

INTERNATIONAL STANDARD ON QUALITY CONTROL 2 ENGAGEMENT QUALITY CONTROL REVIEWS (EXPOSURE DRAFT: 1ST READ)

(Effective for engagement quality control reviews performed on or after December 15, 20xx)

CONTENTS

	Paragraph
Introduction	
Scope of this ISQC	1–4
Effective Date	5
Objective	6–7
Definitions.....	8
Requirements	
Criteria for the Eligibility of Engagement Quality Control Reviewers	9–10
Appointment of the Engagement Quality Control Reviewer	11
Performance of the Engagement Quality Control Review	12–15
Documentation.....	16–18
Application and Other Explanatory Material	
Introduction	A1
Criteria for the Eligibility of Engagement Quality Control Reviewers	A2–A15
Appointment of the Engagement Quality Control Reviewer	A16–A20
Performance of the Engagement Quality Control Review	A21–A30
Documentation.....	A30–A34

International Standard on Quality Control (ISQC) 2, *Engagement Quality Control Reviews*, should be read in conjunction with ISQC 1 (Revised), *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, International Standards on Auditing (ISA) 220 (Revised), *Quality Control for an Audit of Financial Statements*, International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, and International Standard on Related Services (ISRS) 4410 (Revised) *Compilation Engagements*.

Introduction

Scope of this ISQC

1. This International Standard on Quality Control (ISQC) deals with the firm's responsibilities relating to engagement quality control reviews for audits and reviews of financial statements, and other assurance and related services engagements. This ISQC also deals with the responsibilities of the engagement quality control reviewer, since the engagement quality control reviewer is not considered a member of the engagement team and performs the engagement quality control review on behalf of the firm. This ISQC addresses the criteria for an individual to be eligible to perform the engagement quality control review, the firm's process for the selection of the engagement quality control reviewer, as well as the procedures to be performed by the engagement quality control reviewer, and the related documentation. This ISQC is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1)
2. ISQC 1¹ establishes the firm's responsibilities for its system of quality management for audits and reviews of financial statements, and other assurance and related services engagements. ISQC 1 requires the firm, in responding to a quality risk(s), to establish policies or procedures regarding engagements for which an engagement quality control review shall be performed. Such policies or procedures are required to include the following engagements:
 - (a) All audits of financial statements of listed entities;
 - (b) Engagements for which an engagement quality control review is required by law or regulation; and
 - (c) Other engagements for which the firm has determined through its quality management process that an engagement quality control review is an appropriate response based on the assessed likelihood and impact of the quality risks.

Furthermore, there may be circumstances when it is determined by the firm based on the circumstances of a particular engagement that an engagement quality control review should be performed, and such engagement is not within the scope of the firm's policies or procedures [*Note: this material will be further considered to address circumstances when the engagement partner may determine that an engagement quality control review should be performed for an engagement not within the scope of the firm's policies or procedures. This application material will be developed in collaboration with the ISA 220 Task Force.*] Paragraph 2 of ISQC 1 requires the firm to establish policies or procedures in relation to the selection of the engagement quality control reviewer and performance and documentation of the engagement quality control review in accordance with this standard, that applies to all engagements subject to an engagement quality control review, irrespective of the circumstances in which the firm determines that an engagement should be subject to an engagement quality control review.

3. ISA 220 (Revised)² requires the engagement partner to take responsibility for the overall quality on the engagement. Furthermore, in circumstances when an engagement quality control review is

¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

² International Standards on Auditing (ISA) 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 8

required to be performed, ISA 220 (Revised)³ establishes requirements for the engagement partner in relation to the engagement quality control review that includes:

- (a) Determining that an engagement quality control reviewer has been appointed;
- (b) Discussing significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
- (c) Not dating the auditor's report until the completion of the engagement quality control review.

The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.

4. Other pronouncements of the IAASB, including ISRE 2400 (Revised),⁴ ISAE 3000 (Revised),⁵ and ISRS 4410 (Revised)⁶ also require the engagement partner to take responsibility for the overall quality on the engagement. Furthermore, ISAE 3000 (Revised)⁷ establishes requirements for the engagement partner in relation to the engagement quality control review.

Effective Date

5. This ISQC is effective for engagement quality control reviews performed on or after December 15, 20xx.

Objective

6. The objective of the firm is to establish policies or procedures in relation to the selection of the engagement quality control reviewer and performance and documentation of the engagement quality control review that result in an objective evaluation of the significant judgments made by an engagement team and the conclusions reached thereon.
7. The objective of the engagement quality control reviewer is to perform an objective evaluation of the significant judgments made by an engagement team and the conclusions reached thereon, through performing the engagement quality control review in accordance with the firm's policies or procedures.

Definitions

8. In this ISQC, the following terms have the meanings attributed below:
 - (a) Engagement quality control review –The firm's response to address a quality risk(s)⁸ that is:

³ ISA 220 (Revised), paragraph 19

⁴ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

⁵ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraph 33

⁶ ISRS 4410 (Revised), *Compilation Engagements*, paragraph 23

⁷ ISAE 3000 (Revised), paragraph 36

⁸ In the June 2017 working draft of ISQC 1 presented to the IAASB, quality risk was defined as "A risk that, individually or in combination, could reasonably have an adverse impact on the firm's ability to achieve its quality objectives."

- (i) Designed to provide an objective evaluation, in a timely manner, of the significant judgments made by the engagement team and the conclusions reached thereon; and
 - (ii) Completed on or before the date of the report.
- (b) Engagement quality control reviewer – An individual who is a partner, other person in the firm or suitably qualified external person, none of whom is part of the engagement team, who is eligible and appointed to perform the engagement quality control review.

Requirements

Criteria for the Eligibility of Engagement Quality Control Reviewers

9. The firm shall establish policies or procedures that set out the criteria for the eligibility of the engagement quality control reviewer. Such policies or procedures shall include that the engagement quality control reviewer:
- (a) Has sufficient time to perform the engagement quality control review; (Ref: Para. A2–A3)
 - (b) Is objective in relation to the engagement subject to the engagement quality control review and the engagement team; (Ref: Para. A4–A7)
 - (c) Complies with the requirements relevant to engagement quality control reviewers within law and regulation, if applicable; (Ref: Para. A8)
 - (d) Has the appropriate authority to evaluate the significant judgments made by the engagement team and the conclusions reached thereon, including through: (Ref: Para. A9–A13)
 - (i) Technical competence and sufficient knowledge of the entity's industry; and
 - (ii) Sufficient and appropriate experience related to engagements of a similar nature and complexity.
10. The firm's policies or procedures shall address circumstances when the engagement quality control reviewer's objectivity may have become impaired during the engagement or the reviewer's ability to perform the review is otherwise determined to be impaired, and shall provide for the replacement of the engagement quality control reviewer. Such policies or procedures shall include whether, and the extent to which, an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity. (Ref: Para. A14–A15)

Appointment of the Engagement Quality Control Reviewer

11. The firm shall assign responsibility for the appointment of the engagement quality control reviewer(s) to an individual(s) who possesses sufficient knowledge to be able to objectively assess whether the eligibility criteria in paragraph 9 have been met. (Ref: Para. A16–A19)

Performance of the Engagement Quality Control Review

12. The firm shall establish policies or procedures related to the performance of the engagement quality control review, including:

- (a) Procedures to be performed as part of the review sufficient to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon; (Ref: Para. A21–A22)
 - (b) The timing of the review, including that the review shall be undertaken at appropriate points in time during the engagement and the engagement report shall not be dated until completion of the review; and (Ref: Para. A23–A24)
 - (c) Other matters that may be relevant to the engagement, including, as applicable, consideration of the results of monitoring and remediation activities. (Ref: Para. A25)
13. The procedures to be performed as part of the engagement quality control review shall include:
- (a) A discussion of the significant judgments with the engagement partner;
 - (b) A review of the financial statements or other subject matter information;
 - (c) Procedures to evaluate significant judgments made by the engagement team, including a review of selected engagement documentation and an evaluation of whether the documentation reflects the work performed and supports the conclusions reached by the engagement team, in relation to: (Ref: Para. A26–A30)
 - (i) The strategy and plan for undertaking the engagement, if applicable;
 - (ii) The execution of the engagement; and
 - (iii) The overall conclusions reached by the engagement team and the proposed engagement report. (Ref: Para. A28)
14. *[FURTHER REFINEMENT OF THIS REQUIREMENT IS NEEDED AS THE QCTF DEVELOPS THEIR PROPOSALS IN RELATION TO THE QUALITY RISKS IN ISQC 1, INCLUDING THE TYPES OF ENGAGEMENTS THIS REQUIREMENT SHOULD APPLY TO.]* For audits of financial statements, the procedures to be performed as part of the engagement quality control review shall include a consideration of:
- (a) The engagement team’s evaluation of the firm’s independence in relation to the specific engagement; and
 - (b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
15. The engagement quality control reviewer shall perform the engagement quality control review in accordance with the firm’s policies or procedures, and shall determine whether, in the engagement quality control reviewer’s professional judgment, the procedures performed are sufficient to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon.

Documentation

16. The firm shall document its policies or procedures in relation to the selection of the engagement quality control reviewer and performance of the engagement quality control review. Such documentation shall be sufficient to enable a consistent understanding and application of the firm’s policies or procedures. (Ref: Para. A31–A32)

17. The firm shall establish policies or procedures on documentation of: (Ref: Para. A31)
- (a) The firm's appointment of the engagement quality control reviewer(s);
 - (b) The performance of the engagement quality control review, which shall include requirements for the engagement quality control reviewer to document: (Ref: Para. A33–A34)
 - (i) The nature, timing and extent of the procedures performed, and the results of those procedures;
 - (ii) Significant matters, if any, arising during the engagement quality control review and how these were resolved to support the engagement quality control reviewer's conclusion that the significant judgments the engagement team made and the conclusions it reached were appropriate; and
 - (iii) The date of completion of the engagement quality control review.
18. The engagement quality control reviewer shall document the performance of the engagement quality control review in accordance with the firm's policies or procedures. (Ref: Para. A31)

Application and Other Explanatory Material

Introduction (Ref: Para. 1)

- A1. The effectiveness of the engagement quality control review in addressing quality risks is enhanced in circumstances when firm leadership creates an internal culture that promotes professional and ethical values in the conduct of engagements. Such a culture may be created by:
- Assigning responsibility for the oversight of the engagement quality control review process to a senior individual within the firm
 - Providing the necessary resources for the performance of engagement quality control reviews;
 - Emphasizing the importance of the engagement quality control review;
 - Promoting personal characteristics essential to quality that include respect for the engagement quality control reviewer and a responsive attitude to matters raised by the engagement quality control reviewer; and
 - Establishing policies or procedures addressing differences of opinion and encouraging appropriate consultation.

Criteria for the Eligibility of Engagement Quality Control Reviewers (Ref: Para. 9)

Sufficient Time (Ref: Para. 9(a))

- A2. In order that the review is undertaken at appropriate points in time during the engagement, consideration of the individual's availability throughout the engagement may be relevant.
- A3. The firm may establish systems that monitor, on an ongoing basis, the workload and availability of its personnel, including engagement partners that enable the firm to make an assessment of whether its personnel have sufficient time to adequately discharge their responsibilities. Such systems may also

be used by the firm to monitor the workload and availability of personnel performing engagement quality control reviews.

Objectivity (Ref: Para. 9(b))

- A4. Relevant ethical requirements establish the fundamental principles of professional ethics that ordinarily include integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Relevant ethical requirements may set out specific criteria regarding the objectivity of the engagement quality control reviewer.

[THE APPLICATION MATERIAL BELOW IS PRELIMINARY AND WILL BE CONSIDERED ONCE FURTHER COORDINATION HAS BEEN UNDERTAKEN WITH THE INTERNATIONAL ETHICS STANDARD BOARD FOR ACCOUNTANTS]

- A5. Objectivity is a fundamental principle of professional ethics established in relevant ethical requirements. Threats to the objectivity of the engagement quality control reviewer may arise in relation to the entity, engagement or engagement team, through a self-review, self-interest, familiarity or intimidation threat. For example, the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) discusses self-interest and familiarity threats that may arise from long association in the role of engagement quality control reviewer in the context of:

- The entity, its operations or senior management; or
- The subject matter and subject matter information of the engagement (e.g., the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements).

Relevant ethical requirements may establish requirements that prohibit an individual who previously served as engagement partner from being eligible to perform the engagement quality control review for a certain period. For example, the IESBA Code contains requirements addressing the long association of personnel with a client that may prohibit an individual from performing the role of engagement quality control reviewer when the individual has served as the engagement partner or engagement quality control reviewer in relation to the engagement for a particular period of time.⁹

- A6. Examples of circumstances that may create a familiarity, self-review, self-interest or intimidation threat include:
- A familiarity, self-review or self-interest threat may arise from being a previous member of the engagement team, in particular the engagement partner, or being recently consulted on matters related to the engagement where areas of significant judgment exist.
 - A familiarity or self-interest threat may arise when the engagement quality control reviewer is a close or immediate family member of the engagement partner, or another key member of the engagement team, as well as in circumstances when close personal relationships are developed through long association with such personnel.

⁹ See, for example, Section 290 and 291 of the IESBA Code.

- An intimidation threat in circumstances when pressure is exerted on the engagement quality reviewer, including when the engagement partner is an aggressive or dominant individual, or the engagement quality control reviewer is in the chain of command of the engagement partner.
- A7. In some circumstances, it may not be possible to eliminate a threat, or reduce it to an acceptable level due to a limitation of available individuals within the firm that are eligible to perform engagement quality reviews and therefore the firm may not be able to identify an individual that is eligible to be appointed as the engagement quality control reviewer. In such circumstances, the firm may contract suitably qualified external persons to perform the engagement quality control review or the firm may use other firms to perform the review.

Compliance with Law and Regulation (Ref: Para. 9(c))

- A8. Law and regulation may set out additional criteria regarding the eligibility of the engagement quality control reviewer. For example, in some jurisdictions, the engagement quality control reviewer may need to possess certain qualifications to be able to perform the review.

Authority, Including Technical Competence and Experience (Ref: Para. 9(d))

- A9. The technical competence, knowledge and experience of the engagement quality control reviewer supports the authority of the reviewer as these attributes ordinarily contribute to the ability and confidence of the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon. For example, an engagement quality control reviewer who lacks appropriate industry experience is unlikely to possess the ability or confidence that is necessary to evaluate significant judgments made by the engagement team.
- A10. There may be additional considerations for the firm in establishing the appropriate authority of the engagement quality control reviewer, including leadership's actions to create a culture of respect for the engagement quality control reviewer. However, in other circumstances, the firm may need to consider the hierarchical structure of the firm in identifying the engagement quality control reviewer. For example, in circumstances where cultural hierarchy is evident, the firm may determine that, in addition to technical competence, knowledge and experience, the engagement quality control reviewer may need to be at a higher level of hierarchy within the firm than the engagement partner. Similarly, the authority of the engagement quality control reviewer may be impaired in circumstances when the engagement quality control reviewer is within the chain of command of the engagement partner, for example, when the engagement partner holds a leadership position in the firm.
- A11. Technical competence refers to the attainment and maintenance of knowledge and skills relevant to the engagement at the level required to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon. Knowledge, skills and experience relevant to the engagement may include:
- An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;
 - An understanding of professional standards and applicable legal and regulatory requirements;
 - An understanding of the firm's policies or procedures;

- Expertise related to the engagement, for example, expertise with respect to information technology or specialized areas of accounting or auditing;
 - Knowledge of, and practical experience with, industries in which the entity operates; and
 - An ability to apply professional judgment.
- A12. The level of technical competence and experience that is sufficient and appropriate to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon depends on the engagement circumstances, including the nature of the engagement and its complexity. For example, certain industries are highly specialized and more complex, which may necessitate the engagement quality control reviewer having a greater knowledge of, and practical experience with, such industries. In other circumstances, knowledge of, and practical experience with, the industry in which the entity operates may not be necessary for the purposes of performing the engagement quality control review and other attributes may be necessary, for example, expertise in relation to specialized areas of accounting. In the case of an engagement quality control review for an audit of financial statements of a listed entity, it may be appropriate that the engagement quality control review is performed by an individual with sufficient and appropriate technical competence and experience to act as an audit engagement partner on audits of financial statements of listed entities. Accordingly, the firm's policies or procedures addressing the eligibility of the engagement quality control reviewer may specify different attributes in relation to the types of engagements or entities for which such engagements are performed.
- A13. In considering the eligibility of the engagement quality control reviewer, the firm may take into consideration other information that may affect the suitability of the individual to perform the engagement quality control review. For example, internal or external inspection results or other performance ratings in relation to the individual may provide information relevant to the firm's consideration of the suitability of the individual to perform the engagement quality control review.

Consultation with the Engagement Quality Control Reviewer (Ref: Para. 10)

- A14. In performing the engagement quality control review, the engagement quality control reviewer evaluates the significant judgments of the engagement team; however, the engagement quality control reviewer does not make decisions for the engagement team as such actions could create a threat to the objectivity of the engagement quality control reviewer.
- A15. The engagement team, including the engagement partner, may consult the engagement quality control reviewer during the engagement, for example, the engagement team may discuss a matter with the engagement quality control reviewer in order to support the engagement quality control reviewer's evaluation of a significant judgment made by the engagement team in a timely manner. Such consultation avoids identification of differences of opinion at a late stage of the engagement and need not compromise the engagement quality control reviewer's eligibility to perform the role. When the nature and extent of the consultations become significant, the reviewer's objectivity may be compromised unless care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity.

Appointment of the Engagement Quality Control Reviewer (Ref: Para. 11)

- A16. Sufficient knowledge to be able to objectively assess the eligibility of the potential engagement quality control reviewer ordinarily includes an appropriate knowledge of:

- The engagement subject to engagement quality control review, for example, the entity's industry, whether it is a listed entity and the complexity of the engagement;
- The characteristics of the engagement partner performing the engagement, for example, the knowledge and experience of the engagement partner; and
- The characteristics necessary for the engagement quality control reviewer, i.e., those described in the criteria set out in paragraph 9.

A17. Paragraph 9 addresses the eligibility of the engagement quality control reviewer, which includes objectivity. A threat to the objectivity of the engagement quality control reviewer may arise in circumstances when the reviewer is selected by a member of the engagement team. In certain circumstances, it may not be practicable for an individual, other than a member of the engagement team, to appoint the engagement quality control reviewer, for example, in the case of a smaller firm or a sole practitioner. In such cases, the firm evaluates the threat to the objectivity of the engagement quality control reviewer, addresses the threat by eliminating or reducing it to an acceptable level by applying safeguards, and evaluates whether the actions taken to address the threats have eliminated or reduced them to an acceptable level. An examples of a safeguard may include establishing a committee that oversees the appointment of the engagement quality control reviewer or contracting suitably qualified external persons or other firms to perform the engagement quality control review.

A18. In some circumstances, it may not be possible to identify an engagement quality control reviewer that possesses all of the necessary attributes. In such circumstances, the firm considers alternative ways of establishing the eligibility of the engagement quality control reviewer, for example:

- The engagement quality control reviewer may be supported by an individual or team of individuals who are objective and, together with the engagement quality control reviewer, have the appropriate combination of attributes. However, in such circumstances, the responsibility for the engagement quality control review remains with the engagement quality control reviewer.
- The firm may utilize a suitably qualified external person or the firm may contract another firm to perform the review (e.g., in the case of a smaller firm).

A19. In circumstances when the firm contracts suitably qualified external persons or other firms to perform the engagement quality control review, the firm may need to make inquiries to obtain the necessary information about whether the suitably qualified external persons or other firms comply with all the criteria set out in paragraph 9. Such inquiries may include whether the suitably qualified external persons or other firms comply with relevant ethical requirements, including independence requirements.

Considerations Specific to Public Sector Audit Organizations

[OUTREACH WITH THE PUBLIC SECTOR WILL BE UNDERTAKEN TO UPDATE THESE CONSIDERATIONS]

A20. In the public sector, a statutorily appointed auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of engagement partner with overall responsibility for public sector audits. In such circumstances, where applicable, the selection of the engagement quality control reviewer includes consideration of the need

for independence from the audited entity and the ability of the engagement quality control reviewer to provide an objective evaluation.

Performance of the Engagement Quality Control Review (Ref: Para. 12–15)

A21. The firm’s policies or procedures addressing the performance of the engagement quality control review may:

- (a) Emphasize the importance of the engagement quality control reviewer exercising professional judgment in determining:
 - (i) The matters to be subject to review,
 - (ii) The nature, timing and extent of the engagement quality control review, and
 - (iii) Whether the procedures performed are sufficient to enable the engagement quality control reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon.
- (b) Specify the consideration of specific matters or specify the review procedures in relation to:
 - (i) Certain types of engagements, for example, audits of financial statements, review engagements or other assurance engagements.
 - (ii) Certain categories of entities, for example, audits of financial statements of listed entities or audits of financial statements of entities operating in a particular industry.

A22. The nature, timing and extent of the procedures performed by the engagement quality control reviewer may depend, among other things, on the nature and complexity of the engagement, the nature of the entity and the risk that the report might not be appropriate in the circumstances. The nature of the procedures may include review, inspection, inquiry or observation.

A23. The timing of when the engagement quality control review procedures are performed depends on the circumstances of the engagement and the nature of the matters subject to the review. Conducting the engagement quality control review in a timely manner at appropriate times during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer’s satisfaction, on or before the date of the engagement report, and may support the application of professional judgment and exercise of professional skepticism in performing the engagement. For example, the engagement quality control reviewer may perform procedures in relation to the strategy and plan for undertaking the engagement at the completion of the planning phase. In other circumstances, it may be appropriate for the engagement quality control reviewer to perform the procedures at the end of the engagement, for example, when the engagement is not complex and is completed within a short period of time.

A24. The engagement report is not dated until the completion of the engagement quality control review, which includes that matters raised by the engagement quality control reviewer are resolved before the engagement report is issued. However, the documentation of the engagement quality control review may be completed after the date of the report.¹⁰ ISA 700 (Revised) requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence

¹⁰ See paragraph 14 of ISA 230, *Audit Documentation*

on which to base the auditor's opinion on the financial statements.^{11,12} When the engagement quality control review is performed for an audit of financial statements, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

- A25. Other matters that may be relevant to the engagement may include information such as the results of inspections undertaken by an external oversight authority in a prior period or deficiencies identified in relation to other engagements performed by the firm that may be relevant to the engagement.
- A26. The engagement quality control reviewer exercises professional judgment in determining the areas of significant judgment made by the engagement team that are subject to the engagement quality control review. Significant judgment in relation to the engagement may include matters related to the strategy and plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached thereon by the engagement team and the proposed engagement report.
- A27. For audits of financial statements, significant judgments made during the engagement may include:
- The materiality level(s) determined by the engagement team;
 - The engagement team's consideration of risks identified through the acceptance and continuance process and proposed responses to those risks;
 - The engagement team's risk assessment process in accordance with ISA 315 (Revised),¹³ including identification of significant risks, consideration of other risks the engagement team determined did not rise to the level of a significant risk; and the proposed response to the significant risks in accordance with ISA 330,¹⁴ including the engagement team's assessment of, and response to, the risk of fraud in accordance with ISA 240;¹⁵
 - The engagement team's proposed group audit strategy with respect to the identification of significant components;
 - The engagement team's decisions regarding the use of specialists or experts;
 - The engagement team's consideration of, and disclosures of, related party transactions;
 - Conclusions drawn, or results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations;
 - The engagement team's evaluation of the procedures performed by experts and conclusions drawn therefrom;
 - In group audit situations, the engagement team's evaluation of work performed by component auditors and the conclusions drawn therefrom;

¹¹ ISA 700 (Revised), *Forming and Opinion and Reporting on Financial Statements*, paragraph 49

¹² Similar requirements exist in paragraph 92 of ISRE 2400 (Revised) and in paragraph 41 of ISRS 4410 (Revised).

¹³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

¹⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- The significance and disposition of corrected and uncorrected misstatements identified during the engagement;
- The engagement team's proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph; or
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

A28. For audit of financial statements, when ISA 701¹⁶ applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:

- The key audit matters to be included in the auditor's report;
- The key audit matters that will not be communicated in the auditor's report in accordance with paragraph 14 of ISA 701, if any; and
- If applicable, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report.

In addition, the review of the proposed auditor's report in accordance with paragraph 13(c)(iii) includes consideration of the proposed wording to be included in the Key Audit Matters section.

A29. For engagements other than audits of financial statements, some of the significant judgments identified in paragraph A27 may be relevant, for example, judgments with respect to materiality and the engagement team's decision regarding the use of specialists and experts. There may also be other significant judgments in relation to these engagements that are not relevant to an audit of financial statements, for example, in the case of an assurance engagement performed in accordance with ISAE 3000 (Revised), significant judgment may include the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

A30. The documentation that the engagement quality control reviewer selects for review relating to the significant judgments made by the engagement team may include documentation of the matters in paragraph A27. Depending on the circumstances and the type of engagement being performed, the review of other documentation may be appropriate.

Documentation (Ref: Para. 16–18)

A31. The form, content and extent of the documentation of the firm's policies or procedures and the documentation of the various aspects related to the engagement quality control review may depend on factors such as:

- At the firm level, the size and complexity of the firm, the types of services the firm provides and the nature of the entities to whom services are provided;
- At the engagement quality control reviewer level:
 - The nature and complexity of the engagement;

¹⁶ ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

- The nature of the entity;
 - The nature and complexity of the matters subject to the engagement quality control review;
 - The risk that the report might not be appropriate in the circumstances; and
 - The extent of the documentation reviewed.
- A32. The documentation of the firm's policies or procedures supports a consistent understanding and application of such policies or procedures.
- A33. In some circumstances the firm's policies or procedures may prescribe matters to be documented by the engagement quality control reviewer that are additional to the documentation requirements in this standard.
- A34. The documentation by the engagement quality control reviewer provides evidence of the execution of the professional judgments made while performing the review, for example, when determining the matters to be subject to the engagement quality control review. The performance of the engagement quality control review may be documented in a number of ways. For example, the engagement quality control reviewer may document the review of engagement documentation and may note issues raised in order to document the results of the review procedures and significant matters raised during the review. Alternatively, the engagement quality control reviewer may document the review through means of a memorandum. The engagement quality control reviewer's procedures may also be documented as part of other engagement documentation, for example, minutes of the engagement team's discussions where the engagement quality control reviewer was present.