

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: September 10–11, 2019

Agenda Item J

Proposed ISQM 2¹ – Cover

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Provide an overview of respondents' feedback on the Exposure Draft (ED) of ISQM 2 (ED-ISQM 2) and question 11 of the Explanatory Memorandum (EM) to ED-ISQM 1.²
 - (b) Obtain Representatives' views about how the ISQM 2 Task Force (TF) proposes to address issues and concerns raised by respondents relating to:
 - (i) Engagements subject to an engagement quality (EQ) review in accordance with paragraph 37(e) of proposed ISQM 1 (i.e., scoping), and in particular, the concept of "significant public interest;"³ and
 - (ii) The objectivity of the EQ reviewer, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner.

Project Status

2. ED-ISQM 2 was published for comment on February 8, 2019 and the comment period closed on July 1, 2019. As a result, the IAASB has not held any discussions on proposed ISQM 2 since the March 2019 IAASB CAG meeting.
3. At the September 2019 IAASB meeting, the TF Chair will present a high-level overview of respondents' feedback on ED-ISQM 2 and question 11 of the EM to ED-ISQM 1, and will discuss in greater detail the key issues, and corresponding proposals to address them, as outlined in **Section II (Analysis of Key Issues) of Agenda Item J.2**. Issues and concerns arising from the remaining areas / questions of the EM to ED-ISQM 2, and TF recommendations to address them, will be discussed at future IAASB meetings as described in **Appendix 4 (Questions and Topics to be**

¹ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

² Proposed ISQM 1 (Previously International Standard on Quality Control 1) (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ The EM to ED-ISQM 1 discusses the IAASB's considerations regarding the scope of engagements that are required to be subject to an EQ review in accordance with paragraph 37(e) of ED-ISQM 1. In consideration of the significance and relevance of the scope of engagements subject to an EQ review to the overall ED-ISQM 2, comments in response to question 11 of the EM to ED-ISQM 1 were analyzed by the TF in **Agenda Item J.2**.

Considered by the IAASB) of Agenda Item J.2.

IAASB CAG Discussion in September 2019

4. For the purposes of the IAASB CAG discussion, the TF Chair will present:
 - (a) A high-level overview of the feedback received on ED-ISQM 2 and question 11 of the EM to ED-ISQM 1. (see **Agenda item J.1**)
 - (b) The TF's proposals to address the matters highlighted in paragraph 1(b) above.

Representatives will then be asked to provide input on the questions outlined below in this paper.

5. **Agenda Item J.2**, which accompanies this cover note, is **Agenda Item 7** of the September 2019 IAASB meeting papers. The table below indicates the relevant sections / paragraphs in **Agenda Item J.2**, which includes a summary of respondent's feedback on questions relevant to, and the TF's proposals to address, the matters highlighted in paragraph 1(b) above.

Matters highlighted in paragraph 1(b) include:	What we heard in responses to:	The TF's proposals to address the matters in paragraph 1(b) are included in the:
Scope of Engagements Subject to EQ Review	ED-ISQM 1 – Question 11 are summarized in paragraphs 15–18 of Agenda Item J.2	Paragraphs 19–29 of Agenda Item J.2
Objectivity and Cooling-Off Period		
Need for a Cooling-Off Period and Related Guidance Thereon	ED-ISQM 2 – Question 4(a) are summarized in paragraphs 36–43 of Agenda Item J.2	Paragraphs 47–51 of Agenda Item J.2
Location of the Guidance (or Requirement)	ED-ISQM 2 – Question 4(b) are summarized in paragraphs 44–46 of Agenda Item J.2	

6. Since **Agenda Item J.2** is an IAASB Board paper, in navigating the document Representatives are requested to note the following:
 - (a) The questions in **Agenda Item J.2** are those that will be posed to the IAASB, and therefore, Representatives are not being asked to respond to these questions. The **Matters for IAASB CAG Consideration** are outlined below.
 - (b) **Agenda Item J.2** includes references to a variety of other Agenda Items that will be presented at the September 2019 IAASB meeting. These Agenda Items have not been provided for the purposes of the IAASB CAG discussion, but are available at: <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-0>.
7. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on proposed ISQM 2, including links to the relevant IAASB CAG agenda papers and minutes of meetings.

Matters for IAASB CAG Consideration

1. 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**?
2. 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**?

Materials Presented – IAASB CAG Papers

Agenda Item J.1 Proposed ISQM 2 – Presentation

Agenda Item J.2 Agenda Item 7 – Proposed ISQM 2 – Issues and Recommendations

Appendix A

Project History

Project Summary: [ISQM 2](#)

Project Phase	IAASB CAG Meeting	IAASB Meeting / Publication
Project Commencement	March 2015 September 2015 September 2016	June 2014 (Quality Control only) December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project Proposal	November 2016 Teleconference	December 2016
ISQC 1 Issues Discussion, Including ISQC 2 Addressing EQC Reviews	March 2017 September 2017	December 2016 March 2017 June 2017 August 2017 September 2017
First Read of Draft ED of Proposed ISQC 1		December 2017
Second Read of Draft ED of Proposed ISQC 1	March 2018	March 2018
Third Read of Draft ED of Proposed ISQC 1 First Read of Draft ED of Proposed ISQC 2	September 2018	September 2018
ISQM 2 Issues Discussion – Engagements for which an EQ Review is Required (ISQM 1 Extract – Paragraph 43(e)) ⁴		October 2018
Approval of ED-ISQM 1 and ED-ISQM 2		December 2018

⁴ Paragraph 43 renumbered as paragraph 37 in ED-ISQM 1.

IAASB CAG Discussions	Detailed References
Information Gathering: Responding to Calls to Enhance Audit Quality	<p><u>March 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Items B and C). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p>
Information Gathering: Overview of Responses to the ITC, Group Audits and EQC Reviews	<p><u>September 2016</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project Proposal	<p><u>November 2016</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
ISQC 1 Issues Discussion, Including EQC Reviews	<p><u>March 2017</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2018</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item D). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny</p>
ISQC 2 Issues Discussion	<p><u>September 2018</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p>
ISQM 2 Report Back	<p><u>March 2019</u> See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H-2). https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p>