Question 1 in the 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?

**ED-ISQM 2 – Question 1: Separate standard for EQ reviews and split between ED-ISQM 1 and ED-ISQM 2 – Agree**

**3 Regulators and Oversight Authorities**

07_ISQM 2_FRC

We support having a separate standard for engagement quality reviews. We agree that a separate standard increases the scalability of ISQM1, provides a mechanism to more clearly differentiate the roles and responsibilities of the engagement quality (EQ) reviewer and the engagement team, and places greater emphasis on the importance of an EQ review as a response to quality risks.

84_ISQM 2_NASBA

Yes, we support having a separate standard for engagement quality reviews. We agree that it is appropriate to separate the topics such that ED-ISQM 1 deals with engagements for which an engagement quality review is to be performed and ED-ISQM 2 deals with the remaining aspects of engagement quality reviews.

**4 National Auditing Standard Setters**

11_ISQM 2_AUASB

The AUASB generally supports the IAASB creating a separate standard specific for engagement quality reviews (EQR) as set out in ED-ISQM 2. Given the importance of the EQR role the AUASB considers creating a separate standard effectively communicates the importance of the EQR’s role and responsibilities. We support the requirement in ED-ISQM 1 paragraph 37(e) which identifies those engagements where an EQR is required. This allows firms to clearly determine those engagements that do and do not require an EQR.

The AUASB agree that ED-ISQM 1 should deal with determining the criteria for which an EQR is required and ED-ISQM 2 should deal with all remaining aspects of appointment, eligibility and responsibilities for performing and documenting an EQR.

15_ISQM 2_CFC

We support a separate standard for engagement quality reviews. We 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 EQR.

16_ISQM 2_HKICPA

We support a separate standard for engagement quality reviews as it would provide a number of benefits, including:

a) Placing emphasis on the importance of the engagement quality review.
We agree that ED-ISQM 1 should address the circumstances in which an engagement quality review should be performed and ED-ISQM 2 should address the specific requirements for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review.

18_ISQM 2_JICPA
We support a separate standard for engagement quality reviews.

20_ISQM 2_MAASB
We do support the approach taken by IAASB in developing a separate standard for engagement quality reviews in view of the importance placed on the role of the engagement quality review by stakeholders and that the separate standard could help address scalability issues by providing a simpler mechanism for elaborating the requirements and application material for engagement quality reviews.

21_ISQM 2_NZAASB
The NZAuASB is supportive of a separate standard for engagement quality reviews and agrees 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.

5 Accounting Firms
23_ISQM 2_BTI
Yes, we believe that having a separate quality standard relating to the requirements around the engagement quality review will be beneficial in further highlighting the importance of the EQR process. We support the separation between ED-ISQM1 and ED-ISQM2 in the way in which the IAASB proposes, in particular that the firm-level requirement to have an EQR for certain audits is separated from the requirements relating to the appointment and performance of the EQR.

24_ISQM 2_BTVK
We agree with the creation of a separate standard to address the aspects of engagement quality reviews not addressed by ED-ISQM 1 (i.e. all aspects other than the engagements for which an engagement quality review is to be performed).

26_ISQM 2_CASI
We do support the approach.

27_ISQM 2_CHI
We agree that there should be a separate standard for engagement quality reviews (EQRs). We agree with the proposed division between ED-ISQM 1 and ED-ISQM 2.
DTTL is supportive of a separate standard for engagement quality reviews and believes that such an approach appropriately emphasizes the important role of engagement quality reviews as part of a firm’s system of quality management. In addition, a separate standard provides an appropriate mechanism for enhancing the requirements and application material for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review while increasing the scalability of ED-ISQM 1.

As an engagement quality review is a response to assessed quality risks, DTTL agrees that ED-ISQM 1 should address the engagements for which an engagement quality review is to be performed with the remaining aspects of engagement quality reviews addressed in ED-ISQM 2.

We do support the separation in two standards for more clarity and ease in the use or application of the standards.

We are supportive of the creation of a separate standard for engagement quality (EQ) reviews and of ED-ISQM 1 retaining the requirement for the firm to develop policies or procedures in respect of the engagements for which an EQ review is to be performed. We believe that this promotes the scalability of the standards, such that where a firm determines that no engagement meets the criteria to require an EQ review, it is not required to address the requirements in ED-ISQM 2.

We further support ED-ISQM 2 dealing with the remaining aspects of the EQ reviews. By locating all the requirements relating to EQ reviews in a single and separate location, there is less opportunity for a requirement to be overlooked. Further sufficient explanation and guidance can be provided without affecting the length and complexity of ED-ISQM 1 or distorting the balance of EQ reviews relative to the other aspects of ED-ISQM 1. The development of a separate standard also addresses some of the perceived overlap of requirements in extant ISQC 1 and ISA 220.

Yes. Having separate standards will make reference easier and should enhance compliance by keeping the requirements relating to the performance of engagement quality reviews separate from the general requirements relating to the overall system of quality management.

We support the IAASB’s decision to include requirements and guidance relating to EQ reviews within a quality management standard as we believe this gives significantly greater prominence to this important role. It also better recognises the purpose of the role as part of a firm’s system of quality management, and the need for consistency in applying robust policies and procedures in matters such as appointment to the position.

We consider that the specific requirements themselves are also enhanced, for example, by increased focus on the attributes of those performing EQ reviews and their responsibilities.
35_ISQM 2_KI
The separate standard for engagement quality reviews is supported. It is appropriate for ISQM 1 to identify the engagements for an engagement quality review is required.

36_ISQM 2_MZRS
Yes, we consider a separate standard for firm wide and engagement level considerations to be both easier to understand and implement.

37_ISQM 2_MZRSUS
Overall, we support the separate standard for engagement quality reviews. ED-ISQM 1 establishes the firm's responsibilities for its system of quality control, including procedures when engagement quality review should be performed as the response to assessed quality risks. ED-ISQM 2 sets the requirements for engagement quality review.

38_ISQM 2_MNP
Yes, we support a separate standard for engagement quality reviews. As ED-ISQM 1 deals with all aspects of a firm’s quality management approach, and an engagement quality review is one of the responses that is designed and implemented by a firm to address assessed quality risks, ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed. The development of a separate standard for engagement quality reviews emphasizes the importance of the engagement quality review, and the value placed on a robust and independent engagement quality review by stakeholders. We therefore agree that ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews and we also agree with the basis for developing a separate standard for engagement quality reviews, as set out in the explanatory memorandum for ED-ISQM 2.

40_ISQM 2_NI
Yes we support this separation

6 Public Sector Organizations

46_ISQM 2_AGSA
Yes, we do support a separate standard for engagement quality reviews. The ISQM 1 will prompt the firm and the engagement partner to identify engagements where an engagement quality review is required, and ISQM 2 sets out the framework in terms of which it should be performed as a standard response to quality risks at firm level.

47_ISQM 2_ACAG
Yes, ACAG supports a separate standard for engagement quality reviews, in that ED-ISQM 1 deals with engagements for which an engagement quality reviewer is to be appointed, and ED-ISQM 2 deals with the remaining aspects of engagement quality reviewer's authority, eligibility and skills and capabilities.

49_ISQM 2_NAOM
Yes.
51_ISQM 2_OAGA
Yes, we support a separate standard for engagement quality reviews (EQR) and we agree with the current split of EQRs between ED-ISQM 1 and ED-ISQM 2.

53_ISQM 2_PAS
Yes, we support a separate standard for engagement quality reviews

Yes, we 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.

54_ISQM 2_SNAO
Yes.

55_ISQM 2_GAO
We support a separate standard for engagement quality reviews.

7 Member Bodies and Other Professional Organizations

59_ISQM 2_BICA
We support separate standard for Engagement Quality Review. The separation provides deeper guidance into Engagement Quality Review process. Where a firm assesses that it does not require to perform Engagement Quality Review it would not need to consider ED-ISQM 2. This is an easier process to follow from the regulatory perspective as well given that these would be two different standards.

A separate standard for engagement quality review signifies the importance of the engagement quality review. Locally we have had instances where practitioners confused engagement review with engagement quality control review. It will now be easier for practitioners to fully comprehend and internalize the concept of engagement quality review with a full standard on it.

60_ISQM 2_CAI
We agree with the principle of having a separate standard for engagement quality reviews.

ISQM1 deals with firm level policies and procedures and it makes sense to have the engagement quality reviewer role dealt with in a separate standard.

61_ISQM 2_CalCPA
Yes.

Yes.

63_ISQM 2_CAANZ-ACCA
Our stakeholders were generally supportive of separating the requirements for engagement quality reviews into a second standard.

64_ISQM 2_CICC-AIC
Yes, we support it.
65_ISQM 2_CCC-ICPARD
Yes, we do.

66_ISQM 2_CPAA
We agree with a separate standard for engagement quality reviews (i.e., ISQM 2) as not all firms are required to obtain such reviews, and nor do all practitioners need to provide them. We also agree that the requirement for which engagements will be reviewed should sit in ISQM 1.

72_ISQM 2_ICPAS
Yes, a more defined and robust international standard is warranted in further response to the audit quality movement. However, for those registered accounting firms auditing issuers, they are already accustomed to the PCAOB requirements for the EQR. We believe the two standards should be separate. One dealing with engagements that need an EQR, and the other with the remaining aspects of EQR.

75_ISQM 2_ICAP
We support the proposed approach of separating the engagements for which an engagement quality review is to be performed, and eligibility criteria and roles and responsibilities for engagement quality control reviews (EQR).

77_ISQM 2_ICPAU
ICPAU supports a separate standard for engagement quality reviews because the new standard clearly spells out the criteria of selection of engagements for review and continues to show the qualities of a good reviewer and how they should report their review findings. This will not only solve the confusion in regards to engagement quality reviews but also standardize the whole process.
ICPAU agrees that ISQM 1 should deal with engagements for which an engagement quality review is to be performed and ISQM 2 should deal with other aspects of engagement quality reviews.

78_ISQM 2_IBRACON
Yes. We are supportive of the decision to separate the EQR aspects into ISQM 2, bringing greater clarity to those individuals performing this specific role, as well as addressing scalability.

83_ISQM 2_MICPA
Yes, the Institute agreed that separate standard should be set for engagement quality reviews. This provides further clarity where ED-ISQM 1 explains the firm’s responsibility for establishing a system of quality management and ED-ISQM 2 addresses the importance of the engagement quality reviews by requiring the firm to have policies or procedures set forth for the eligibility of an individual to be appointed as an engagement quality reviewer.

87_ISQM 2_SRO-AAS
Yes, a separate standard is possible.
We agree to such separation. The question may be revised to clearly identify what the remaining aspect of engagement quality review are.
8 Individuals and Others

90_ISQM 2_TAS-CAA

Yes

We support a separate standard for engagement quality reviews, this is due to the fact that the risks encountered by firms in audit and review engagements differ to those faced by firms in non-assurance engagements. Also, we feel that Engagement Quality Review has been given inadequate attention in the past. Having a separate standard for it will ensure that it is given the attention it warrants. Also, giving it a standard separate from ISQM 1 shows that quality management is still vital, and Engagement Quality Review is there to enhance the quality of engagements performed.

Engagement quality review is a specific response to quality risks and thus should be determined at firm level and not at engagement level and thus to reduce inconsistencies having separate standards is necessary to allow firms to determine the criteria for having an engagement quality review.
ED-ISQM 2 – Question 1: Separate standard for EQ reviews and split between ED-ISQM 1 and ED-ISQM 2 – Agree but with further comments

3 Regulators and Oversight Authorities

08_ISQM 2_IRBA

We support a separate standard for engagement quality reviews (EQRs) and the role of engagement quality reviewers (EQ reviewers). EQRs are an important response to quality risks and having a separate standard that is focused on this subject is in the public interest and gives this subject the necessary prominence.

We agree with the “link” to the scoping of requirement for EQRs in ED-ISQM 1.

We further suggest that paragraphs 37(e) and A101-A105 of ED-ISQM 1 also be included in ISQM 2, without deleting it from ED-ISQM 1. This will make ISQM 2 contain everything relevant to EQRs, and may improve navigation between the standards, and aid in understanding.

4 National Auditing Standard Setters

10_ISQM 2_AICPA

We support a separate standard for engagement quality reviews and generally agree with how the related requirements are placed in ED-ISQM 1 and ED-ISQM 2. See specific comments below.

We agree, as stated in paragraph 11 of the explanatory memorandum, that a separate standard emphasizes the importance of an engagement quality review. When an engagement is identified as requiring an engagement quality review, a separate standard also facilitates having all requirements related to the firm’s performance of that review in one location. Consequently, like the changes in ED-ISA 220, we propose that conforming amendments be considered to other assurance standards, such as ISAE 3000, to limit their focus to the engagement team’s procedures and for ISQM 2 to exclusively address the engagement quality reviewer’s procedures.

12_ISQM 2_CAASB

As noted in our overall comments above, we heard mixed views from our Canadian stakeholders regarding a separate standard dealing with EQR. However, most agreed with including requirements in ED-ISQM 1 that establish which engagements require an EQR.

Separate standard

Canadian stakeholders expressed mixed views on ED-ISQM 2. Some Canadian stakeholders raised concerns that a separate standard gives the impression that the EQR is a more important response to a quality risk than other responses, while it is only one of many possible responses. Other Canadian stakeholders supported a separate standard, noting that for firms that have engagements that meet the criteria for having an EQR, there is no significant difference from the extant standard (except for the location of the requirements). For these engagements, ED-ISQM 2 is seen as a matter of geography (i.e., where the requirements are located). However, if a firm determines that an EQR is not a required response to a quality risk, then the requirements of the standard will not apply. Therefore, having a separate standard improves scalability of the standards, as firms would not need to refer to ED-ISQM 2 when an EQR is not required.

14_ISQM 2_CNCC-CSOEC

We support a separate standard for engagement quality reviews.
We also agree that ED-ISQM1 should deal with the engagements for which an engagement quality review is to be performed and ED-ISQM2 should deal with the remaining aspects of engagement quality review.

We have however, the following comments: paragraph 37 (e) (i) of ISQM1 that refers to ISQM2 and the scope for engagement quality review, should also mention the reviews of interim financial information in addition to the audits of financial statements of listed entities. As mentioned in paragraph 1 of ISQM1, this ISQM deals with a firm’s responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

19_ISQM 2_KSW

We support the intention of IAASB for a separate standard for engagement quality reviews. It supports the clarity and scalability.

By creating a separate standard for the EQR, the IAASB should be cautious not to overemphasize the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

22_ISQM 2_NBA

Engagement quality reviews are an important tool in managing audit quality from a firm perspective. In practice reviewers and teams struggle with the work to be performed by the reviewer and therefore we welcome a separate standard.

We would like to remark that in Europe and probably in other jurisdictions there are developed specific requirements for engagement quality reviews at public interest entities. These requirements are often a reflection of the need to perform quality audits in the public interest. In Europe for example, the engagement quality reviewer should assess the independence of the statutory auditor or the audit firm. We recommend the IAASB to consider the requirements set in different jurisdictions and use the basis for conclusions to explain the rationale for major differences between the IAASB requirements and requirements set in relevant jurisdictions.

We support the concept that ED-ISQM 1 deals with “when to perform” an EQR and ED-ISQM 2 with “how to perform” the EQR. To us this reflects the responsibilities of firm management and the EQR reviewer.

The objective of the standard could be enhanced. Why is the review performed? In our opinion, the underlying purposes are to improve the quality of individual engagements as well as a measure of the system of quality management at the firm level. We recommend making this clear.

5 Accounting Firms

25_ISQM 2_BDO

Yes, on balance, we are supportive of the IAASB’s decision to carve out the remaining aspects of the engagement quality review into a separate ED-ISQM 2.

We have noted previously that separating the specific requirements attached to an engagement quality review could help to provide greater clarity to those individuals performing this specific role. We are also mindful of the public interest arguments that point to the differentiation in the role and the need for the review itself, being separated for greater clarity. We also note that there is an inevitable risk that providing a separate ISQM 2 on engagement quality reviews could send an inadvertent message about this particular
type of firm-level response, which could in turn de-emphasise the value attached to other types of firm-level responses.

In our view, an individual performing the engagement quality reviewer role operates in the context of a firm’s quality management eco-system. The need to appoint an engagement quality reviewer is, of itself, a firm-level response to an assessed quality risk. On that basis, it is sensible that firm-level decisions about when an engagement quality review is required should be outlined in ED-ISQM 1. Conversely, role-specific considerations associated with the facts and circumstances of a particular engagement (such as engagement quality review performance, documentation and determination of who should perform the role) are more appropriately documented in ED-ISQM 2.

We also note that consolidating the previous requirements in this new ED-ISQM 2 (including the requirements in extant ISA 220 (Revised)) emphasises that the engagement quality review is a firm-level activity undertaken by an individual who is acting on behalf of the firm, not the engagement team.

**29 ISQM 2_DTL**

A separate standard does give EQRs prominence. However, the content could be incorporated into ISQM1. Splitting out which entities should have an EQR into a separate standard could cause confusion and may be either better placed in ISQM2 also, or bring in the contents of ISQM2 into ISQM1, even if it is in a clearly separate section.

**31 ISQM 2_EYG**

Yes, we support a separate standard for engagement quality reviews. We agree that, because an engagement quality review is a response to an assessed quality risk, 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.

We agree, as stated in paragraph 11 of the explanatory memorandum, that a separate standard emphasizes the importance of an engagement quality review. When an engagement is identified as requiring an engagement quality review, a separate standard also facilitates having all requirements related to the firm’s performance of that review in one location. Consequently, like the changes in ED-220, we propose that conforming amendments be considered to other assurance standards, such as ISAE 3000, to limit their focus to the engagement team’s procedures and for ISQM 2 to exclusively address the engagement quality reviewer’s procedures. Further, the extent of content covered in ED-ISQM 2 as well as the fact that requirements apply to the engagement quality reviewer, albeit on behalf of the firm, could become confusing if included in ISQM 1 as opposed to a separate standard.

**39 ISQM 2_MSI**

We are not opposed to the principle of having a separate standard dealing with the performance of EQR however we have some issues with the way this has been addressed in practice. ISQM 2 combines firm wide and engagement level requirements and we believe this is not an optimal solution. We note that many years ago ISQC 1 was invented precisely to keep a line of separation between firm level and engagement level requirements, the draft of ISQM 2 ignores that line. We believe that the current confusion in some quarters between who is responsible for what will not really be reduced as a result of the strategy proposed for ISQM 2. We would better prefer to see all firm level requirements, including those relating to EQR, in one document (ISQM 1) and a separate ISA dealing specifically with engagement level requirements relating to EQR. This would maintain the line of separation between firm and engagement level and it would usefully
Cordon off EQR requirements at the engagement level for engagement teams performing engagements that are not subject to EQR. The key benefit would be a reduction in the potential for confusion.

41.ISQM 2_NSW

Yes, we agree. The main barrier to understanding the standards is their overall length and complexity (as noted in our response to ED-ISQM 1), and we do not believe that splitting the standards in a different way will help with this.

We hope that the recently introduced electronic version of the IAASB Handbook will make navigating the standards easier.

42.ISQM 2_PKFI

We believe the introduction of a separate standard for Engagement Quality Reviews (EQR), will help emphasize the importance of the ECR process as a part of a firm’s system of quality management. We welcome the enhancements brought into ED-ISQM 2, which build on the requirements and guidance on the Engagement Quality Control Review process, as set out in ISQC 1.

We support a separate standard for engagement quality reviews (“EQR”).

Generally, we believe it is appropriate for ED-ISQM 1 to deal with the engagements for which an EQR is to be performed. However, in order that a complete set of all of the relevant requirements and guidance on EQRs are contained within a single standard, we believe ED-ISQM 2 should also include the same guidance and requirements, as set out in ED-ISQM 1, on the circumstances in which an EQR is to be performed.

43.ISQM2_PKFSA

We support a separate standard for engagement quality reviews (“EQR”).

Generally, we believe it is appropriate for ED-ISQM 1 to deal with the engagements for which an EQR is to be performed. However, in order that a complete set of all of the relevant requirements and guidance on EQRs are contained within a single standard, we believe ED-ISQM 2 should also include the same guidance and requirements, as set out in ED-ISQM 1, on the circumstances in which an EQR is to be performed.

We however request the IAASB to consider issuing additional guidance regarding the transition to ISQM 2 and potential communication with the previous EQCR (extant ISA 220), including communication with the engagement partner as well as potentially what might impair the objectivity and judgement of the EQR.

44.ISQM 2_PwC

We are supportive of a separate standard for Engagement Quality Reviews (EQRs). We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard. At the same time, we understand and support the logic of locating the requirement to determine engagements to be subject to an EQR within ISQM 1. An EQR is one “response” that a firm can utilise to address risks to achieving the firm’s quality objectives identified through the firm’s risk assessment process established in accordance with ISQM 1, and therefore discussing that response in ISQM 1 is appropriate.
We recommend that additional signposting within the requirements could more clearly distinguish those requirements that apply to the firm and those that apply to the engagement quality reviewer by, for example, use of italicised sub-headings.

45_ISQM 2_RSMI

Yes, we support having two separate standards and we agree with the way in which the requirements are split between ED-ISQM 1 and ED-ISQM 2. However we recommend that it is made clearer that the engagement quality review is just one aspect of quality management and represents just one particular response to quality risks.

6 Public Sector Organizations

48_ISQM 2_INTOSAI

We support a separate standard for EQR, although we think that the split is somehow artificial, which makes that questions are being asked as to which standard should cover which aspects of the process.

For instance, selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in the current ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.

50_ISQM 2_OAGNZ

We support a separate standard for engagement quality reviews and the split in requirements between the proposed standards. However, we are concerned that the objectives in the proposed standard are solely focused on the firm and do not provide sufficient linkage to the requirements which deal with both the firm and the engagement quality reviewer.

52_ISQM 2_OAGC

Given the increased volume of requirements and guidance, providing a separate standard for engagement quality review is appropriate. Selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in extant ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.

7 Member Bodies and Other Professional Organizations

56_ISQM 2_AE

We therefore recommend that the IAASB emphasises more that an engagement quality review is just one aspect of quality management control and one particular response to quality risks. Developing a separate standard dealing with quality review should not overshadow other measures included in ISQM 1 that could be as effective.

By creating a separate standard for the EQR, the IAASB should be cautious not to overemphasise the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

We support a separate standard for engagement quality reviews. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals. Nevertheless, we would favour to
more clearly separate the responsibilities of the engagement quality reviewer from that of the firm. In the context of the firm’s overall quality management systems, the role of the engagement quality reviewer should be properly defined as limited.

Additionally, by creating a separate standard for the EQR, the IAASB should be cautious not to overemphasise the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

Accountancy Europe is pleased to provide you its comments on the proposed International Standard on Quality Management 2 (ED-ISQM 2). We support a separate standard for engagement quality reviews. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals. In addition, we support the introduction of a ‘cooling off’ period.

Nevertheless, we would favour to more clearly separate the responsibilities of the engagement quality reviewer from those of the firm. In the context of the firm’s quality management systems, the role of the engagement quality reviewer should be properly defined as limited.

Additionally, we suggest redrafting the objective in paragraph 4 to ensure that the purpose of an EQR is properly understood. The objective of an EQR should be to improve the quality of engagements where there is a particular risk profile to help ensure full compliance with legal requirements and professional standards when performing those engagements. The language used in the standard is not entirely clear and we suggest it is reviewed in its entirety to ensure that plain English is used in all instances.

57_ISQM 2_APESB

APESB supports the approach taken by the IAASB to have ED-ISQM 1 address the engagements for which an Engagement Quality Review (EQR) is required and for ED-ISQM 2 to address eligibility criteria and performance and documentation requirements for EQRs. The separation improves scalability because if a firm determines under ED-ISQM 1 that an EQR is not a required response, it does not need to consider ED-ISQM 2.

APESB believes there is also an opportunity to expand the scope of engagements that should be subject to an EQR. APESB recommends that where a firm prepares a public document to raise funds from the public (for example, through the issue of shares or debt instruments), then these engagements should also be subject to an EQR.

58_ISQM 2_IBR-IRE

Form does not matter as much as the importance of having requirements that are clear and feasible

62_ISQM 2_CAQ

We support creating a separate quality management standard that focuses on the engagement quality reviewer’s (EQR) roles and responsibilities. The consolidation of the EQR responsibilities that currently reside in extant ISA 220, Quality Control for an Audit of Financial Statements and the eligibility and selection requirements from extant International Standard on Quality Control 1, Quality Control for Firms that Perform Audits or Reviews, of Financial Statements, or Other Assurance or Related Services Engagements makes logical sense.
The interrelationship between ED-ISQM 1 (which outlines the requirements of when an EQR’s review is performed) and ED-ISQM 2 (which details the roles and responsibilities of the EQR) emphasizes the importance of the EQR’s review as part of a system of quality management – an engagement quality review is one type of response that a firm can use to address the risks of achieving quality at the engagement level.

Because ED-ISQM 2 addresses requirements for both the firm and the EQR, we recommend expanding the objective in paragraph 10 of ED-ISQM 2 to describe the objectives of the EQR in performing his or her review. For example, the Public Company Accounting Oversight Board (PCAOB) Auditing Standard (AS) 1220, Engagement Quality Review (AS 1220), paragraph .02 states:

The objective of the engagement quality reviewer is to perform an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance.

**67.ISQM 2_EXPERT**

“Outsourcing” the issue of a firm’s engagement quality review (EQR) into a separate standard (ISQM 2) is understandable and in line with the aspect of scalability, as engagement quality reviews are primarily an aspect of more complex audits, as seen in the segment of Public Interest Entities (PIEs). However, care must be taken not to overemphasize the role of the EQR, in contrast to the role of the firm and the role of the engagement partner. EQR is one potential response to quality risks in engagements but there are also other possible responses which should not be neglected compared to an EQR, especially for SMPs.

Principally, EXPERTsuisse supports the separate standard ED-ISQM 2 for engagement quality reviews. Nevertheless, we would welcome to differentiate more clearly between the responsibilities of the engagement quality reviewer and the ones of the firm. The limits of the role of the engagement quality reviewer should be properly defined.

**69.ISQM 2_FACPCE**

Conceptually, we agree to separate the standards. From the point of view of the professional practice, we are concerned about the volume of existing standards and the increase that the new issue would represent.

Our suggestion is that special attention to be given to the training and the guides.

The division of the proposed topics for ED-ISQM 1 and ED-ISQM 2 is adequate, in our opinion, for the reasons and benefits indicated when separating the engagement quality review from the requirements that are established for the eligibility of the engagement quality reviewer, his/her responsibility, his/her authority and the required documentation.

**71.ISQM 2_SMPC**

EQR is only one possible response to a firm’s engagements quality risks. It is not necessarily the most appropriate or most effective response to (internal) quality risks in all circumstances. It would not be helpful if engagements that did not involve an EQR (many will be performed by SMPs) were considered to be of a different standard to those subject to EQR. As a separate standard, ISQM 2 may give the impression that an EQR might be “best practice” for far more engagements than under the current quality control standards. Thus, IAASB may want to reflect on how to ensure such messaging will not gain traction as the standard is
being finalized. A suggestion is for the IAASB to emphasize in ISQM 1 that an EQR is one response to quality risk but is not the only one. It would be helpful to include wording similar to that in the Explanatory Memorandum that “an EQR is a response, among others, that is designed and implemented by a firm to address its assessed quality risks.”

There are mixed views among the SMPC members. A separate standard for EQR is considered by some to increase scalability because if a firm determines that an EQR is not a required response to a quality risk, then the requirements of the standard will not apply.

However, a separate standard may potentially overemphasize the role of EQR as opposed to the engagement partner in ensuring engagement quality. This position has previously been articulated in our comment letter to the ITC as well as our response to the Board paper in September 2017. As we have explained before, we agree that EQR is a means to address public perception that quality must be specifically ensured by EQR for entities with a specific degree of public interest, which are listed entities and any others required by law to have an EQR. As stated in para 6, an EQR is an objective evaluation of significant judgments made by the engagement team, and the conclusions reached thereon. The EQR therefore lends comfort to users of the engagement report as to the quality of the engagement only in that respect. However, quality is primarily achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements (para 5).

We continue to believe that an appropriate overall quality objective ought to be about establishing and maintaining the firm capabilities to perform quality engagements on a consistent basis but being scalable enough to accommodate firms of all sizes. Hence, we believe that more direction is needed and provide suggestions to enhance the clarity below.

Based on how the standard is currently being drafted, the ISQM 2 is unique as it comingles firm wide requirements for policies and procedures and engagement level requirements relating to EQR with the objective of the firm being framed in part, as the responsibility of the EQ reviewer. Although the IAASB is confident that such an approach is not an issue (since the standard is intended to be outcome-oriented), the SMPC has some concerns over the approach. The lack of clear demarcation of responsibilities between the firm, the engagement partner and the EQR may lead to confusion as to who is ultimately responsible, particularly in the case of breaches and where the remedial action should be taken. The risks associated with this might be reduced if the standard was restructured to deal with firm wide policies and procedures and engagement level procedures separately.

73_ISQM 2_IEC-IAB
IAB-IEC is favorable of this separation. It should be investigated if ISQM 2 shouldn't also deal with the criteria for which engagement quality review is to be performed.

74_ISQM 2_ICAEW
We support a separate standard for engagement quality reviews, however, we note in our main points above the fact that ISQM 2 mixes up firm wide requirements for policies and procedures and engagement level requirements relating to the engagement quality reviewer. The lack of clear delineation of responsibilities between the firm, the engagement partner and the engagement quality reviewer is a perennial problem, and a driver of these revisions. The risks associated with this might be reduced if the ISQM provided some navigational guide, perhaps in an appendix as to which requirements relate to the firm, and which to the engagement quality control reviewer.
We support the introduction of a separate standard to deal with engagements for which an external quality review should be performed.

We support the introduction of a separate standard for engagement quality reviews and the proposed approach. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals.

Nevertheless, we would favour a clearer separation of what the engagement quality reviewer should do from what is required of the audit firm.

We note that ED-ISQM 2 applies to audits and reviews of financial statements and other engagements. In relation to the audits and reviews of financial statements, is it the intention that the work of the engagement quality reviewer would be restricted only to the financial statements or might it be extended to other matters that the auditor is required to consider (depending on jurisdictional requirements) in the front-half of the annual report?

As stated in our answers to the specific questions below, we see the split of the ISQC1 into two standards as an answer to political pressures more than a real need. In fact, separating those requirements to perform an engagement quality review from the requirements applicable to the engagement quality reviewer and the documentation requirements, may generate confusion.

It looks more a political than a real need. In our opinion requirements in ISQM2 could be included in ISQM1. In fact, separating those requirements to perform an engagement quality review from the requirements applicable to the engagement quality reviewer and the documentation requirements, may generate confusion.

We understand that ISQCM 2 should not be used as a standard applicable only to PIE or high-risk entities auditors but to all firms and it is a procedure to implement in the circumstances detailed in ISQCM 1 and those set by the firm (based on ISQC1 Para 37 e))

Yes, support but we suggest changing the name to Quality Reviews of the engagement in process. (ISQM 2)

We agree with the IAASB’s position to establish a separate standard for the provisions that are relevant to engagement quality reviews and believe that the approach gives those provisions more prominence making them more robust. We also support having ED-ISQM 1 deal with whether engagement quality reviews should be performed. We suggest that the Board consider including a cross-reference between the material in ED-ISQM 1 and ED-ISQM 2 to emphasize the individual as well as the firm’s responsibility with respect to engagement quality reviews.

The NRF believes there are both pros and cons in having a separate standard dealing with engagement quality reviews. Since appointing an engagement quality reviewer is one, but not the only, option when
addressing quality risks, we are concerned that having a separate standard might stress the value of this option, making this “best practice”, at the expense of the role and value of the engagement partner in ensuring engagement quality.

However, including regulations about engagement quality reviews in ISQM 1 would increase the volume of an already very voluminous standard. With this in mind we support a separate standard.

With regard to the firm’s responsibility for the quality management process, we believe it is important to stress that the role of the engagement quality reviewer is limited. By having a separate standard for the engagement quality reviewer, it is important to ensure that the role and value of having an engagement quality reviewer will not be overemphasized as opposed to the role of the engagement partner.

Since appointing a quality engagement reviewer is one, but not the only, response to quality risks, we believe that this should be clarified within the standard.

**88_ISQM 2_SAICA**

In line with the objective of enhancing scalability and ED-ISQM 2 only being applicable once the entity finds itself practicing in the space of the entities listed in paragraph 37(e) of ED-ISQM 1, as well as emphasising the importance of the (engagement quality review) EQR as a response to identified quality risks, SAICA is in support of a separate standard for EQRs.

The inclusion of paragraph 24, which requires the EQR to determine whether the requirements of ED-ISQM 2 with respect to the performance of the EQR have been fulfilled is seen as a positive addition in emphasising the responsibility of the EQR and may favorably impact the behavior of the engagement quality reviewer in fulfilling the related responsibilities.

The stand back provision included in paragraph 27 is also welcomed as a positive addition in ensuring that the scope of the EQR performed received specific attention and is clearly documented.

During our outreach activities, it was noted that a separate standard for EQRs significantly emphasises this as a response to quality risks; so much so that it may create the impression that this is the only response to engagement performance. SAICA is however satisfied that it is clear in ED-ISQM 1 that the EQR is only one of the required responses to identified quality risks relating to engagement performance.

**89_ISQM 2_WPK**

We agree that an engagement quality review (EQR) is a means to address public perception that quality must be specifically ensured for public interest entities or any other entities required by law to have an EQR.

From a scalable perspective, we support a separate standard for EQR. The standard is only applicable to engagements requiring an EQR and therefore ISQM 2 will not be applicable to all engagements a firm performs.

However we do not support a separate standard for engagement quality reviews (EQR) for the following reasons:

- The implementation of the new approach established by ES-ISQM 1 seems to be very complicated and prescriptive, leaving only little flexibility to the firms. This complexity will even more increase due the fact that with ED-ISQM 2 another standard will be established besides ED-ISQM 1. In addition ED-ISQM 2 now comprises elements of extant ISA 220 (requirements and guidance on the performance of an engagement quality review (formerly EQCR) including requirements directed at the
engagement quality reviewer). We presume that the methodological transformation and adoption of this patchwork into the existing quality systems of the firms will be very challenging. Therefore we would ask the IAASB to develop a mapping of extant requirements to the new requirements in ED-ISQM 2.

- We would like to raise the question if the requirements of the 3 proposed standards International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2) and International Standard on Auditing 220 (Revised) should be included in one single Standard on Quality Management.

- By creating an own standard for EQR the role of an EQR is overemphasized to ensure quality for engagements. An EQR is only one possible response to quality risks for engagements. It is not necessarily the most appropriate or most effective response to (internal) quality risks in all circumstances.

- The engagement partner is responsible for quality at the engagement level. By overemphasizing the role of the EQR, there is a risk of diluting this responsibility of the engagement partner.

8 Individuals and Others

91_ISQM 2_VM

A separate standard is possible.

I do not agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, I think that it should deal with wider range of the engagements.
ED-ISQM 2 – Question 1: Separate standard for EQ reviews and split between ED-ISQM 1 and ED-ISQM 2 – Disagree

4 National Auditing Standard Setters

17_ISQM 2_IDW

Overemphasis of the role of engagement quality reviews (EQRs) in quality engagements

In our view, the treatment of EQRs in a separate standard overemphasizes the role of EQRs in fostering quality in the performance of engagements because EQRs are only one of a number of possible responses to the risk of not achieving quality objectives (quality risks) at engagement level. Furthermore, in many cases, EQRs may not be the most appropriate or effective response to these quality risks. Furthermore, we believe that the engagement partner and engagement team remain primarily responsible for quality at engagement level – not the engagement quality reviewer. Setting such detailed requirements for EQRs and engagement quality control reviewers may diminish the responsibility of the engagement partner and engagement team for quality at engagement level. We have provided more details explaining our views on this matter in our response to Question 1 in the Appendix to this comment letter.

In our view, the treatment of EQRs in a separate standard overemphasizes the role of EQRs in fostering quality in the performance of engagements because EQRs are only one of a number of possible responses to the risk of not achieving quality objectives (quality risks) at engagement level. Furthermore, in many cases, EQRs may not be the most appropriate or effective response to these quality risks. Furthermore, we believe that the engagement partner and engagement team remain primarily responsible for quality at engagement level – not the engagement quality reviewer. Setting such detailed requirements, for EQRs and engagement quality control 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 engagement level.

We believe that this overemphasis of the role of EQRs in quality is misplaced because an EQR is just an additional review beyond the review process that takes place within the engagement team and therefore does not represent a measure to improve quality at source – that is, at engagement team level. It is more important for quality at engagement level to have adequate capabilities and resources within the engagement team, including an appropriate engagement partner. To use an analogy from quality management in production processes, adding an engagement quality reviewer is similar to having an additional supervisor at various points in an automobile production line, which has proven to be an inefficient and ineffective quality measure compared to having assemblers in the production line be responsible for quality at assembly.

Nevertheless, we recognize that EQRs are a proven quality measure that is recognized as such in ISQC 1, national quality control standards and in legislation in some jurisdictions and that EQRs have an important role in fostering quality in engagements. Our concern relates to the overemphasis of EQRs in ISQM 1 and 2 – not the fact that EQRs are addressed in these standards.

We do recognize that integrating requirements for EQRs within ISQM 1 would increase its complexity and length, whereas the draft of ISQM 2 is rather lean and focused on a specific response to quality risks. Since the draft covers both requirements for the firm and for the engagement quality control reviewer, the split between the requirements in the two standards is rather confusing. If ISQM 2 were to be retained, it would best to have all requirements addressing the firm in ISQM 1 and all requirements addressing the engagement quality control reviewer in ISQM 2.
ED-ISQM 2 – Question 1: Separate standard for EQ reviews and split between ED-ISQM 1 and ED-ISQM 2 – Unclear or no specific response or refer to other respondent's views

1 Monitoring Group

01_ISQM 2_BCBS
Basel Committee on Banking Supervision

02_ISQM 2_IAIS
IAIS

03_ISQM 2_IFIAR
The International Forum of Independent Audit Regulators (IFIAR)

04_ISQM 2_IOSCO
The International Organization of Securities Commissions’ Committee on Issuer Accounting, Audit and Disclosure (Committee 1)

2 Investors and Analysts

05_ISQM 2_ICGN
The International Corporate Governance Network (ICGN)

3 Regulators and Oversight Authorities

06_ISQM 2_CPAB
Canadian Public Accountability Board (CPAB)

09_ISQM 2_IAASA
IAASA

92_ISQM 2_CEAOB
CEAOB

4 National Auditing Standard Setters

13_ISQM 2_CICPA
The Chinese Institute of Certified Public Accountants (CICPA)

7 Member Bodies and Other Professional Organizations

68_ISQM 2_FAR
In general, FAR supports the response submitted by the Nordic Federation of Public Accountants and FAR therefore refers to this response.
We support the views stated in the responses to ISQM2 ED submitted by Accountancy Europe. We refer to those responses for our detailed answers to the questions stated in the invitation to comment. Moreover, we refer to FSR - Danish Auditors’ response to the overall explanatory memorandum.

The Institute of Singapore Chartered Accountants (ISCA)

KICPA