Question 4 in the EM to ED-ISQM 2 asked respondents:

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?

**ED-ISQM 2 – Question 4: Eligibility requirements of the EQ reviewer or an assistant to the EQ reviewer – Agree**

4 National Auditing Standard Setters

11.ISQM 2_AUASB
The AUASB are supportive of the eligibility requirements of the “engagement quality reviewer” as outlined in paragraphs 16 & 17.

20.ISQM 2_MAASB
We do support the eligibility requirements of an engagement quality reviewer as set out in the ED.

22.ISQM 2_NBA
We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

We support the inclusion of paragraph 16c of the ED where it is stated that the engagement quality reviewer complies with the requirement of law and regulation. This section is necessary since in the EU regulation it is stated that the engagement quality reviewer for a PIE audit should be a statutory auditor that is not involved in the performance of the statutory audit to which the review relates.

We support that the engagement quality reviewer can be an external individual appointed by the firm to perform the engagement quality review as stated in paragraphs 11b and A4.

5 Accounting Firms

26.ISQM 2_CASI
We do support the eligibility requirements of an engagement quality reviewer as set out in the ED.

28.ISQM 2_DTTL
DTTL is supportive of the eligibility requirements as described in paragraphs 16 and 17 of ED-ISQM 2.

33.ISQM 2_HM
Yes

35.ISQM 2_KI
The requirements for eligibility to be appointed as an engagement quality reviewer are appropriate.

36.ISQM 2_MZRS
Yes

*Prepared by: Hanken Talatala and Dan Montgomery (November 2019)*
We support the eligibility requirements for appointment as EQR or assistant thereto.

We do. We are pleased to note that the application material envisages eligibility including people from outside the firm which is an important scalability consideration and also will be very relevant in countries where the majority of firms are very small.

Yes, we agree with the principles set out in paragraphs 16 and 17. For an engagement quality review to be effective, the reviewer must be independent, objective and competent to perform the role.

Yes, ACAG supports the eligibility requirements as described in paragraphs 16 and 17 of ED- ISQM 2.

Yes

Yes.

We are supportive of the eligibility requirements proposed.

Yes, we support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

We believe that the proposed eligibility requirements for appointment as an engagement quality reviewer or assistant are reasonable.

We support the requirements for eligibility to be appointed as an EQR or an assistant to the EQR.

We support the eligibility requirements for engagement quality reviewers and any assistant.
72_ISQM 2_ICPAS
Yes.

75_ISQM 2_ICAP
We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

76_ISQM 2_ICAS
We are supportive of the inclusion of a new requirement for the firm to establish policies or procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as the engagement partner.

77_ISQM 2_ICPAU
ICPAU supports the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. The requirements in the ED ISQM 2 clarify on authority of the Engagement Quality Reviewer, actions to be taken when the Engagement Quality Reviewer’s eligibility is impaired; and Engagement Quality Reviewers objectivity including, when applicable, limitations on the eligibility to be appointed as an Engagement Quality Reviewer. The requirements for individuals who would assist an EQR are equally timely.

87_ISQM 2_SRO-AAS
Yes

8 Individuals and Others

90_ISQM 2_TAS-CAA
Yes

91_ISQM 2_VM
Yes
ED-ISQM 2 – Question 4: Eligibility requirements of the EQ reviewer or an assistant to the EQ reviewer – Agree but with further comments

1 Monitoring Group

01_ISQM 2_BCBS
The EQ reviewer cannot previously have been the audit's engagement partner (paragraph 16). However, there appears to be no explicit prohibition where the reviewer served in some other capacity on the engagement team; nor is there a similar limitation on other persons assisting with the EQR but who are not the EQ reviewer. As a result, the following two scenarios seem possible, and although paragraphs 16 and 17 may lead to them not being compliant with ED-ISMQ 2, the Committee would like the IAASB to clarify whether such scenarios would be prohibited:

- 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 judgements), such that their objectivity could be seen to be threatened in a similar way to that of the partner.
- A person assisting but not leading the EQR may have previously been the engagement partner.

02_ISQM 2_IAIS
ED-ISQM 2 is clear that an engagement quality reviewer must not have been the audit's engagement partner. However, it does not currently rule out the possibility that they had some other senior role on the audit team or as part of the engagement review. The IAASB should consider tightening these criteria in order to provide a more complete and consistent set of limitations and help to avoid perceptions of conflicts of interest.

03_ISQM 2_IFIAR
The eligibility of individuals to act as an EQ reviewer is critical to safeguarding the effectiveness of the EQ review. Key areas include objectivity and appropriate authority. While the application material relating to objectivity refers to a minimum cooling off period of 2 years or more if local regulations are more stringent, the exposure draft would be enhanced if the requirements set this out as a criteria for EQ reviewers of listed and/or public interest entities.

04_ISQM 2_IOSCO
Enhance auditor independence ED ISQM 2 para 16-17
To meet quality objectives auditor independence should be enhanced for engagement quality reviewers (EQR).

- Regarding concerns addressed in the ITC with respect to criteria of the appointment and eligibility of engagement quality reviewers we believe strong wording is needed to avoid potential conflicts of interest.

Give more prominence to ethical requirements Paragraph 14 of ED ISQM 2
Ethical requirements need to be more prominently reflected in ED ISQM 2

- The underlying concept of current paragraph 14 of the application material of ED ISQM 2 could be transformed into a principle-based requirement of the standard.
• EQRs should be required to take responsibility for adverse findings from internal or external quality reviews.

3 Regulators and Oversight Authorities

06_ISQM 2_CPAB

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.

07_ISQM 2_FRC

We support the requirements in paragraph 16.

In respect of paragraph 17, we acknowledge that in certain circumstances (e.g. larger, more complex engagements), the EQ reviewer may be assisted by an individual or team of individuals to assist the EQ reviewer in complying with the requirements of ISQM2. We support the recognition of assistance from other individuals in paragraph 17 and 18 of the standard. However:

• The EQ reviewer still has overall responsibility for the EQ review and the conclusions reached in paragraph 24, but this is not clear enough in paragraph 18.
• The EQ reviewer has a responsibility to direct, supervise and review the work of such individuals, but this is not required in paragraph 17 or 18.
• Given that the overall responsibility for the EQ review rests with the EQ reviewer, the responsibilities of the individuals or team of individuals should be made clear to them before they undertake the work on behalf of the EQ reviewer, but this is not required in paragraph 17.

We advise the IAASB to clarify these matters when finalising the standard. See Appendix 5 for suggested editorials in this regard.

08_ISQM 2_IRBA

We support the requirements for eligibility to be appointed as an EQ reviewer or an assistant to the EQ reviewer. These are significant and necessary improvements to the eligibility requirements.

Our inspections findings have indicated that often EQ reviewers are not sufficiently objective. Partners in a firm who are appointed as EQ reviewers, even if they are neither the engagement partner nor involved in the engagement, sometimes have interests that are too closely aligned with those of the engagement partner to offer an objective view or challenge of the significant judgments made by the audit team. We therefore question whether for high-risk public interest entities (PIEs), may be necessary to take further steps to ensure that the EQ reviewer is objective. The nature of what constitutes high risk could be informed by the firm’s risk assessment process, and the firm’s client acceptance and continuance process. It may include for example entities experiencing negative media reporting of relevance to financial reporting. The nature of steps that could be taken, revolve around the selection of the EQ reviewer, and could include the further strengthening of objectivity by engaging an eligible EQ reviewer from outside the firm (whether from the network, or an external service provider).
Regarding the appropriate authority of the EQ reviewer paragraph A11 of ED-ISQM 2 states that such authority may be diminished when the EQ reviewer has a reporting line to the engagement partner, or when the engagement partner is responsible for determining the compensation of the EQ reviewer. While we recognise that this provision may address the situation of very small firms, our view is that such reporting lines “will” diminish authority. We therefore recommend that such conditions be set out in ISQM 2 as threats that should be avoided (and if need be, an external EQ reviewer should be appointed).

We suggest that a further factor that could be included in paragraph A20 of ED-ISQM 2 is to address circumstances that could arise during an engagement that result in the EQ reviewer no longer being objective.

09_ISQM 2_IAASA

The application material in paragraph A8 on the eligibility criteria for the engagement quality reviewer should be strengthened to provide that an individual who has been an engagement partner on an engagement where significant deficiencies were identified (whether through an EQR, the firm’s monitoring activities, an external inspection or otherwise) shall not be eligible to be appointed as an engagement quality reviewer given that he/she shall not be regarded as having the required competency to perform an EQR.

84_ISQM 2_NASBA

We generally support the requirements as described in paragraphs 16 and 17. We believe consideration should be given to moving Paragraph A15 into the requirements of the standard.

92_ISQM 2_CEAOB

The application material in paragraph A8 on the eligibility criteria for the engagement quality reviewer should be strengthened to provide that an individual who has been an engagement partner on an engagement where significant deficiencies were identified (whether through an EQR, the firm’s monitoring activities, an external inspection or otherwise) shall not be eligible to be appointed as an engagement quality reviewer given that he/she shall not be regarded as having the required competency to perform an EQR.

4 National Auditing Standard Setters

12_ISQM 2_CAASB

We note that ED-ISQM 2 refers to “appointment and eligibility” throughout the standard. We think the IAASB should consider reversing the terms, as a firm will first need to determine whether an individual is eligible, then appoint that individual as EQR.

Currently there is confusion in practice whether the EQR needs to be a partner or can be someone who is not a partner, for example a principal or senior manager. ED-ISQM 2 establishes criteria for the competence and capabilities of the EQR, and the definition of EQR is clear that the person does not need to be a partner. However, Canadian stakeholders noted that ED-ISQM 2 could provide more clarity by giving examples of which individuals in the firm might meet the criteria.

We note that the definition of engagement quality reviewer in paragraph 11(b) refers to an “other individual in the firm”. The IAASB may consider adding application material to the definition of engagement quality reviewer to provide examples of who the other individual might be as follows:

   Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.
AM – The other individual in the firm might be a principal or senior manager, as long as that individual is eligible to be appointed as the engagement quality reviewer. Firms may use different titles to describe these individuals.

13_ISQM 2_CICPA

We are supportive of the requirements for eligibility in ED-ISQM 2.

We notice that an engagement quality reviewer could be an external individual appointed by the firm, i.e., supplementing insufficient internal resources with external resources, which is a service provider. This should be subject to paragraph 64-65 of ED-ISQM 1. We believe that, in general, there should be some restrictions on the scope of accounting firms’ use of external service providers. Firms are responsible for making sure it has sufficient resources, rather and should not than place overreliance on service providers. Besides, we recommend that IAASB further consider whether certain restrictions should be imposed on the use of external engagement quality reviewer in high risk engagements, such as audit of financial statements of listed entities, important financial institutions, entities of significant public interest, etc.

Suggest explicitly stating in the standards that policies and procedures of accounting firms should ensure that the engagement partner cannot interfere with the appointment of engagement quality reviewer, nor shall the engagement quality reviewer be accountable to the engagement partner or any business unit.

14_ISQM 2_CNCC-CSOEC

We support the eligibility requirements.

However, we have the following comments on paragraph 17 that deals with the policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer:

- The first sentence of paragraph A18, i.e. “In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise”, should be moved into paragraph 17.

- The IAASB should further clarify the role of individuals who can assist the engagement quality reviewer. We encourage the IAASB to ring-fence the tasks that can be performed by such individuals.

16_ISQM 2_HKICPA

In general, we 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. However, we would suggest the IAASB clarify whether professional staff assisting the engagement quality reviewer would be subject to any cooling-off period after serving as engagement team member for the engagement.

17_ISQM 2_IDW

Some of the requirements are over-engineered

In our view, some of the requirements are over-engineered, such as paragraph 15.

We believe that some of the requirements for eligibility are over-engineered because many different roles and responsibilities are required (we note, in particular, paragraph 15). This is particularly the case for small and medium size practices (SMPs), where there may only be very few engagements for which an EQR is required.
19_ISQM 2_KSW

Generally speaking, we support the eligibility requirements, but would note that this might be challenging from a smaller firm’s perspective. We also support the criteria for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. This supports the clarity on the requirements for being an engagement quality reviewer.

5 Accounting Firms

25_ISQM 2_BDO

We 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. However we believe that it would be helpful to include a statement in paragraph A13 to clarify the ethical requirements that are relevant to the engagement quality reviewer (or assistants) since they are not engagement team members.

We also note that while ED-ISQM 2 highlights the importance of ‘objectivity’ for an engagement quality reviewer, it is not clear whether this also applies to the assistant engagement quality reviewer.

The role of assistant engagement quality reviewers is intended to be used on specific occasions; some examples in application guidance or implementation support (perhaps by way of a Frequently Asked Question (FAQ) scenario) may be helpful for users.

Regarding the other eligibility criteria for engagement quality reviewers, we note that paragraph A6 defines competence but never defines capabilities. The IAASB should consider whether a short discussion of capabilities would be helpful.

29_ISQM 2_DTL

We do not feel that ISQM2 is clear enough in terms of who is eligible to be appointed as an EQR and feels like it is up to the firm to demonstrate certain requirements, rather than clearly stating rules, which would be preferable. For example, we do not feel it is reasonable for someone to perform an EQR if they, themselves are not in a position to sign an audit opinion, but this does not appear to be specifically excluded.

30_ISQM 2_ETY

We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to. However, we think that in the paragraph A6 the requirement for “… and experience relevant to, engagements of a similar nature and complexity” should be reworded as “… and experience relevant to, engagements of a similar nature or complexity”. This wording will allow availability for more reviewers in SMPs than requiring an experience in both nature and complexity. In particular, when the firm win new engagements in new sectors or when a “cooling off” rule should be applied.

31_ISQM 2_EYG

We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. Competence, capability including sufficient time, appropriate authority and objectivity are essential for an effective review. However, we believe that the guidance related to limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner could be clarified. Refer to our response to Q4 (a) for further comments.
32_ISQM 2_GTIL

We are generally supportive of the proposed requirements regarding the eligibility of individuals to be appointed as an EQ reviewer or an assistant to an EQ reviewer. Whilst we appreciate that the standard deals with the authority, or perceived authority, of the EQ reviewer through the requirement in paragraph 16(a) and the related application material, experience indicates difficulties can still arise where the EQ reviewer is of a grade lower than that of the engagement leader.

We would therefore recommend that the application material more strongly encourage a firm to implement robust policies or procedures that ensure the individual appointed EQ reviewer has sufficient authority to fulfil the role of EQ reviewer and the objectives of the proposed standard.

We also note that the application material, specifically paragraph A11, indicates that the authority of the EQ reviewer becomes diminished where the EQ reviewer has a reporting line to the engagement leader. Whilst acknowledging for some firms, it may not be possible for an EQ reviewer to be appointed where there is no reporting line to the engagement leader, we would recommend that the proposed standard include guidance that where practical the EQ reviewer does not have a reporting line to the engagement leader and provide examples of the safeguards a firm could put in place where it is not practical.

We note that paragraph 17 of ED-ISQM 2 allows for individuals to assist the EQ reviewer in the performance of the review. The related application material, through the provision of an example, could be interpreted that using assistants in the performance of an EQ review would only be appropriate in circumstances where specialist expertise is needed in the execution of the review. We do not believe that this was the intention of the requirement and recommend that the guidance is revisited in this regard.

We also note that one of the factors to consider in the appointment of an EQ reviewer is whether that EQ reviewer will have sufficient time to fulfil the role. The appointment of assistants to help the EQ reviewer in the performance of the review in general, may be helpful in circumstances where there is a limited pool of available EQ reviewers from which to draw. For example, a firm that only performs a small number of listed engagements will likely only have a small number of individuals with the sufficient knowledge to perform the review, i.e., engagement partners that perform audits of listed engagements. Appointing others to assist the EQ reviewer in these circumstances, such as senior managers on listed engagements or senior personnel on non-listed engagements for common EQ review tasks, may make the eligibility requirements more scalable.

34_ISQM 2_KPMG

We support these proposed changes, which provide increased focus on the attributes of competence and capabilities, including time, as well as compliance with ethical requirements, in particular, objectivity. We consider that as a result of these, firms will have a better foundation regarding the establishment of policies and procedures in relation to the appointment of EQ Reviewers, enabling greater emphasis on the consistent application of more formalised criteria in respect of determining their eligibility.

We also believe the revisions will help make these criteria themselves more robust, especially emphasising the alignment of an individual’s competence and capabilities to the specific engagement and its circumstances, as well as providing greater recognition of the critical factor of “authority” and linking this to the firm’s policies/culture in this area.

We suggest that the ED clarify that considerations as to eligibility need to be made in detail at the time of initial appointment to the role, but for subsequent periods may be made at a higher level, focused on determination as to whether circumstances have changed, both in respect of the individual, and the wider
engagement circumstances, or whether a change in the EQ Reviewer is necessitated by ethical requirements, laws or regulations, but need not involve a complete re-assessment.

We note that paragraph 20, which addresses the EQ Reviewer becoming aware of circumstances that may impair his/her eligibility to perform the role, provides that the EQ Reviewer decline the appointment, if the review has not commenced, or discontinue the performance otherwise. We highlight that whilst these steps may be the appropriate outcome, for example, in a scenario in which the matter that may impair eligibility relates to objectivity of the EQ Reviewer, it may also be appropriate for the IAASB to introduce alternative courses of action, for example, in a scenario in which the matter relates to a specific aspect of expertise that is not considered to be pervasive to the engagement as a whole, the individual responsible for appointing EQ Reviewers may determine that a more appropriate solution would be to appoint an individual with relevant expertise in respect of the particular matter to assist the EQ Reviewer, as envisaged at paragraph A18.

We also recommend that the IAASB consider including a preceding requirement, that the EQ Reviewer, once appointed, “remain alert” to matters that may affect his/her eligibility and, in the event that such matters are identified, that the EQ Reviewer consider their effect, if any, on their ability to perform the role, and, when necessary, notify the appropriate individual(s) within the firm, including the individual responsible for appointment of EQ Reviewers. Such individual may then consider the effect of the matter that may affect eligibility of the EQ Reviewer and determine the most appropriate course of action.

38_ISQM 2_MNP

We generally support the requirements for the eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. In certain jurisdictions there may be many smaller listed, or public interest, entities who engage the services of SMP’s. While proposed ISQM 2 does allow these practitioners to appoint external individuals to perform an engagement quality review, this may be onerous or difficult to achieve in practice because of inter-firm competition, insurance restrictions, remote communities, etc. Therefore, the requirements with respect to the eligibility to be appointed as an engagement quality reviewer may have the effect of limiting the audits of listed and public interest entities to larger firms and networks.

40_ISQM 2_NI

Generally YES but this could be challenging for smaller firms without sufficient resources.

41_ISQM 2_NSW

Yes, we support these requirements (though we would note that, in practice, authority within a firm is still often achieved through having a particular title or position).

We believe that paragraph 17, or the application guidance thereto, should clarify where the boundary of “assisting the engagement quality reviewer” lies. For example, it is common for a member of the engagement team to take minutes of discussions between the engagement partner and the engagement quality reviewer. We do not consider that this compromises the independence of the engagement quality review process. If this were to be prohibited it would cause unnecessary resourcing complications.
We generally 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.

Additionally, we also believe it would be helpful for proposed ED-ISQM 2 to further enhance the guidance on the eligibility of an “other individual within the firm” to be an engagement quality reviewer. This would be beneficial for smaller firms with restricted partner resource and which would be more likely to need to utilize an “other individual within the firm” to perform an engagement quality review.

We generally 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. Additionally, we believe it would be helpful for proposed ED-ISQM 2 to further enhance the guidance on the eligibility of an “other individual within the firm” to be an engagement quality reviewer. This would be beneficial for smaller firms with restricted partner resource and which would be more likely to need to utilise an “other individual within the firm” to perform an engagement quality review.

We support the criteria for eligibility to be appointed as an engagement quality reviewer and for individuals who may assist the reviewer.

With respect to paragraph A4, we are not convinced of the relevance of paragraphs 59-60 of ISQM 1. If a firm obtains an engagement quality reviewer from another network firm, the firm still has to be satisfied that the individual meets the criteria specified in paragraph 16. That should be a clear determination point. It is unclear what additional risks to quality may arise that would require to be assessed as part of the firm’s overall system of quality management by applying paragraphs 59 and 60 of ISQM 1. Specifically, the relevance of paragraph 60 is not clear.

Yes, we 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. However, the paragraphs do not address cooling off periods for a person previously employed by the audit client/auditee.

Yes, we agree with the requirements for eligibility, subject to the proposed standard providing guidance on the “cooling-off” period before being able to act as the engagement quality reviewer.

Yes, we support the paragraphs but a with a few comments:
Wouldn’t it be relevant that also the assistant ensures that there are no threats to objectivity related to the engagement or the engagement team as this person might have been part of that team previously.

7 Member Bodies and Other Professional Organizations

56_ISQM 2_AE

Generally speaking, we support the eligibility requirements and note that this might be challenging from an SMP perspective.

57_ISQM 2_APESB

Subject to the comments in (a) and (b) below, APESB supports the additional requirements added in ED-ISQM 2 for the eligibility of an engagement quality reviewer, including the requirement to ensure that the engagement quality reviewer has the “competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review”.

59_ISQM 2_BICA

Requirement for eligibility to be appointed as an engagement quality reviewer or an assistant are supported with few comments.

Paragraph 16 and 17 and the relating explanatory paragraphs give no requirement that the Engagement Quality Reviewer must be at partner level. Use of the phrase “partner or other individual within the firm” gives an option to appoint non-partner individuals. This gives room to appointment of audit managers as Engagement Quality Reviewers. However, even at senior manager level, these individuals have no authority over the partners. Their reviews are therefore highly likely to be overridden by engagement partners due to lack of authority. The process then would become a box ticking exercise.

Paragraph A11 gives clear indication that appointment of Engagement Quality Reviewer below partner level would practically bear no desirable results.

Furthermore, sufficient time referred to in paragraph 16(a) would be difficult to prove or refute from the point of view of a regulator. Given that the standard allows for use of an assistant by the Engagement Quality Reviewer, it is proposed that “sufficient time” be replaced with “sufficient resources”. Use of “Sufficient Resources” would allow for other factors to be considered including time and availability of an assistant.

60_ISQM 2_CAI

Overall we support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as set out in the ED. However, we do note that this could present a challenge for smaller firms and in sectors where specialist knowledge may be confined to a few individuals and may result in an increased need for smaller firms to use external review resources.

63_ISQM 2_CAANZ-ACCA

We believe that it is appropriate for proposed ISQM 2 to require that ethical requirements must be complied with in the appointment of an EQR and the performance of the engagement quality review.
Consideration of how SMPs can manage the need for an EQR if there is not a suitable person within their firm due to independence considerations or due to the firm being a single person firm i.e. how do you deal with outsourcing an engagement quality review.

How the EQR can assess the EP’s time spent on the engagement and whether this was sufficient, which could be challenging in practice.

64-ISQM 2_CICC-AIC
Yes, we support it, more for small firms and individual practitioners without employees a practical and simple guide, achieve the implementation of quality management.

65-ISQM 2_CCC-ICPARD
Yes, we support it, more for small firms and individual practicing professionals without employees, a practical and simple guide would achieve that quality management is implemented.

67-ISQM 2_EXPERT
In general, we support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the same but see some challenges for SMPs in this regard. We encourage the IAASB to reconsider the requirements for eligibility in straightforward audits and to express this differentiation clearly in the standard itself.

69-ISQM 2_FACPCE
We agree with the requirements to be appointed engagement quality reviewer or assistant to the engagement quality reviewer, as described in the document. We suggest defining better what tasks the quality reviewer could delegate to his/her assistant and which ones shall not.

Likewise, something could be incorporated about the potential work of specialists (in tax, IT, valuation, etc.) that the engagement quality reviewer may require in certain circumstances.

71-ISQM 2_SMPC
As the SMPC has previously commented to the IAASB, smaller firms often have relatively small pool of individuals with both the seniority and experience to act as engagement partners and engagement quality reviewers. For this reason, the practicalities associated with internal rotation generally poses specific challenges to such firms. We would caution that the use of any external third party adds significant costs that will disadvantage SMPs and/or the SMEs they serve.

Para 16 (a) of the ED further states that “Those policies and procedures shall require that the EQR not be a member of the engagement team and have the competence and capabilities, including sufficient time and the appropriate authority to perform the EQR”. Such conditions may be possible if the EQR is sourced internally within the firm but may prove difficult to ensure in practice if an external EQR is engaged, as his or her time commitment may depend on their other personal engagements or commitments to which the firm may not be privy.

73-ISQM 2_IEC-IAB
IAB-IEC is pleased that these paragraphs take SMPs into account to prevent that the requirements would be inapplicable for SMPs.
74_ISQM 2_ICAEW
We support the requirements for eligibility. The application material allows for the use of individuals outside the firm, which is important for small practitioners in the UK and elsewhere.

Para A4: the cross-references to ISQM 1 have the wrong paragraph numbers - 65 should be 64.

80_ISQM 2_ICJCE
Criteria for eligibility as an engagement quality reviewer or an assistant to the engagement quality reviewer (ISQM 2 Para 16 and 17) seem reasonable.

The engagement quality reviewer should be a professional qualified to act as a statutory auditor.

85_ISQM 2_NYSSCPA
We generally agree with the proposed eligibility appointment criteria.

The appointment process in small practices could be very limited based on capability and availability, raising the question of should such firms be involved in this level of service(s). It is also possible that such firms would produce high quality work without this procedure. We note that the procedure’s principal objective, among others, would be to reduce the quality risks in a firm to an acceptable level.

The competence discussion in A(6) to A(9) is well thought out; however, what we have found in practice is that many reviewers have stronger generalist skills or industry specialist skills, and the reviewer’s evaluations tend to become skewed to these skills, i.e., the assignments need to recognize this issue. When this occurs, the EQR process may need to be strengthened; perhaps, a brief mention or short discussion in the application material is appropriate.

In addition, paragraphs 20-20(b) and A(21) address impairment of the engagement quality reviewer’s eligibility, but consider adding guidance related to the continuance of the review when the original engagement quality reviewer is mid-review when eligibility is impaired. Application guidance regarding documentation when eligibility ceases would be helpful.

86_ISQM 2_NRF
We also suggest that para. A9 should be removed. The content, or perhaps the way of drafting, is confusing, since such an individual should not have been appointed as an engagement quality reviewer in the first place, cf. para. 16 a) and para A6.

88_ISQM 2_SAICA
SAICA supports the requirements for eligibility to be appointed as an engagement quality reviewer.

An area that was identified as requiring clarity relates to the initial and subsequent eligibility considerations. It was suggested that ED-ISQM 2 clarify that considerations relating to eligibility need to be made in detail at the time of initial appointment to the role, but for subsequent periods may be made at a higher level, focused on determination as to whether circumstances have changed, both in respect of the individual, and the wider engagement circumstances, but need not involve a complete re-assessment.

It is further recommended that the IAASB also consider including a requirement, that the engagement quality reviewer, once appointed, remain alert to matters that may affect his/her eligibility. In the event that such matters are identified, the engagement quality reviewer should consider their effect, if any, on their
ability to perform the role, and consider whether any safeguards should be put in place, in consultation with the appropriate individual from the firm.

The one area that has a topic of debate related to whether the engagement quality reviewer has appropriate authority to perform the EQR. It was concluded that whether an individual has appropriate authority or not depends on the firm culture. We are satisfied that this message is clearly indicated in paragraph A10 and A11 of ED-ISQM 2.

89_ISQM 2_WPK

We basically support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

However, these requirements should be more flexible to accommodate the workforce capacities of all firms, even those with relatively small pool of individuals with both the seniority and experience to act as engagement partner and engagement quality reviewer. Some firms are reluctant towards the use of external third parties due to additional costs that penalize SMPs and their clients. Some firms even have mistrust of external third parties because they are in some ways competing. The flexible approach would be preferable for these reasons.
ED-ISQM 2 – Question 4: Eligibility requirements of the EQ reviewer or an assistant to the EQ reviewer – Disagree

4 National Auditing Standard Setters

10_ISQM 2_AICPA

We do not support the requirement in paragraph 16 to include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. We believe that the requirement should address the objectivity of the engagement quality reviewer, which may be impacted by a previous role as engagement partner. This would make the requirement in paragraph 16 appropriately principles-based. We describe this more fully in our response to 4(a) below.

In addition to our responses to 4(a) and 4(b) below, we have the following recommendations regarding the appointment and eligibility of the engagement quality reviewer:

To retain valuable guidance regarding the objectivity of the engagement quality reviewer, we recommend the following revision to paragraph A3, consistent with paragraph A49 of ISQC 1:

A3. In certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer, for example, in the case of a smaller firm or a sole practitioner. The firm’s policies and procedures may include that the engagement quality reviewer, to the extent practicable, is not selected by the engagement partner.

We believe it would be helpful to include application guidance for firms to consider the process related to the handover of responsibilities and transfer of information from the current engagement quality reviewer to the replacement reviewer when the need to transition the engagement quality reviewer on an in-process engagement is identified. We would recommend an additional paragraph, such as the following, be added to the application guidance related to paragraph 19 after paragraph A21:

A21X. The firm’s policies and procedures may also include guidance related to engagement performance and documentation when the replacement of an engagement quality reviewer occurs during an in-process engagement. This may include:

- Evaluation of whether any review work that has been performed by the engagement quality reviewer could be relied upon by the newly assigned engagement quality reviewer or whether all work would need to be reperformed
- Consideration of the effect of an engagement quality review assistant on the transition, when such assistant has been involved in the engagement quality review prior to transition
- Procedures undertaken by the engagement team to inform the newly assigned engagement quality reviewer about planning meeting discussions that have already occurred and other matters in which the previous engagement quality reviewer had been involved
- Documentation of the circumstances necessitating the change
The NZAuASB does not support the requirement in paragraph 16 nor the related application material in paragraph A5.

Specifically, the NZAuASB does not support the drafting of the requirements in paragraph 16 and suggests the following amendments (deleted text shown with strike-through, added text shown with bold underline),

The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer, which may and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and:…
ED-ISQM 2 – Question 4: Eligibility requirements of the EQ reviewer or an assistant to the EQ reviewer – Unclear or no specific response or refer to other respondent’s views

2 Investors and Analysts

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

4 National Auditing Standard Setters

15_ISQM 2_CFC
The Conselho Federal de Contabilidade - Federal Accounting Council (in English) – CFC

18_ISQM 2_JICPA
The Japanese Institute of Certified Public Accountants (JICPA)

5 Accounting Firms

23_ISQM 2_BTI
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?

24_ISQM 2_BTVK
Baker Tilly Virchow Krause, LLP

27_ISQM 2_CHI
Crowe Global

6 Public Sector Organizations

51_ISQM 2_OAGA
Office of the Auditor General of Alberta

7 Member Bodies and Other Professional Organizations

58_ISQM 2_IBR-IRE
Belgian Institute of Registered Auditors (IBR-IRE)

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.

Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil)

The Institute of Singapore Chartered Accountants (ISCA)

For those question in which we agree and support the approach, we did not include them in the appendixes mentioned before.

KICPA

THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
(INSTITUT AKAUNTAN AWAM BERTAULIAH MALAYSIA)