

ISQM 1 – Question 11: Scope of engagements subject to an EQ review – Agree but with further comments

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?

1 Monitoring Group**01_BCBS****Scope of the EQR**

In our 2013 letter, we requested that banks be subject to an EQR, in line with the EQR requirement for audits of financial statements of listed entities. This has not been addressed in the ED-ISQM1.

The Committee notes that the IAASB has proposed strengthened requirements for audit firms to consider which entities should be subject to an EQR, but that it has not mandated that EQRs are carried out for the audits of internationally active banks. Rather, it is for the audit firm to determine the public interest entities that are within the scope of a review (ED-ISQM1 paragraph 37(e)(ii)). We note that the application material indicates public interest entities may include certain banks. We also note the IAASB's argument in section 3G of the covering memorandum as to why EQRs are not being proposed as mandatory for all public interest entities.

Nevertheless, the Committee remains of the view that internationally active banks should be subject to a mandatory EQR. It is in the public interest that internationally active banks are subject to high-quality audits, which includes an EQR. In addition, the application guidance should be strengthened by requiring consideration of economic importance, complexity, and activity in relation to whether other banks should be subject to EQR. Banks play a key role in the financial system and their audits are subject to particular risks and complexity.

02_IAIS**Scope of Engagement Quality Review (EQRs)**

The IAASB's exposure draft ISQM 1 does not mandate that Engagement Quality Reviews are carried out for specific firms (including insurance firms). Rather, it is for the audit firm to determine the public interest firms that are within scope of the review. We think that there would be a clear public interest for audit firms to carry out engagement quality reviews on insurers – particularly where these have significant scale. We would encourage the IAASB to make this clear in the standards to reduce the risk of audit firms taking a very narrow view of the appropriate scope for engagement quality reviews.

3 Regulators and Oversight Authorities**07_CPAB**

Engagement quality reviews are defined as “objective evaluations of the significant judgments made by the engagement team.” The definition of an engagement quality reviewer does not provide insight into the factors affecting the objectivity of the reviewer, including a number of factors that we view as critical to having a robust and objective process – their seniority and authority relative to the engagement partner, and

their independence from the sales and service process. The need for the new standard to be scalable for small and medium-sized practices appears to have diluted independence considerations for engagement quality reviewers. We have commented earlier in this letter that the nature of the engagement, not the size of the firm, is a better criterion to apply to make the standard scalable. Firms that are responsible for larger, more complex audit engagements and public interest entities should be required to have independent engagement quality reviews.

Further, it is difficult for reviewers to derive significant judgments without relying on the engagement team to identify them, which inherently compromises the independence of the engagement review. We recommend that “judgments” be replaced by “risks” in the definition of engagement quality reviews to convey the need for reviewers to have a broad and sufficiently deep understanding of the engagement.

09_IRBA

We support the proposals addressing the scope of engagements that should be subject to an engagement quality review. We are confident that the requirements will result in the proper identification of engagements to be subject to an engagement quality review.

Some stakeholders that we consulted were of the view that the interpretation of “entities that the firm determines are of significant public interest” may lead to different interpretations as to which engagements are subject to an engagement quality review. We, however, believe that the guidance in the application material is sufficient to address this concern. There is a risk that audit regulators may interpret this requirement differently from how firms interpret it. However, this risk can be mitigated by audit regulators issuing jurisdictional engagement quality review requirements, as allowed for in paragraph 37(e)(iii)(a). Alternatively, paragraph A102 of ED-ISQM 1 could be expanded upon by adding additional factors to consider.

89_NASBA

We have concern that the requirements as currently stated in the proposals could lead to inconsistencies and pose a regulatory challenge. Paragraph 37 (e)(ii) states that an engagement quality review is required for audits of financial statements of entities that the firm determines are of significant public interest. As noted in a previous comment, “public interest” has not been defined in the proposals. This requirement will be difficult to apply consistently in practice and difficult to regulate absent such a definition.

4 National Auditing Standard Setters

11_AICPA

We have concerns with the proposals addressing the scope of engagements subject to engagement quality review. We believe that firms will struggle with interpreting “of significant public interest”. We have noted several recommendations below with respect to (1) revising the presentation of paragraph 37; (2) clarifying that professional judgment is a factor in determining engagements subject to public interest; (3) revising application guidance to indicate the interaction of those determinations in a risk-based approach; and (4) certain drafting revisions to enhance the clarity of the guidance.

The order of the engagements for which an engagement quality review is required in paragraph 37e (that is, e (i), (ii) and (iii) (a) and (b)) could be clarified. We believe the four types of engagements encompassed in paragraph 37e fall into the following two categories:

- Engagements for which the criteria for determination of whether to perform an EQR is not established by the firm:

- Audits of listed entities [par. 37e(i)]
- Engagements for which law or regulation requires an EQR [par. 37e(iii)(a)]
- Engagements for which the firm has to exercise professional judgment to establish the criteria for determining whether to perform an EQR:
 - Audits of entities that the firm determines are of significant public interest [par. 37e(ii)]
 - Engagements for which the firm determines an EQR is an appropriate response to a quality risk [par. 37e(iii)(b)]

Accordingly, we recommend revising paragraphs A100-A107 to convey that determining whether an entity is of significant public interest is a matter of professional judgment, and that, given the risk-based approach, a firm's determination of significant public interest would also be impacted by the considerations in 37(e)(iii) as noted in our discussion of employee benefit plans below. It would be helpful if the considerations provided in paragraph A102 included parameters against which to measure these factors.

In addition, paragraphs A100-A107 should be revised to convey that determining whether an entity is of significant public interest is a matter of professional judgment. It would be helpful if the considerations provided in paragraph A102 included parameters against which to measure these factors

Firms may do many audits of entities that could be considered of significant public interest regardless of size or risk. For example, employee benefit plans may be of significant public interest because they involve the management of participant money and safeguarding their future. A firm whose practice consists entirely of, for example, employee benefit plan audits may be able to identify characteristics of such audits for which an EQR is an appropriate response to the quality risk related to those characteristics. Such a firm also might determine that an effective response to the quality risk might be performing engagement quality reviews on a representative sample of such audits, given the firm's significant experience with those types of engagements. Application guidance may be helpful in this area to assist firms in making judgements that would be consistent with the requirement in paragraph 37e(ii).

The last sentence in paragraph A102 can be interpreted as "certain banks, [all] insurance companies, and [all] pension funds", and not "certain banks, certain insurance companies, and certain pension funds". We believe the intent to be that whether the firm determines an entity, such as financial institution like a bank, insurance company or pension fund, to be of significant public interest depends on the characteristics of the specific entity and not only on the type of entity such as, for example, a financial institution. Making this explicit would be helpful. Further, guidance about how to make the determination discussed in paragraph A107 would be helpful so that paragraph A107 is not interpreted as creating a de facto requirement to perform an engagement quality review on every engagement in the public sector for which law or regulation establishes additional reporting requirements. This would scope in almost every audit of a government or not-for-profit organization in the United States, regardless of whether quality risks exist that warrant an engagement quality review.

We are not clear on the point of paragraph A101; we believe it to be that the different triggers for EQR are not mutually exclusive. To clarify this and to be consistent with paragraph A27 of ISQM 2, which states that the procedures performed by the EQR may depend on the reasons for the assessments given to quality risks, we recommend the following revision to paragraph A101:

A101. The categories of engagements for which an engagement quality review is required are not mutually exclusive. ***The nature and extent of procedures performed by the engagement quality reviewer may be reflective of all the reasons for the assessments given to quality risks that resulted in the engagement being subject to an engagement quality review.***

13_CAASB

To an extent. We agree with the engagements that should be subject to an EQR. We believe that it is clear that an EQR is meant to be a response to an assessed quality risk.

However, we have concerns with references to “entities with significant public interest”. Some Canadian stakeholders interpreted this as “public interest entities” and noted that the language used could cause confusion, including in translating the wording.

Determining which entities have significant public interest may vary depending on the size and circumstances of the firm. For example, is the “public interest” always the larger public (i.e., national or global), or can it be specific to the “public” that the practitioner (SMP or sole practitioner) serves (i.e., the local community)? A smaller firm performing an audit of a local charity, religious institution or municipality may have difficulty determining if the entity is of significant public interest. We believe that this could be clarified in ED-ISQM 1.

Canadian stakeholders also noted that many audits of financial statements performed in the public sector may need to be subject to EQR because the entity appears to be of significant public interest. However, there may be no assessed quality risk for a particular engagement for which an EQR is an appropriate response. In such cases, it is not clear whether it would be necessary or beneficial to perform an EQR. More guidance is needed on how to determine when a public sector entity may or may not be of significant public interest. For example, public sector auditors may consider such factors as financial magnitude and public sensitivity. Such factors could be added to application material in ED-ISQM 1.

We believe that application material in paragraph A102 needs to be more robust to explain other factors that may categorize an entity as having significant public interest, such as those noted above.

14_CICPA

Agree. We suggest further clarifying the scope of engagement quality review in group audit.

16_CFC

Yes. We consider that increasing the number of engagements’ quality control reviews is required and is important. However, the meaning of “significant public entities” should be better clarified.

17_HKICPA

We agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review as stated in paragraphs 37(e) and A101 - A105. In addition, more guidance will be helpful to assist firms to determine that an engagement quality review is an appropriate response to assessed quality risk according to the requirement set out in paragraph 37(e) of ED-ISQM 1.

We also consider the IAASB may need to clarify the meaning of "significant public interest" in paragraphs 37(e) and A102 of ED-ISQM 1 as it is not defined, and how it relates to "public interest entity" as defined in The International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants. We understand the International Ethics Standards Board for Accountants (IESBA) will undertake a project to define "public interest entity" and we encourage IAASB to work closely with the IESBA to align a common definition of "significant public interest/public interest entity".

20_KSW

Answer: The IAASB has introduced the term “significant public interest”. This is critical to this ISA, but not to the other ISAs in which it is found. Without further elaboration, it is likely to give rise to inconsistencies in application. It lacks clarity, what does “significant” mean in the context of public interest.

22_NZAASB

The NZAuASB is supportive of broadening the requirements for an engagement quality reviews (EQR) more broadly than listed entities. This is consistent with amendments already made by the NZAuASB when adopting extant ISQC 1 in New Zealand. Specifically, the NZAuASB is supportive of reference to an EQR required by law or regulation. New Zealand stakeholders were generally supportive of introducing a reference to the public interest in determining the scope of the EQR requirements.

However, the NZAuASB recommends that the IAASB and IESBA align terminology. The concepts of a “public interest entity” and “entities of significant public interest” are very similar, and may introduce unnecessary confusion in practice. The application material for firms to consider in the Code of Ethics and the application material in ED ISQM 1 also cover similar entities. We recommend that either the same terminology is used or, if it is intended that the meaning is different, the IAASB should clarify further in ISQM 1 how the application of these terms is expected to differ in practice, to ensure they are appropriately and consistently applied in the context of ISQM 1.

We also note that IESBA has included a new project to consider the definition of listed entity and public interest entity in its Strategy and Work Plan 2019-2023. We encourage the IAASB and IESBA to continue to collaborate on these terms with a view to aligning terminology where appropriate or clarifying differences in terminology as needed.

23_NBA

We agree in principle. However, the term of ‘significant public interest’ is subjective in our opinion. We recommend to change this and use the term public interest entities. We do realize that this term may differ per jurisdiction, but it is clearer than ‘of significant public interest’.

In our opinion, for voluntary engagement quality reviews attention should also be paid to threats of independence, possibility of modifications to the opinion/conclusion, signals of fraud or non-compliance in the selection of engagements for engagement quality reviews. We recommend to add these to the issues mentioned as examples in paragraph A104.

Furthermore, attention could also be paid to other reviews that are not engagement quality reviews. Other reviews such as in-process reviews are mentioned in paragraph 45 as part of monitoring activities, but some more attention could be paid to the various types of other reviews in the application material.

24 SOCPA

Yes , but in addition to engagements related to publicly listed and significant public interest , we need policies to those be described and consistent for those engagements which are clarified by monitoring or risk assessment process to have sever and pervasiveness deficiencies to be Identified by entities . Moreover ,areas of clarifying policies for that purpose may need to be described clearly ,

5 Accounting Firms

25_BTI

Response: The requirements for EQR as set out in ED-ISQM1.37e should enable firms to identify engagements for which an EQR is appropriate, with the exception of those considered to be of “significant public interest” (ED-ISQM1.37e(ii)). There is currently no accepted definition of Public Interest Entities and the lack of clarity is exacerbated by the wider phrase used here of “significant public interest”. Many firms may find it difficult to establish their own definition if standard setters are unable to clearly define what they mean. We note that the application material uses phrases such as “large number and wide range” with no clarity as to how these benchmarks should be applied. We would urge the IAASB, IESBA and others in the profession to develop an appropriate definition of “public interest entities” that can be applied consistently (with additional jurisdictional requirements added as appropriate).

30_DTTL

DTTL is supportive of strengthening the requirements for engagements that are subject to an engagement quality review beyond audits of listed entities and broadly agrees with the scope of engagements as proposed in paragraph 37(e) of ED-ISQM 1.

With respect to paragraph 37(e)(ii), we are supportive of the responsibility for firms to determine those entities that are of significant public interest. However, we believe that the related application material may be enhanced to reduce ambiguity and promote consistency in application. Specifically, we support the inclusion of additional guidance clarifying how entities that the firm determines are of significant public interest relate to public interest entities as defined in the IESBA Code (e.g., are entities of significant public interest a subset of public interest entities or are they “other entities” that are not public interest entities but are of “interest”?). Further, we question whether there may be implications in jurisdictions that utilize the concept of a public interest entity, and where an entity is identified as an entity of significant public interest for purposes of ED-ISQM 1 but not identified as a public interest entity for purposes of applying the IESBA Code. DTTL recommends that the IAASB further coordinate with IESBA on these matters. In addition, with respect to paragraph A102, we recommend clarifying within the example whether the reference to “certain” applies only to banks or also to insurance companies and pension funds.

From a scalability perspective and as a further enhancement to the scope of engagements subject to an engagement quality review, we are also supportive of the requirement in paragraph 37(e)(iii)(b) for firms to establish policies or procedures to require an engagement quality review for engagements for which the firm determines that an engagement quality review is an appropriate response to an assessed quality risk(s).

33_EYG

We agree with the proposed scope of engagements that should be subject to an engagement quality review except for the new requirement for audits of financial statements of entities that the firm determines are of ‘significant public interest’. While we agree that there are audits of entities other than listed entities for which it may be appropriate to be subject to an engagement quality review, the term ‘significant public interest’ is not clearly defined. The lack of definition of ‘significant public interest’ is likely to result in confusion and inconsistent application.

We therefore propose that the standard either be specific as to the additional audits requiring an engagement quality review to ensure the requirements result in the proper identification of those audits that are to be subject to an engagement quality review or remove the requirement in 37 (e)(ii) and leave the

determination of which other audits beyond audits of listed entities are subject to engagement quality review to the requirement in paragraph 37 (e)(iii)b.

In addition, there could be unintended independence consequences in jurisdictions where an entity is identified as one of ‘significant public interest’ for the purposes of engagement quality reviews but not defined to be a public interest entity for the purposes of the independence requirements. On the other hand, to assume that all public interest entities require an engagement quality review would not be appropriate because of the variation in the definition of this term globally. We recommend the IAASB coordinate with IESBA to determine whether this requirement, because of its use of the term “public interest” in relation to certain entities, may be viewed or misinterpreted to be imposing additional independence requirements.

34_GTIL

We agree with the intent to expand the scope of engagements that should be subject to an engagement quality (EQ) review by requiring firms to identify engagements, other than listed entities, that meet certain criteria. However, we are of the view that the using the term of “significant public interest” may not result in a consistent application of this paragraph. We note that the related application material highlights that in making the determination of whether an entity is of significant public interest, firms would take into account whether the entity has a large number and wide range of stakeholders, and the nature and the size of the business. It also includes entities that may meet these criteria such as financial institutions and not-for-profit organizations. However, we are of the view that this guidance lacks sufficient specificity to promote consistent application and may have the unintended consequence of scoping in all public sector engagements, given, arguably, these entities will always have a large number and wide range of stakeholders, but may otherwise not be of significant public interest. We are of the view that if this terminology is retained, a more specific definition of the entities that this is designed to bring into scope for an EQ review would be beneficial.

Additionally, EQ reviewers may be appointed to engagements for reasons other than the risk associated with the entity. For example, a firm may choose to appoint an EQ reviewer on an engagement that is led by a newly appointed partner. We would also recommend that consideration is given in ED-ISQM 2 to other factors such as this.

Further, where interim review procedures are required on entities in addition to an audit, for example, for listed entities, it is unclear if there is an expectation that an EQ review is required to be performed on any interim reviews that may be required, in addition to the audit; or if it this determination is made by firms as part of the development of their responses to quality risks. Clarification in this respect, for example in a FAQ document, would be welcome.

35_HM

The requirements relating to the scope of engagements that should be subject to an engagement quality review appear appropriate. Specific guidance, whether in the application material or issued separately, or examples of “entities that the firm determines are of significant public interest” but which are not otherwise defined as “Public Interest Entities” would be helpful to ensure consistency of classification of audited entities – for example, assessing when a high profile charity may be “of significant public interest” in the sense meant by ED-ISQM1. The reference to “certain not-for-profit organizations” in A102 implies this but it’s vague and may not result in proper identification of such engagements.

39_MZRSUS

Overall, we agree with the proposals addressing the scope of the engagements that should be subject to an engagement quality review. Additional guidance on distinguishing factors for the types of entities that would be considered a “significant public interest entity” versus “public interest entities” would be beneficial.

40_MGI

In the interests of maintaining quality for clients that are potentially higher in the public profile, expanding the EQCR requirement to clients of “significant public interest” is to be encouraged. However, the judgment around what a “significant public interest” is for certain clients will need to be communicated well to firms and challenged by leadership to ensure that these reviews, seen as a burden and additional cost, are not side-stepped.

42_MSI

We would prefer it if the material on EQR reflected better that EQR is not the only tool for mitigating quality risks and recognized that there are other options which might sometimes be more appropriate. Such an approach would be more in keeping with one of the underlying principles of ISQM 1 (that quality should be managed in a way which is appropriate to the nature and circumstances of the firm rather than through seeking to apply a one size fits all approach regardless of how appropriate that might actually be).

43_NI

YES but more guidance is required as to what is a PIE entity.

44_NSW

Paragraph A104 lists examples of the kinds of engagements that “may” require an engagement quality review to respond to assessed risks. It would be helpful if the standard also talked about other possible responses that might be acceptable.

45_PKFI

We generally agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review, and that the requirements should result in the proper identification of engagements to be subject to an engagement quality review.

However, the use of the term “entities that the firm determines are of significant public interest” in paragraph 37 e (ii) of ED-ISQM 1, may lead to confusion with other similar terms (such as “Public Interest Entities”) that are commonly used by firms or may already be defined by regulators and other public oversight bodies in certain jurisdictions.

Consequently, we have a concern that the proposal to perform an EQR for “audits of financial statements of entities that the firm determines are of significant public interest” may result in inconsistent interpretations by firms and by regulators. As the terminology is used in existing ISAs we do not propose a change to the terminology in ED-ISQM 1. However, we recommend that paragraph 37 (e) in ED-ISQM 1 be amended to the effect that “entities that are of significant public interest” be included in the examples of entities that a firm should consider, rather than creating an explicit requirement around an ambiguous concept.

46_PKFSA

Except for the point noted below, we agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review, and that the requirements will generally result in the proper identification of engagements to be subject to an engagement quality review.

However, the use of the term “entities that the firm determines are of significant public interest” in paragraph 37 e (ii) of ED-ISQM 1, may lead to confusion with other similar terms (such as “Public Interest Entities”) that are commonly used by firms or may already be defined by regulators and other public oversight bodies in certain jurisdictions. Specifically, as noted in the Explanatory Memorandum, the use of the term “Entities that are of significant public interest” in this ED and in the ISAs may raise questions as to how this relates to “public interest entity” as defined in the Code.

Consequently, we have a concern that the proposal to perform an EQR for “audits of financial statements of entities that the firm determines are of significant public interest” may result in inconsistent interpretations by firms and by regulators. As the terminology is used in existing ISAs we do not propose a change to the terminology in ED-ISQM 1. However, we recommend that paragraph 37 (e) in ED-ISQM 1 be amended to the effect that “entities that are of significant public interest” be included in the examples of entities that a firm should consider, rather than creating an explicit requirement for EQR around an ambiguous concept.

By way of example, in South Africa, “public interest entities” are defined by regulation, though not in the context of requiring an EQR to be performed but rather in the context of independence requirements. The proposed requirement in the ED may therefore be interpreted to mean that an EQR should be required for all such entities.

47_PwC

We support the scope as articulated in the requirement. In particular, we agree that for engagements other than audits of listed entities or those for which law or regulation prescribes an EQR, it is appropriate that the firm determines, based on the nature and circumstances of the engagement, whether an EQR is an appropriate response, either due to the significant public interest in the engagement or as a response to an assessed quality risk.

We note that the term “significant public interest” is subjective and believe further guidance is needed in illustrating the concept. For example, additional factors could be provided that could, for example, include entities that provide important public services or services that, should the company fail, would likely have an adverse impact on a large cross-section of the population e.g., travel companies. Any such list would not be exhaustive and can present illustrative considerations only. However, in the interests of more consistent interpretation and application of the requirement, we consider this to be warranted.

48_RSMI

In general, we agree with the requirements. However, we are concerned about the use of the term “significant public interest” in paragraph 37e(ii). We consider that this definition should be amended to PIEs as defined in the IEBSA Code.

The guidance in A102 could produce a checklist approach and the use of “certain” in describing not for profit entities in scope for an engagement quality review is not clear. “Certain” is not defined or implementable.

6 Public Sector Organizations

51_ACAG

Yes, ACAG supports the proposal addressing the scope of engagements that should be subject to an engagement quality review, subject to the standard providing clarity around the term significant public interest entity.

The introduction of the concept of a significant public interest entity without guidance on how this term relates to the established definition of public interest entities (PIEs) may result in inconsistent identification of financial statement audits that should be subject to an engagement quality review. It is not clear from the application material if an entity of significant public interest could include an entity not captured by the PIE definition within the IESBA Code or if it is “significant PIEs” i.e. only entities that meet the definition of a PIE that attract a significant level of public interest.

54_OAGNZ

We agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review. However, we note that the term “significant public interest” is not defined in the standard and how this differs from the concept of a public interest entity. We recommend that the IAASB clarify in the standards how the application of these terms is expected to differ in practice, to ensure they are appropriately and consistently applied.

While there is some guidance in paragraphs A102 and A106, a few of the factors do not seem that relevant, and others appear vague, such as the reference to “may include entities such as financial institutions”. We think it would be helpful if there was guidance on what characterises an entity that is “of significant public interest”.

55_OAGA

ED-ISQM 1 proposes that all engagements with “significant public interest” are subject to an engagement quality review, however ED-ISQM 1 does not clearly define how “significant public interest” is applied for legislative auditors. We propose that the IAASB clearly include in the application section A101-A107 that legislative auditors should develop and define which engagements are “significant public interest” from engagements that are of “public interest.” In our view, EQR should be driven by the type of engagement (financial statement audit or ISAE 3000 engagement), and the type of entity. There may be types of entities (such as entities with significant public interest) for which no EQR is necessary for the financial statement audit, but an EQR is necessary for an ISAE 3000 type engagements. An example is a public sector entity with straightforward accounting (only grants and salary expenses) so there is no significant risk or significant public interest in the financial statement audit. However, the entity may have an important function with respect to the safety of citizens, regulation, or economic matters, and therefore ISAE 3000 engagements merit an EQR. The legislative audit office (LAO) has the knowledge and expertise to distinguish which engagements include a “significant public interest” and ED-ISQM 1 should clearly communicate that the LAO should use this knowledge and expertise to conclude on which engagements include a “significant public interest.”

58_SNAO

Yes.

Public sector perspective. Application guidance for significant engagements from a public interest perspective could be the size of fund, requirements in law and regulations, impact on the state/government budget etc.

59_GAO

We suggest that the IAASB consider reordering paragraph 37(e) to help clarify which engagements should be subject to an engagement quality review. Specifically, we suggest the following:

- e) Establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2 and that 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;
 - iii. audits of financial statements of entities that the firm determines are of significant public interest; and
 - iv. audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.

With this change, it would be clear that engagement quality reviews are required for the scenarios depicted in (i) and (ii), and there would be some discretion for the scenarios in (iii) and (iv).

7 Member Bodies and Other Professional Organizations

60_AE

The IAASB has introduced the term “significant public interest”. This is critical to this Standard, but not to the other Standards in which it is found. Without further elaboration, it is likely to give rise to inconsistencies in application. Indeed, “significant” is a term that is used extensively in auditing standards. However, public interest is not and the concept is still being developed and debated.

As emphasised in our response to ED-ISQM 2, putting in place an engagement quality review is not the only response to quality risks and not in all circumstances the most effective one. With this new concept introduced with “significant public interest”, engagement quality reviews seem to be seen as the silver bullet.

62_IBR-IRE

All situations referred to in par. 37 (e) (ii) are also included (e) (iii) (b) because it is “the firm” that determines the situations. Therefore, we are not convinced about the added value of par. 37 (e) (ii) as long as “significant public interest” is not defined. Examples could be given to define it: banks, insurance companies, pension funds, ...

63_CAI

We believe that the definition in paragraph 36 (e) is too broad. The standard should set out the principles behind the definition and the application notes should give further examples of the application of those principles. Paragraph 37 (e) sets out the engagements which require an engagement quality review including audits of financial statements of entities that the firm determines are of significant public interest. Paragraph A102 provides guidance on what a significant public interest is but this needs to be further expanded.

64_CalCPA

Paragraph 37(e) – Yes, but additional clarity is necessary regarding PIEs and the determination of whether an EQR is required. In practice, particularly for small firms auditing local charities, determining the relative significance of such entities to specific “jurisdiction(s)” or “region(s)” may prove difficult and raise implementation questions as to how to determine relative significance (i.e., amount of funds raised relative to other charities in the area, nature of those impacted by charities operations, key donors, etc.). While many firms, as a matter of practice perform EQRs, smaller practitioners, and sole practitioners more directly, may find themselves unable to service existing clients due to cost and related resource constraints to the extent EQR’s are deemed necessary.

65_CAQ

Overall, we are supportive of the proposals addressing the scope of engagements that should be subject to an engagement quality review. However, we recommend the following:

- To reduce ambiguity and maintain flexibility, consider providing additional clarity in the application material of example characteristics that could be used to distinguish a ‘public interest entity’ from ‘entities that the firm determines are of significant public interest.’ An entity that is of ‘significant public interest’ is not defined and the application guidance is not clear. Firms may develop tools or a framework to implement this requirement; therefore, additional clarity would be helpful to promote consistent application.
- In addition, there could be unintended independence consequences in jurisdictions where an entity is identified as one of ‘significant public interest’ for the purposes of ED-ISQM 2 but not defined as a public interest entity for the purposes of the independence requirements. We understand and agree with the Board’s intent not to assume that all public interest entities require an engagement quality review because of the variation in the definition of this term globally. However, we recommend the IAASB coordinate with the International Ethics Standards Board for Accountants (IESBA) to determine whether this requirement may be viewed to be imposing additional independence requirements.
- Consider deleting the sentence in paragraph A102, which states “Entities that the firm determines to be of significant public interest may include entities such as financial institutions (e.g., **certain** (emphasis added) banks, insurance companies, and pension funds), and other entities such as **certain** (emphasis added) not-for-profit organizations”. We suggest this deletion to avoid the implication that all insurance companies and pension funds are of “significant public interest,” as it is unclear to which category of entity the adjective “certain” applies. Further, in some jurisdictions, application guidance is interpreted to be requirements and this language could trigger unintentional de facto requirements causing inconsistency in implementation and incremental effort by some firms without a corresponding benefit.

66_CAANZ-ACCA

Yes. However, as we note our response to question 5 we have concerns about the use of the term “significant public interest entity”. Introducing a new term in relation to degrees of public interest is confusing and unnecessary. Terminology should be aligned with the IESBA code which uses “public interest entity”.

70_CPA

Paragraph 37(e) sets out which engagements will be subject to engagement quality review. This paragraph uses the term “significant public interest” whereas the term “public interest entity” is more widely used in

national jurisdictions and used by IESBA, so may be more consistently interpreted. In addition, the guidance provided in interpreting the term “significant public interest” in paragraph A102 is very subjective and may result in a wide range of outcomes, which would be open to challenge by regulators (refer also to our response to Question 5).

71_EFAA

We are generally supportive of the proposals addressing the scope of engagements that should be subjected to an EQR.

We suggest that the IAASB elaborate what is meant by significant public interest as this is a new term and consistent application is crucial.

75_SMPC

Although we are generally supportive of the proposals addressing the scope of engagements that should be subjected to an EQR, we have some reservations on para 37(e)(iii)(b) which we will be commenting on separately in ED-ISQM 2. We are also of the view that para A102 will likely be very subjective and ultimately open to interpretation and challenge by regulators. This is going to be an area that will require specific guidance for SMP firms. Again, this is potentially an area where expectation gaps could arise in the SMP audit market, unless the IAASB makes its intent sufficiently clear

76_ICPAS

We agree, with the proposals addressing the scope of engagements that should be subject to engagement quality review. Further, we agree the requirements will result in the proper identification of engagements to be subject to an engagement quality reviewer. To assist smaller firms complying with this requirement, perhaps more examples of quality risks that would ordinarily require an EQR in response to those risks would be helpful.

78_ICAEW

While we agree that engagement quality reviews fulfil a vital role in the quality management process, we are concerned that they might be perceived as the answer to all quality issues, which they are not, and they must not be presented as such.

It would be helpful for the standard to note that an engagement quality review is not necessarily the only way of addressing the quality risks arising in the examples given in paragraph A104, and that a firm's own internal reviews or reviews by technical specialists within the firm are sometimes appropriate.

80_ICAS

We agree that the proposals should result in the proper identification of engagements to be subject to an engagement quality review.

We are concerned that the IAASB has introduced the requirement for the firm to include entities that are of “significant public interest” as a condition when determining the need for an engagement quality review as part of its system of quality management. The determination of what would represent a “significant public interest” entity is more critical to this standard than to the other ISAs (ISA 260 and ISA 700) in which it is found. The lack of a clear definition of what would constitute “significant public interest”, increases the reliance on the application of professional judgement which may give rise to inconsistencies in application and regulatory approach. This is another area in which there would be benefit in the matter being considered as part of the ongoing coordination between IAASB and IESBA.

82_ICPAU

ICPAU agrees with the proposals addressing the scope of engagements that should be subject to an engagement quality review. The requirements will make it easy to identify engagements to be subject for engagement quality review.

The above notwithstanding, ICPAU notes that the scope of engagements subject to EQR now includes audits of financial statements of entities that the firm determines are significant public interest entities yet the term “significant public interest entity” is not defined anywhere in the standard. The challenge with this definition is that there is likely to be inconsistency in the application of the term across different firms. There is already an undeniable difficulty in providing a global definition of what constitutes public interest. As a result IAASB may need to draw more light on what and how one can ably reach the judgement that an entity is a significant public interest. The illustrations under explanatory material para A102 create more questions than answers. For example the guidance given in determining whether an entity is of “significant public interest” is whether the entity has a large number and wide range of stakeholders; what then is a large number? And for a wide range of stakeholders should this be measured based on geographical spread of multiplicity of stakeholdership?

We would thus recommend that the determination of what public interest is a jurisdictional question. In principle, this should be left to regulators in each jurisdiction. We note further that this approach has already been adopted by ISA 700 (revised).

83_IBRACON

An EQR is an important required component of an audit firms overall audit process, as it serves as an evaluator of the performance of the engagement partner and engagement team. Hence, we agree with the inclusion proposed in the ED. However, the requirement for “significant public entities” to be subject to EQR should be further explored within the standard including a guidance to clarify and be more specific on which entities would constitute a “significant public entity” in a way that the standard is applied in a consistent manner.

84_ISCA

Paragraph 37(e)(ii) requires an engagement reviewer for audits of financial statements of entities that the firm determines are of significant public interest. The standard should define the term “significant public interest”, especially to provide clarification on the description “significant”, which is subjective.

85_ICJCE

Yes. However, the ISQC1 as adapted in Spain, all those paragraphs were reference is made to listed companies apply to PIEs, being one of them the scope of the quality control reviews.

We consider that widening the scope to PIEs, as defined by the local laws and regulations and according to the quality risk assessed at the engagement level by the firm, is appropriate. Application material about engagement high level of complexity in Para A104 is very useful.

90_NYSSCPA

We agree with proposals addressing the scope of the engagements that should be subject to an engagement quality review. We believe that audits of listed entities should require an engagement quality review as they now do in the US. The proposed standard appropriately gives a firm flexibility in making the determination regarding other entities based on risk consideration (as is also the case in the US). We believe that the proposed requirement for having an engagement quality control review for entities with

“significant public interest,” but allowing the firm to use professional judgment in determining that on a case-by-case basis is also appropriate and an improvement over the extant standard. We ask that you consider providing additional guidance to ensure uniform application of the terms “significant public interest entity” and “public interest entities.”

91_NRF

It is important that the standard is clear that having an engagement quality review is one, but not the only, response to address an assessed quality risk. We are concerned that the suggested, expanded scope of engagements that would require an engagement quality review is too broad.

We are especially concerned with para. 37 (e) (iii) (b) and the descriptions in A104. We believe that there are many engagements that could meet these descriptions and keeping this paragraph might drive a development where engagement quality reviews will be considered as the only acceptable response to assess quality risks. In addition to the extra costs and resources, such a development might even damage the role and value of the engagement partner, since it might give the impression that as soon as the engagement includes a certain amount of judgment or complexity, the work of the engagement partner is not enough but an external reviewer would be necessary.

We also believe that this requirement will be the biggest challenge for SMPs and we are not convinced that the costs related to appointing external engagement quality reviewers will correspond to increased benefits.

94_SAICA

SAICA agrees with the proposals addressing the scope of engagements that should be subject to an engagement quality review (EQR) and believe that these requirements will result in the proper identification of engagements subject to an EQR.

In relation to the requirement contained in paragraph 37(e)(ii), where reference is made to entities that are of significant public interest concerns were noted in that it is not clear which entities fall into this category and since there is no definition or set criteria to be applied in making this determination, it is left open for interpretation.

Since there is no definition for an entity of *significant public interest*, we suggest that the IAASB consider aligning the terminology to that used in the International Code of Ethics for Professional Accountants and rather refer to public interest entities. As allowed in paragraph A101 of ED-ISQM 1, local law or regulation can then define the which specific public interest entities are scoped into this requirement.

In mitigating the risk of differing interpretation, SAICA supports the guidance contained in paragraph A101 that allows local law or regulation to include different criteria or characteristics that firms may use in determining whether an entity is of significant public interest.

The risk of different interpretations is further mitigated by the guidance contained in paragraph A102 of ED-ISQM 1. We do suggest that the guidance contained in this paragraph be extended to include:

- Number of equity or debt holders, and
- Number of employees.

In concluding, we are aware of the practical challenges that arise in relation to trying to define a public interest entity, where the meaning of this is vastly different across the international jurisdictions. We therefore support the approach that the IAASB has taken by including the requirement in broad terms and leaving the specific application thereof up to the local regulatory bodies.

95_FAAPA

Although not usually relevant for SMPs, we are of the opinion that the IAASB should be very cautious when addressing the scope of engagements that should be subject to an engagement quality review. Using the term ‘significant public interest’ can cause inconsistencies in the application of the standard.

The suggested scope is too broad. We are also afraid that a comprehensive documentation might be expected on the deliberation based on the examples given in A104. An engagement quality review is not the only and not necessarily the best response to quality risks.

We would also like to point out that the requirement to use engagement quality reviews in all the engagements that involve ‘a high level of judgement or complexity’ can be seen to diminish the role of the appointed auditor. Making judgements – big and small - is part of everyday audit.

96_WPK

According to Para 37 (e) policies or procedures addressing engagement quality reviews in accordance with ISQM 2 must be established and are required inter alia for audits of financial statements of entities that the firm determines are of significant public interest.

The introduction of the term "significant public interest" needs further clarification and examples in order to apply this provision consistent and to avoid confusion within the firm or discussion with the regulator or oversight body. As mentioned above there is a lack of consistency in terminology of IAASB and IESBA.

9 Individuals and Others

98_TAS-CAA

We agree with the proposal addressing the scope of engagements subject to an engagement quality review. The adding of ‘entities that are of significant public interest’ by ED – ISQM 1 such as certain banks, insurance companies and pension funds will emphasize the application of professional skepticism at engagement level. This proposal however has mixed views as there is no common interpretation or understanding of the term “public interest.” The identification of the engagements would be difficult due to there being inconsistencies in the different jurisdictions e.g. some public entities which are those? Which ones can be left out? The definition of ‘significant’ might differ from one jurisdiction to the other so there might be need for a consistent definition, or a framework that gives guidance. However, in as far as financial institutions there could be some consistency.