management

Proposed International Standard
on Quality Management 2

Engagement Quality Reviews

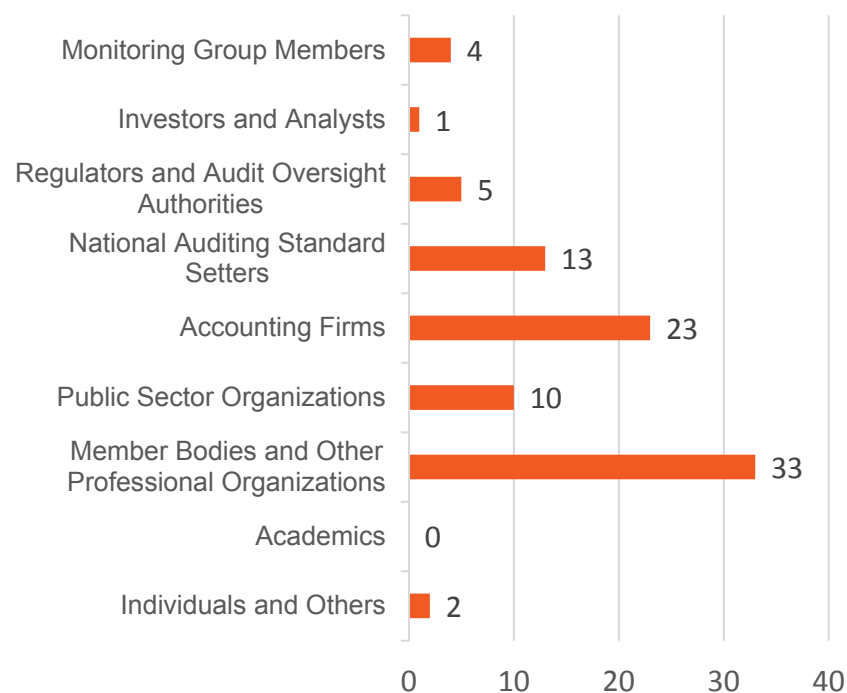
- The IAASB issued ED-ISQM 2 on February 8, 2019 and the comment period closed on July 1, 2019.
- Objectives of this session are to:
 - Provide an overview of the feedback received on ED-ISQM 2 and question 11 of the Explanatory Memorandum (EM) to ED-ISQM 1; and
 - Obtain the Representatives' views on the Task Force's (TF) proposals to address the key issues presented on the scope of engagements subject to an engagement quality (EQ) review, and objectivity and cooling-off period.

Overview of Responses on ED-ISQM 2

Respondents by Region



Respondents by Stakeholder Groups

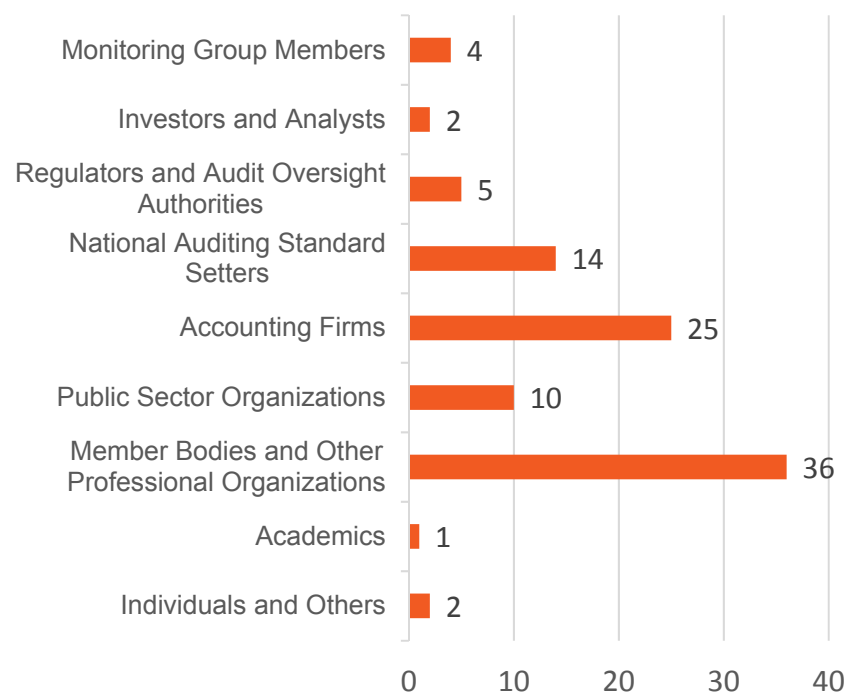


Overview of Responses on ED-ISQM 1 – Question 11

Respondents by Region



Respondents by Stakeholder Groups



Analysis of Key Issues to be Discussed at this Meeting

**1. Scope of Engagements
Subject to EQ Review**

**2. Objectivity and Cooling-off
Period**

Scope of Engagements Subject to EQ Review

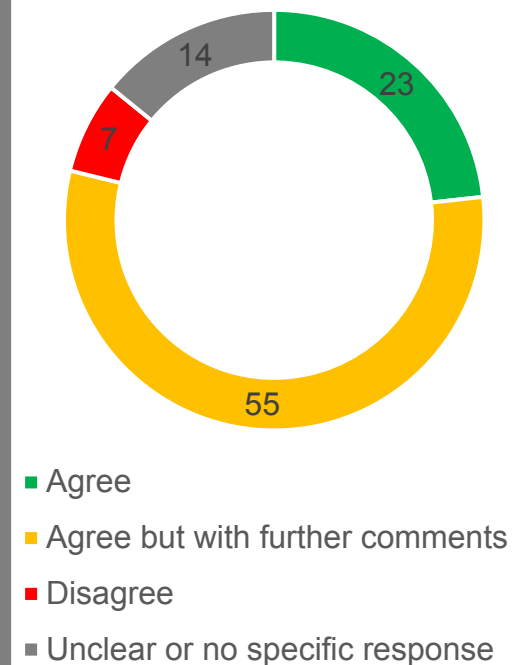
Question 11 in the EM to ED-ISQM 1 asked respondents:

Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject an engagement quality review?

Scope of Engagements Subject to EQ Review (Cont.)

What We Heard in Responses to ED-ISQM 1 – Q11

- The concept of significant public interest (SPI) cannot be consistently defined and therefore may be confusing or may result in inconsistent application of the requirements.
- Need to describe, or provide guidance about, how SPI relates to public interest entity (PIE) in the IESBA Code.



Scope of Engagements Subject to EQ Review (Cont.)

Task Force's Preliminary Views

- Remove the requirement in paragraph 37(e)(ii) for an EQ review for audits of financial statements of entities that the firm determines are of SPI.
- Add a requirement for audits or other engagements for which the firm determines that an EQ review is appropriate due to the nature of the entity (i.e., not in response to an assessed quality risk).
- Change the order of the requirements in paragraph 37(e) to better reflect those engagements for which an EQ review is required (i.e., listed entities or by law or regulation) versus those for which the firm determines that an EQ review is appropriate (i.e., in response to an assessed quality risk, or due to the nature of the engagement).

Scope of Engagements Subject to EQ Review (Cont.)

Matters for IAASB CAG Consideration

Q1. What views do Representatives have on the proposed changes to the requirements on the scope of engagements subject to an EQ review as presented in paragraph 23 of Agenda Item J.2?

Objectivity and Cooling-off Period

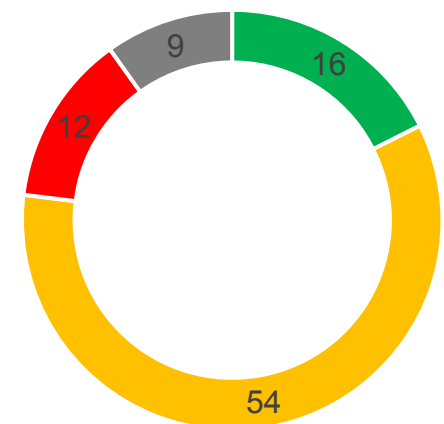
Question 4(a) in the EM to ED-ISQM 2 asked respondents:

What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Objectivity and Cooling-off Period (Cont.)

What We Heard in Responses to ED-ISQM 2 – Q4(a)

- Need for a cooling-off period requirement in ISQM 2 or in the IESBA Code.
- Flexibility of cooling-off period depending on the nature and circumstances of the engagement.
- Guidance on cooling-off period in paragraph A5 of ED-ISQM 2 would become a de facto requirement.
- More guidance consistent with the provisions of the IESBA Code will be needed to drive consistent implementation.
- Some apparent confusion about whether the IESBA Code already addresses this particular cooling-off circumstance.



- Agree
- Agree but with further comments
- Disagree
- Unclear or no specific response

Objectivity and Cooling-off Period (Cont.)

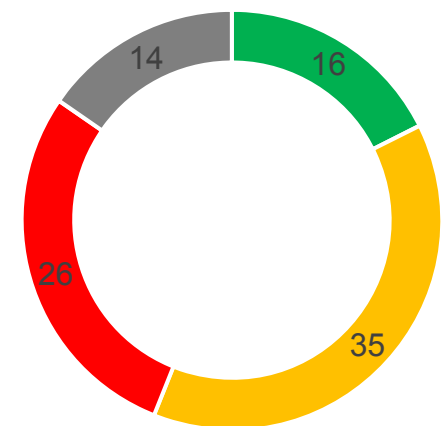
Question 4(b) in the EM to ED-ISQM 2 asked respondents:

If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Objectivity and Cooling-off Period (Cont.)

What We Heard in Responses to ED-ISQM 2 – Q4(b)

- Comments on the location of any guidance (or requirement) for a cooling-off period for an individual moving into an EQ reviewer role were about evenly split between a preference for ISQM 2 or the IESBA Code.
- Comments that cooling-off period should be addressed in ISQM 2 in the absence of a requirement in the IESBA Code.
- Suggestion that the guidance could reside in either location as long as appropriate cross-references were provided while others noted that there was no harm in having the guidance in both places.



- Agree
- Agree but with further comments
- Disagree
- Unclear or no specific response

Objectivity and Cooling-off Period (Cont.)

Task Force's Preliminary Views

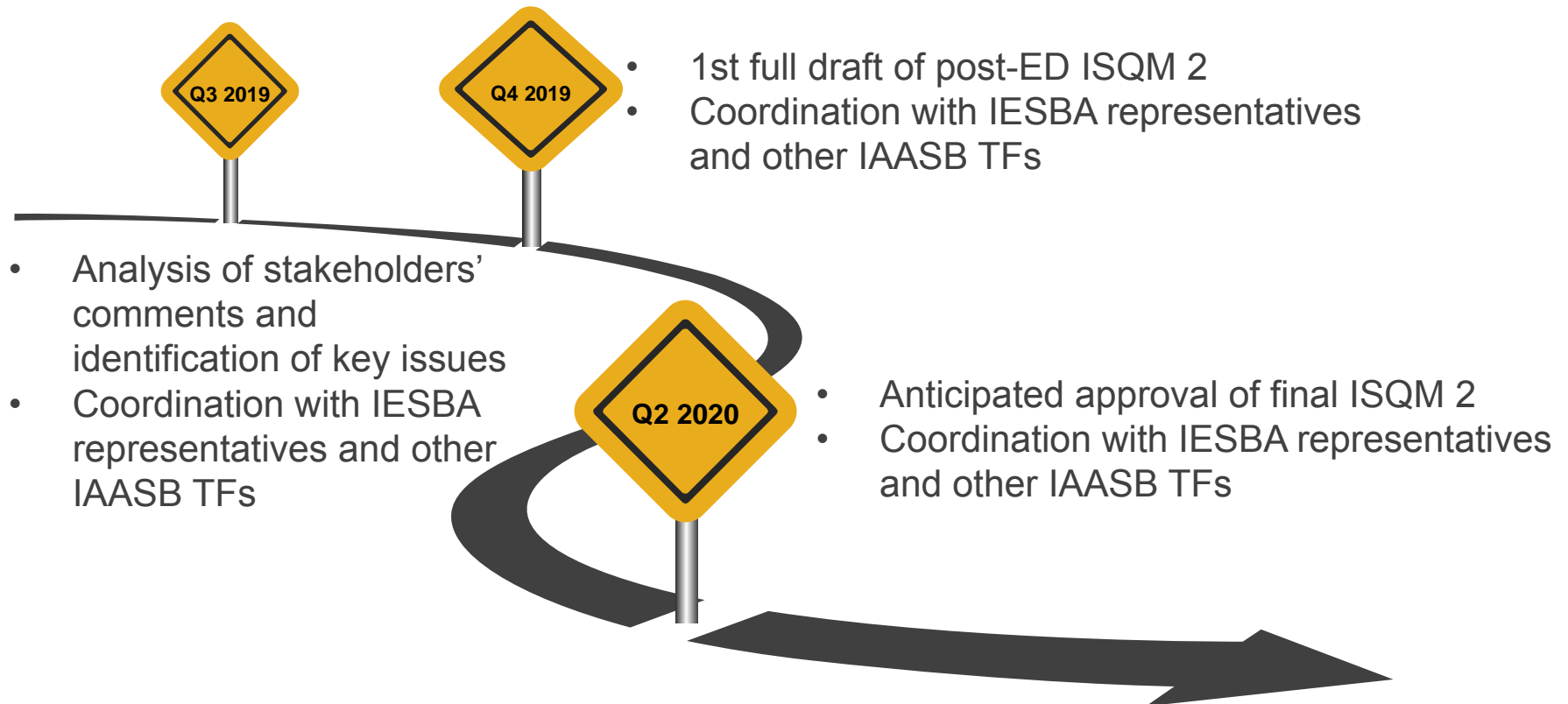
- **Alternative 1:** Objectivity and cooling-off period is addressed in the IESBA Code.
 - **Option 1.1:** The IESBA Code addresses the threats to objectivity and possible safeguards, but does not include a specific cooling-off period limitation – *Propose that ISQM 2 requires firm policies or procedures to specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of EQ reviewer.*
 - **Option 1.2:** The IESBA Code addresses the threats to objectivity and possible safeguards, including a specific cooling-off period limitation.
- **Alternative 2:** Objectivity and cooling-off period is not addressed in the IESBA Code – *Propose that ISQM 2 requires firm policies or procedures to address threats to objectivity created when an individual steps into an EQ reviewer role after serving as the engagement partner.*

Objectivity and Cooling-off Period (Cont.)

Matters for IAASB CAG Consideration

Q2. What views do Representatives have on the proposed changes to address threats to objectivity, including a cooling-off period as presented in paragraph 51 of Agenda Item J.2?

The Way Forward





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