

ISQM 1 – Question 11: Scope of engagements subject to an EQ review – Disagree

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?

4 National Auditing Standard Setters

12_AUASB

The AUASB does not support the explicit requirement to include ‘significant public interest’ entities in the scope of engagements subject to an engagement quality review. The AUASB supports a risk-based approach to such a determination which is already required in the proposed standard where a firm is required to determine whether an engagement quality review is an appropriate response to assessed **engagement** risks. Further to this, the AUASB suggests the following amendment to paragraph 37(e)(iii)(b):

*The firm determines that an engagement quality review is an appropriate response to assessed ~~quality~~ **engagement** risks, based on the reasons for the assessments given to those risks.’*

The AUASB does not consider that it is the role of the engagement quality review to respond to quality risks but rather engagement risks.

If the IAASB does not remove these entities from the scope, then the AUASB notes that application material paragraph A102 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 size of the business. Accordingly, it is unclear whether the proposed standard would result in an expectation that an engagement quality review is performed on ALL charities and ALL public sector engagements as these entities will always have a large number and wide range of stakeholders. This may be an unintended consequence of the proposed drafting. Furthermore, the AUASB is concerned that ‘significant public interest’ entity cannot be defined consistently across jurisdictions and therefore ISQM 2 would not be applied consistently.

18_IDW

As noted in our response to ISQM 2, we believe that there are other quality management instruments available other than engagement quality reviews when, for example, in an audit the quality risks are concentrated in a particular area (e.g., going concern) rather than across the entire audit. Requiring an EQR when subject matter reviews or consultation on specific matters suffice may be ineffective and inefficient. ISQM 1 needs to recognize this and not appear to leave the impression that engagement quality reviews are a “cure-all” for all quality management issues at engagement level.

Consequently, we believe that a firm should determine at engagement acceptance as to which type of quality instrument (engagement quality review, subject matter review, consultation, etc.), if any, might be needed in a particular instance and reconsider the matter as the engagement progresses.

For these reasons, we believe that an engagement quality review should be mandatory only for engagements of listed entities and for engagements for which an engagement quality review is prescribed by law or regulation.

Hence, the requirement in the draft requiring an engagement quality review for audits of significant public interest entities (paragraph 37 (e) (ii)) and the respective application material describing the term ‘significant public interest’ should be deleted. Public interest in the sense of investment by the public is sufficiently covered through the requirement for listed entities. In addition, the legislation in many jurisdictions (for example, in the EU) require an engagement quality review for public interest entities (as defined in that legislation).

In our view, an engagement quality review due to assessed quality risks is already covered by paragraph 37 (e), (iii) (b), which would likely cover most other entities of significant public interest.

6 Public Sector Organizations

52_INTOSAI

The proposed standard does not provide an exhaustive definition of the significant public interest. From the public sector perspective, by the very fact that taxpayers’ money is involved, all entities by definition should be considered as of ‘significant public interest’ (this is relative, depending whether the context is at local or national level etc). It would seem that the best solution in this situation would be to assume that all public sector entities are of ‘significant public interest’ and should the auditor want to apply exception to this rule, it should be duly justified. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.”

Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.

56_OAGC

Of most significance to the public sector, the proposals establish a requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.

Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.

7 Member Bodies and Other Professional Organizations

61_APESB

We note the proposed standards refer to entities of ‘significant public interest’, which is considered to be a comparable term to PIE to identify entities in respect of which EQRs should be performed. We do not support this proposal as we believe that the adoption of such a term instead of the PIE definition will cause market confusion.

We note that in some jurisdictions, such as Australia, the relevant National Standards Setter have issued additional guidelines on the IESBA Code's definition of a PIE. We respectfully suggest that entities which require EQRs are likely to be the same entities that need to comply with the stricter auditor independence requirements of the IESBA Code, such as audit partner rotation requirements. This presents an opportunity for the IAASB to align the applicability of the EQR requirements with the IESBA Code by having one definition in respect of PIEs.

APESB recommends that the IAASB uses PIE rather than entities of 'significant public interest' as the engagements that require an EQR are likely to be the same engagements which are required to apply the stricter auditor independence requirements, and this will also achieve consistency with the IESBA Code.

79_ICAP

We believe that there should be globally acceptable criteria for selection of engagements for quality control review. Firstly, by introducing the requirement for the firm's policies or procedures to require an engagement quality review for audits of financial statements of entities that the firm determines are of 'significant public interest' will make the selection judgmental and firms may misjudge. Accordingly, we do not support the introduction of term 'significant public interest'.

The term 'public interest' has been explained in the IESBA Ethical standard. Independence and other requirements have been outlined for engagements/ relationships with such entities, and engagement quality control requirements should be for the same entities. Accordingly, use of term 'public interest' would align IESBA and IAASB pronouncements.

86_IMCP

No, we consider that is necessary a more detailed and specific definition of the quality review assignments that may be required.