



# Proposed ISQM 2, *Engagement Quality Reviews*

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IAASB CAG Meeting

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Agenda Item B2.1



International Auditing  
and Assurance  
Standards Board

## Introduction

The objectives of this session are to obtain Representatives' views about any other matters for consideration by the Board before finalizing the requirements and application material for engagements subject to an engagement quality (EQ) review in proposed ISQM 1, and for proposed ISQM 2

## Public Interest Issues Addressed in the Standard

- Appropriateness of firm's criteria to determine which engagements are subject to an EQ review
  - Selection of the EQ reviewer, including qualifications, experience and objectivity
  - Timing of performance of the EQ review
  - Depth and focus of the review
  - Robustness of the documentation of the review
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- The diagram consists of five horizontal arrows pointing to the left, each containing text. The arrows are arranged vertically and point towards a list of public interest issues on the left. The arrows alternate in color: blue, green, blue, green, and blue from top to bottom. The text inside the arrows is white. The issues on the left are listed in a bulleted format.
- Extended requirements beyond audits of financial statements
  - Cooling-off requirement to address threats to objectivity of the EQ reviewer
  - EQ reviewer involvement at appropriate points in time during the engagement
  - Enhanced requirements for performance of the EQ review
  - Enhanced requirements for documentation of the EQ review

## Scope of Engagements Subject to an EQ Review

**34.** In designing and implementing responses in accordance with **paragraph 26 and in order to achieve the quality objectives**, the firm shall include the following responses: **(Ref: Para. A116)**

...

- (f)** The firm establishes policies or procedures **that address** engagement quality reviews in accordance with [proposed] ISQM 2, and **require** an engagement quality review for:
  - (i) Audits of financial statements of listed entities;
  - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and **(Ref: Para. A133)**
  - (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to **address one or more** quality risk(s). **(Ref: Para. A134-A137)**

## **IESBA Coordination Update on EQ Reviewer Objectivity**

Two key proposals that received unanimous Board support and no objections from IESBA Representatives:

Consistent with the Exposure Draft (ED), the IESBA Code to retain a principles-based approach

In coordination with the IAASB, proposed ISQM 2 to set a cooling-off requirement

## IESBA Coordination Update on EQ Reviewer Objectivity (Cont.)

IESBA EQR Task Force's key proposals include:

Aligned with provisions in  
proposed ISQM 2



Retaining decision not to  
prescribe “cooling-off” in IESBA  
Code, taking a principles-based  
approach

Broadening the scope to  
“appropriate reviewers”

Introducing a new section in  
IESBA Code (Section 325)

Cross-referencing in Section 325  
of IESBA Code to proposed  
ISQM 2's cooling-off provision

## Objectivity and Cooling-off Period

Paragraph 19 of **Agenda Item B2.4**:

19. The firm's policies or procedures established in accordance with paragraph 18(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall 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 engagement quality reviewer. (Ref: Para. A17–A18)

## Matter for IAASB CAG Consideration

1. Do Representatives have any other matters for consideration by the Board before finalizing the requirements and application material for engagements subject to an EQ review in proposed ISQM 1 (as presented in **Agenda Item B2.3**), and for proposed ISQM 2 (as presented in **Agenda Item B2.4**)?





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