Overview of Responses to ED-ISQM 2\(^1\) – Questions 1 to 8\(^2\)

Overview of Responses to ED-ISQM 2 – Question 1

1. Question 1 in the Explanatory Memorandum (EM) to ED-ISQM 2 asked respondents:

   *Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?*

2. Overall, respondents generally supported a separate standard for an EQ review.

3. Responses to question 1 by category are presented in Agenda Item 8-G.1.

What We Heard in Responses to ED-ISQM 2 – Question 1

4. Agenda Item 8-G.2 provides a summary of the responses to question 1 by theme.

5. Of the respondents that supported a separate standard for an EQ review, specific comments to note about their support include the following:
   - Increases the focus on an EQ review as a firm-level response to assessed quality risks.
   - Helps to clearly differentiate the roles of the firm and the EQ reviewer.
   - Enhances the requirements and guidance for appointment and eligibility of the EQ reviewer, and performance and documentation of the EQ review.

6. There were other respondents that also supported a separate standard for an EQ review but had varying concerns, most notably that:
   - A separate standard for an EQ review may overemphasize it as a response, among others, to assessed quality risks, or imply that EQ review is the best response.
   - All firm-level requirements be placed in proposed ISQM 1, or firm-level and EQ reviewer requirements be more clearly distinguished in proposed ISQM 2.
   - Concerns over the objective of standard being on the firm only, and that it is not sufficiently outcome-based.

7. A respondent disagreed on the basis that the treatment of EQ reviews in a separate standard overemphasizes the role of EQ reviews in fostering quality in the performance of engagements because EQ reviews are only one of a number of possible responses to the risk of not achieving quality objectives (quality risks) at the engagement level. Setting such detailed requirements, for EQ reviews and EQ reviewers, that exceed the nature and extent of requirements in relation to the selection and responsibilities of the engagement partner, may diminish the responsibility of the engagement partner and engagement team for quality at the engagement level.

Overview of Responses to ED-ISQM 2 – Question 2

8. Question 2 in the EM to ED-ISQM 2 asked respondents:

   *Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1*

---

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

\(^2\) These exclude the overview of responses relating to questions 4(a) and 4(b) in the EM to ED-ISQM 2 and question 11 in the EM to ED-ISQM 1, which were discussed at the September 2019 IAASB meeting.
9. Overall, respondents generally agreed that the linkages between ED-ISQM 1 and ED-ISQM 2 are appropriate and clear.

10. Responses to question 2 by category are presented in Agenda Item 8-G.3.

What We Heard in Responses to ED-ISQM 2 – Question 2

11. Agenda Item 8-G.4 provides a summary of the responses to question 2 by theme.

12. Of the respondents that agreed that the linkages are clear, there were no specific comments to note other than that ED-ISQM 1 establishes the requirements for determining which engagements are subject to an EQ review, while ED-ISQM 2 deals with the eligibility and appointment of an EQ reviewer and the performance and documentation of the EQ review.

13. There were other respondents that also agreed that the linkages are clear but had varying comments and concerns, most notably:
   - Suggestions to emphasize that an EQ review is just one aspect of quality management and one particular response to quality risks so that this does not overshadow other responses included in ED-ISQM 1.
   - Various comments to enhance certain linkages between ED-ISQM 1 and ED-ISQM 2.

Overview of Responses to ED-ISQM 2 – Question 3

14. Question 3 in the EM to ED-ISQM 2 asked respondents:

   Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer”? Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

15. Overall, respondents generally supported the change in terminology because the emphasis is now on quality management, rather than on quality control. Respondents also did not anticipate any adverse consequences of changing the terminology.

16. Responses to question 3 by category are presented in Agenda Item 8-G.5.

What We Heard in Responses to ED-ISQM 2 – Question 3

17. Agenda Item 8-G.6 provides a summary of the responses to question 3 by theme.

18. Of the respondents that supported the change in terminology, there were no specific comments to note other than their acknowledgment for support of the change.

19. There were other respondents that also supported the change in terminology but had varying concerns, most notably that:
   - Changing the terminology may have some consequences on translation and local laws.
   - The term may be confused with other types of engagement-level quality reviews performed by the firm.

20. A respondent that did not support the change in terminology indicated that it may be misunderstood.

Overview of Responses to ED-ISQM 2 – Question 4

21. Question 4 in the EM to ED-ISQM 2 asked respondents:
Overview of Responses to ED-ISQM 2
IAASB Main Agenda (December 2019)

Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

22. Overall, respondents generally supported the requirements for eligibility of EQ reviewers and individuals who assist the EQ reviewers in paragraphs 16 and 17 of ED-ISQM 2, respectively.

23. Responses to question 4 by category are presented in Agenda Item 8-G.7.

What We Heard in Responses to ED-ISQM 2 – Question 4

24. Agenda Item 8-G.8 provides a summary of the responses to question 4 by theme.

25. Of the respondents that agreed with the eligibility requirements, there were no specific comments to note other than that the eligibility requirements for EQ reviewers and individuals assisting the EQ reviewer are appropriate and reasonable.

26. There were other respondents that also supported the eligibility requirements but had varying concerns and suggestions, which include:

- Clarifying limitations on eligibility of an EQ reviewer and whether such limitations should also apply to other roles on the engagement.
  
  o Monitoring Group members noted that an EQ reviewer may have previously occupied a senior role in the audit team despite not being the engagement partner (e.g., in developing the strategy or playing a significant role in supporting the engagement partner’s judgments), such that their objectivity could be seen to be threatened in a similar way to that of the engagement partner.

- Clarifying responsibilities of assistants of the EQ reviewer and whether the principle on threats to objectivity and guidance on cooling-off period also apply to assistants of the EQ reviewer.
  
  o A Monitoring Group member noted that a person assisting but not leading the EQ review may have previously been the engagement partner.

- Concerns that the EQ reviewer's authority may be diminished depending on whether the EQ reviewer has a reporting line or holds a lower grade than the engagement partner.

- Concerns that the eligibility requirements are particularly challenging for small- and medium-sized practices (SMPs).

27. Other respondents did not support the requirement in paragraph 16 to include limitations on the eligibility of an individual to be appointed as EQ reviewer for an engagement on which the individual previously served as engagement partner. They believed that the requirement should address the objectivity of the EQ reviewer, which may be impacted by a previous role as engagement partner. This would make the requirement in paragraph 16 appropriately principles-based.

Overview of Responses to ED-ISQM 2 – Question 5

28. Question 5 in the EM to ED-ISQM 2 asked respondents:

Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement...
quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

29. Overall, respondents generally supported the nature, timing and extent of the EQ reviewer’s procedures and considered that the responsibilities of the EQ reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

30. Responses to question 5 by category are presented in Agenda Item 8-G.9.

What We Heard in Responses to ED-ISQM 2 – Question 5

31. Agenda Item 8-G.10 provides a summary of the responses to question 5 by theme.

32. Of the respondents that agreed with the EQ reviewer’s procedures and responsibilities, there were no specific comments to note other than that the nature, timing and extent of the EQ reviewer’s procedures and responsibilities were appropriate.

33. There were other respondents that also supported the EQ reviewer’s procedures and responsibilities but had varying concerns, which include:

- Significant matters and significant judgments:
  - Defining, or providing guidance to further elaborate or explain the two concepts, and the interrelationship between them.
  - Clarifying whether the EQ reviewer is required to independently assess the completeness of the significant judgments identified by the engagement team and considering the inclusion of specific significant judgments that the EQ reviewer is required to evaluate.
    - A Monitoring Group member noted that it would be beneficial to clarify that the EQ reviewer has to form their own view of what are significant judgments (i.e., they are not only assessing those judgments that have been determined to be significant by the audit team but should be assessing all judgments that, in their view, are significant).
    - Another Monitoring Group member noted that the exposure draft continues to require EQ reviewers to identify and select areas of significant judgment for their review. Application material is largely limited to referring to the application material to ISA 220 setting out possible criteria for other matters for an audit partner to consider. An effective and consistent EQ review will require a framework to ensure appropriate areas of the audit are reviewed. This framework should also clearly require review by the EQ reviewer of matters that are key audit matters and/or significant risks.

- Considering the balance between the EQ reviewer's responsibilities in paragraph 22 of ED-ISQM 2 and those of the engagement partner in paragraphs 29-31 and 35 of ED-ISA 220. Respondents were concerned that the responsibilities of the EQ reviewer seem to be greater or more explicit than those of the engagement partner.

- Providing guidance on how the EQ reviewer would demonstrate and / or document the evaluation of the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement in paragraph 22(f).

- Clarifying the nature, timing, extent of procedures relating to, as well as how to demonstrate compliance with, or how to document the following requirements:
o Paragraphs 21(a) and 21(c) – Involvement of EQ reviewer at “appropriate points in time” and discussions between the engagement team and the EQ reviewer.

o Paragraphs 22(a) and 22(g) – Read and understand information from the engagement team and the firm (including monitoring and remediation) and the review of the financial statements and engagement reports.

o Paragraphs 23 and 24 – Unresolved EQ reviewer’s concerns and completion of the EQ review.

• Clarifying the replacement EQ reviewer’s responsibilities and the EQ reviewer assistant’s responsibilities.

o A Monitoring Group member noted that the exposure draft allows other individuals to assist the EQ reviewer. They believe that there should be clarity over what work and how much work could be assigned to these individuals. Where this is permitted, requirements for the direction and oversight of the individuals assisting the EQ reviewer should be developed to support the proposed requirement for the EQ reviewer to take responsibility for the EQ review.

• Providing guidance on the application of ISQM 2 in the context of group audits and in other assurance engagements.

o A Monitoring Group member noted that the exposure draft does not address whether significant components in a group audit context should be subject to the scope of the EQ review.

• Clarifying the EQ reviewer’s responsibility to consider independence matters (in extant), and to review other specific matters (e.g., communications with those charged with governance, significant risks, uncorrected misstatements).

34. Other respondents disagreed with the EQ reviewer’s procedures and responsibilities because they believe that the work effort is disproportionate due to not focusing on the more important quality risks.

**Overview of Responses to ED-ISQM 2 – Question 6**

35. Question 6 in the EM to ED-ISQM 2 asked respondents:

*Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?*

36. Overall, respondents generally agreed that the EQ reviewer’s evaluation of significant judgments includes evaluating the engagement team’s exercise of professional skepticism in reaching conclusions but expressed concerns on how to evidence the evaluation. However, respondents had varying perspectives on whether ISQM 2 should further address the exercise of professional skepticism by the EQ reviewer.

37. Responses to question 6 by category were split into responses relating to the following two questions:

(a) *Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism?* (see Agenda Item 8-G.11)
(b) Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard? (see Agenda Item 8-G.13)

What We Heard in Responses to ED-ISQM 2 – Question 6

38. Agenda Items 8-G.12 and 8-G.14 provide summaries of the responses to questions 6(a) and 6(b), respectively, by theme. Responses relating to professional skepticism are discussed in more detail in Section II-C of Agenda Item 8.

Overview of Responses to ED-ISQM 2 – Question 7

39. Question 7 in the EM to ED-ISQM 2 asked respondents:

   Do you agree with the enhanced documentation requirements?

40. Overall, respondents generally supported the enhanced documentation requirements.

41. Responses to question 7 by category are presented in Agenda Item 8-G.15.

What We Heard in Responses to ED-ISQM 2 – Question 7

42. Agenda Item 8-G.16 provides a summary of the responses to question 7 by theme.

43. Of the respondents that supported the enhanced documentation requirements, specific comments to note about their support include the following:

   • Requirements are appropriate and will not cause major problems in practical implementation.
   • View that these enhanced requirements reflect what many firms currently require to be included in the engagement file as evidence of the EQ review.
   • Support the enhanced documentation requirements and principle that the EQ reviewer takes responsibility for documentation of the EQ review and that this may be documented in a number of ways.

44. There were other respondents that also supported the enhanced documentation requirements but had varying concerns, which include:

   • Providing guidance in application material or implementation support through examples of form, content and extent of documentation.
     o A Monitoring Group member noted that the documentation requirements (paragraphs 25-27) in the exposure draft are limited in nature. The proposed requirements may result in a tick box / checklist approach to documentation. Requirements need to include the EQ reviewer’s commentary on the assessment of the significant judgments reviewed (and accordingly the review of the audit team’s risk assessment), and how the EQ reviewer was able to conclude on significant judgments following the review of selected working papers. The documentation requirements should not only demonstrate that an EQ review has been performed, but indicate what was reviewed, what matters were discussed and how the EQ reviewer was able to conclude.
   • Clarifying how to demonstrate completion of EQ review in accordance with paragraph 24 and the use of the term ‘complete’.
   • Documenting discussions with the engagement team, including those relating to the
evaluation of the basis of the engagement partner’s conclusion in accordance with paragraph 22(f) and the review of financial statements and engagement reports in accordance with paragraph 22(g).

45. A respondent disagreed due to the excess time required for additional documentation and that such documentation would seem to go against the desired objectivity of the EQ reviewer.

**Overview of Responses to ED-ISQM 2 – Question 8**

46. Question 8 in the EM to ED-ISQM 2 asked respondents:

> Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

47. Overall, respondents generally agreed that the requirements for EQ reviews are scalable for firms of varying size and complexity.

48. Responses to question 8 by category are presented in Agenda Item 8-G.17.

**What We Heard in Responses to ED-ISQM 2 – Question 8**

49. Agenda Item 8-G.18 provides a summary of the responses to question 8 by theme.

50. Of the respondents that agreed that the requirements for EQ reviews are scalable, specific comments to note about their support include the following:

- ISQM 2 is inherently scalable for less complex engagements as there are fewer significant matters or significant judgments.
- Allowing for an external individual to be an EQ reviewer helps smaller firms in applying the standard.
- It is helpful that the standard acknowledges that the nature, timing and extent of the EQ reviewer’s procedures depends on the facts and circumstances of the engagement (e.g., paragraph A27).
- References to scalability in the Appendix to the EM to ED-ISQM 2 are also helpful.

51. There were other respondents that also agreed that the requirements for EQ reviews are scalable but had varying concerns, which include:

- Challenges for smaller firms to meet eligibility requirements due to small number of qualified individuals in the firm and finding external EQ reviewers may be difficult.
- Additional guidance in application material and implementation support will be needed (e.g., examples of scalability for different types of engagements or firms, including examples of documentation).

52. Other respondents disagreed that the requirements for EQ reviews are scalable on the basis that the work effort for EQ reviews is not proportionate because it does not focus on the more important quality risks, or that the requirements are designed under the premise of large entities and listed companies.