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

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

**ED-ISQM 2 – Question 5: Nature, timing and extent of EQ reviewer's procedures – Agree**

**3 Regulators and Oversight Authorities**

**07_ISQM 2_FRC**

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. Irrespective of the revisions to ISA 220, the roles and responsibilities of the engagement partner and the EQ reviewer are different, and we believe this is clear in ISQM2. In particular,

- The EQ reviewer is not a member of the engagement team, nor does the EQ reviewer participate in the engagement, but instead is an important part of the firm’s quality management responses.
- The EQ reviewer’s role is to provide an independent perspective and a critical challenge to areas of significant judgment and provides an analysis of the quality of the work done in those areas.
- The engagement partner remains overall responsible for managing and achieving quality on the engagement, and therefore remains responsible for making the critical decisions or significant judgments on the engagement.
- Only the engagement partner is responsible for the opinion or conclusion on the engagement.

**84_ISQM 2_NASBA**

Yes, we agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. We also agree that the responsibilities of the engagement quality reviewer are appropriate.

**4 National Auditing Standard Setters**

**15_ISQM 2_CFC**

Yes. We agree with EQR’s procedures and responsibilities.

**20_ISQM 2_MAASB**

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures and we are of the view that the responsibilities of the engagement quality reviewer are appropriately given in the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

**5 Accounting Firms**

**26_ISQM 2_CASI**

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures and we are of the view that the responsibilities of the engagement quality reviewer...
are appropriately given in the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

29-ISQM 2_DTL

Yes, it is vitally important that the EQR is involved at the appropriate stage of the audit and can address significant matters and judgements at an appropriate point in the process, to allow the engagement team to appropriately respond to any matters raised by the EQR.

30-ISQM 2_ETY

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures.

In our view the responsibilities of the engagement quality reviewer is appropriate in the light of the new responsibilities of the engagement partner. A fair balance were found between both to present the engagement partner throwing his responsibilities within the engagement while protecting the independence and objectivity of the reviewer.

33-ISQM 2_HM

Yes to both questions.

40-ISQM 2_NI

YES

6 Public Sector Organizations

46-ISQM 2_AGSA

Yes, we agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. The responsibilities of the engagement quality reviewer are to perform engagement quality reviews as a firm level response to the assessed quality risks, this responsibility involves appropriate communication with the engagement partner. On the other hand, the engagement partner per ED-220 shall take overall responsibility for managing and achieving quality on audit engagements that he/she is assigned to. Therefore, the responsibilities of the engagement quality reviewer are appropriate.

53-ISQM 2_PAS

Yes, we agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures.

Yes, the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

54-ISQM 2_SNAO

Yes.

55-ISQM 2_GAO

We agree with these requirements and believe that the responsibilities of the engagement quality reviewer
are appropriate.

**7 Member Bodies and Other Professional Organizations**

**58_ISQM 2_IBR-IRE**

Yes.

**59_ISQM 2_BICA**

Nature, timing and extent of the Engagement Quality Reviewer’s procedures and their responsibility are agreed to.

**60_ISQM 2_CAI**

Yes, we agree with the proposed requirements. The additional details in ISQM2 on what an engagement quality review should include will be a useful guide for firms.

**64_ISQM 2_CICC-AIC**

Yes, we do it.

**65_ISQM 2_CCC-ICPARD**

Yes, we do.

**66_ISQM 2_CPAA**

We agree that the requirements for the engagement quality reviewer’s procedures are appropriate.

**69_ISQM 2_FACPCE**

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures and the revised responsibilities of the engagement partner.

**73_ISQM 2_IEC-IAB**

They are appropriate.

**75_ISQM 2_ICAP**

We support the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures.

**77_ISQM 2_ICPAU**

ICPAU agrees with the ED- ISQM 2 requirements that require the engagement quality reviewer’s procedures to be performed at appropriate times throughout all stages of the engagement such as at planning, risk assessment, performance, completion and reporting.

ICPAU also believes that the engagement quality reviewer’s responsibilities are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).
Yes. We agree that the responsibilities of the EQR are appropriate given the revised responsibilities of the engagement partner in ED-ISA 220.

Yes

8 Individuals and Others

Yes
ED-ISQM 2 – Question 5: Nature, timing and extent of EQ reviewer’s procedures – Agree but with further comments

1 Monitoring Group

01_ISQM 2_BCBS

The EQ reviewer is required to understand the engagement and discuss significant matters with the engagement partner. They are then required to identify areas involving significant judgements.

We believe it would be beneficial to clarify that the EQ reviewer has to form their own view of what are significant judgements – ie they are not only assessing those judgements that have been determined to be significant by the audit team. The EQ reviewer should be assessing all judgements that, in their view, are significant.

03_ISQM 2_IFIAR

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

The exposure draft continues to require EQ reviewers to identify and select areas of significant judgement for their review. Application material is largely limited to referring to the application material to ISA 220 setting out possible criteria for other matters for an audit partner to consider. An effective and consistent EQ review will require a framework to ensure appropriate areas of the audit are reviewed. This framework should also clearly require review by the EQ reviewer of matters that are key audit matters and/or significant risks. The exposure draft also does not address whether significant components in a group audit context should be subject to the scope of the EQ review.

3 Regulators and Oversight Authorities

06_ISQM 2_CPAB

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

08_ISQM 2_IRBA

We are concerned that the responsibilities of the EQ reviewer seem to be greater or more explicit than those of the engagement partner. Paragraph 22 of ED-ISQM 2 lists the review work that the EQ reviewer must perform. Paragraphs 29-31 of ED-ISA 220 list the review work that the engagement partner must perform. Although the engagement partner, and not the EQ reviewer, takes overall responsibility for the conduct of the engagement, it seems that the engagement partner’s required work effort is substantially less, with fewer working papers needing to be reviewed. In considering the quality management standards together, the IAASB may wish to consider what further enhancements are necessary to emphasise the engagement partners responsibilities.

Paragraph 21(c) of ED-ISQM 2 requires the firm to establish policies or procedures regarding the performance of the EQR that address circumstances when the nature and extent of engagement team
discussions with the EQ reviewer about a significant judgment give rise to a threat to the objectivity of the EQ reviewer, and appropriate actions to take in these circumstances. When these circumstances arise, it is necessary for the standard to clarify how it should be documented. If it is not documented, how would an audit regulator or those doing file monitoring know that this issue arose and was appropriately resolved?

It is not clear whether paragraph 22(a)(ii) of ED-ISQM 2 means the results of the firm’s monitoring and remediation at the firm level or at the engagement level. We recommend that it should be for both. Firm level deficiencies may affect all or many engagements, and this should have been addressed at the engagement level too by the engagement partner. Engagement level deficiencies should have been resolved by the engagement partner.

ED-ISQM 2 allows other individuals to assist the EQ reviewer. We recommend that clarity be provided regarding:

- The work, and how much of it, could be assigned to these individuals.
- The direction and oversight of the individuals assisting the EQ reviewer.

A description of “significant judgments” is included in paragraph A79 of ED-ISA 220 (Revised). We urge the IAASB to elevate the description of “significant judgments” to a definition in ISA 220 (Revised), and to then include this as a definition in ISQM 2 also. This will avoid the review of certain significant judgments being omitted, e.g. materiality and risk assessment (listed in ED-ISA 220 (Revised), paragraph A79).

What is the level of the “reading and understanding” expected from the EQ reviewer, as per paragraph 22(a) of ED-ISQM 2? How would this understanding be evidenced? How could different interpretations of expectations be avoided? Also, how is “understanding” demonstrated?

We recommend that the following requirements be added to paragraph 22 of ED-ISQM 2:

- A debriefing or similar action between the EQR and those responsible for quality management in the firm, soon after the EQR is completed. Guidance could include that the debriefing might take place at any time during the EQR, if a significant deficiency in the audit is detected and cannot be resolved, or the engagement partner does not intend to resolve it. The debriefing will give an EQ reviewer the opportunity to raise concerns encountered during the EQR, without having the engagement partner or members of the engagement team present. We recommend that the debriefings should be routine or mandatory so that there is no opportunity to pressure the EQ reviewer to dispense with the debriefing.

- The EQR to include a requirement to consider whether the most recent acceptance/continuance assessment decision should be revised, or whether additional safeguards should be put in place, if there are indicators that the acceptance/continuance decision may have either been incorrect, or that information is now available that would lead to a change in the decision.

- The EQ reviewer to be required to review the schedule of unadjusted audit differences (corrected and uncorrected misstatements).

- The EQ reviewer to be required to review all working papers related to assertions of a significant risk area. Paragraph 21 of ISA 330, The Auditor’s Responses to Assessed Risks, states that if the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to the risk. The EQ reviewer should be required to inspect documentation in this regard.

- The EQ reviewer to be required to inspect the risk assessment at the financial statement and assertion levels in order to obtain an understanding of the risks and significant risks.

- (Added to paragraph 22(d)):
  - Significant risks identified during the engagement and the responses to those risks.
Judgments made, particularly with respect to materiality and significant risks.

- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

We recommend that the depth of the review of the financial statements and the auditor’s report thereon (as well as the engagement report and, when applicable, the subject matter information for an assurance or related services engagement) be clarified (paragraph 22(g) of ED-ISQM 2). It is necessary to clarify whether the EQ reviewer needs to perform a detailed review of the financial statements to determine whether the reporting framework has been complied with, or whether the EQ reviewer need to review only the disclosures in the financial statements that relates to the significant judgments? With regards to the audit report, does the EQ reviewer need to review the audit report in detail (each sentence) or just that the audit opinion is correct? These responsibilities need to also be compared with the responsibilities of the engagement partner.

We recommend that a timeframe be included in the requirement in paragraph 23 of ED-ISQM 2. A suggestion is that the individual/s be notified promptly or immediately.

Our inspections have found that:

- Some firms rely heavily on the services of external consulting firms to perform their EQRs, and did not accept full responsibility for the EQR function as it had been outsourced. Paragraph A4 states that:

  “In some circumstances, there may not be a partner or other individual within the firm who is eligible to perform the engagement quality review and the firm may therefore contract with, or obtain the services of, external individuals to perform the engagement quality review. An external individual may be a partner or an employee of another firm within the firm's network or a service provider. When using such an external individual, the firm is subject to the requirements for network requirements or network services in paragraphs 59–60 of proposed ISQM 1, or the requirements for service providers in paragraph 65 of proposed ISQM 1, respectively.”

In order to emphasise that the firm is still fully responsible for the EQR function, we suggest that the IAASB elevates content from this paragraph to a requirement.

- It was not evident that the EQR was started sufficiently early in the engagement to allow for timely consultation on significant matters identified during the engagement, as some of the planning working papers (for example, client acceptance) were reviewed on the same date as the auditor’s report. Paragraph A26 of ED-ISQM 2 provides examples of the stages of planning, risk assessment, performance, completion and reporting as appropriate points in time. We suggest that the IAASB elevates content from this paragraph to a requirement.

09_ISQM 2_IAASA

In our view, ISQM 2 does not provide sufficient requirements and related application material on the work efforts required for an Engagement Quality Review. While we do not object to the approach taken and to what has been included in the draft standard, we feel that the standard needs to be clearer on what an EQR should encompass and the level of detail required to document that work. For example, the requirement of the current ISA 220 (paragraph 20(d)) for the reviewer to evaluate the conclusions reached in formulating the auditor’s report and consider whether the proposed audit report is appropriate should be included in
paragraph 22 of ISQM 2. In the same vein, we suggest incorporating the language on reviewing the independence assessment in paragraph 38(a) of the extant ISQC1.

It would be useful to ensure full alignment of this ED with the requirements in EU Regulation 537/2014, in particular article 8 (engagement quality control review) and from a quality perspective we think it would be useful to elevate these to global requirements in the standard. We also suggest clarifying the engagement quality reviewer’s responsibility for the review of the report to those charged with governance and the work of experts. We also note that compliance with laws and regulations is only addressed in relation to eligibility of the reviewer (paragraph 16(c)) and ethical requirements (paragraph 17(b)). We recommended making it clear in the standard that the EQR needs to be performed in compliance with all relevant aspects of laws and regulation.

92_ISQM 2_CEOB

In our view, ISQM 2 does not provide sufficient requirements and related application material on the work efforts required for an Engagement Quality Review. Whilst we do not object to the approach taken and to what has been included in the draft standard, we feel that the standard needs to be clearer on what an EQR should encompass and the level of detail required to document that work. For example, the requirement of the current ISA 220 (paragraph 20(d)) for the reviewer to evaluate the conclusions reached in formulating the auditor’s report and consider whether the proposed audit report is appropriate should be included in paragraph 22 of ISQM 2. In the same vein, we suggest incorporating the language on reviewing the independence assessment in paragraph 38(a) of the extant ISQC1.

It would be useful to ensure full alignment of this ED with the requirements in EU Regulation 537/2014, in particular article 8 (engagement quality control review) and from a quality perspective we think it would be useful to elevate these to global requirements in the standard. We also suggest to clarify the engagement quality reviewer’s responsibility for the review of the report to those charged with governance, and the work of experts.

We also note that compliance with laws and regulations is only addressed in relation to eligibility of the reviewer (paragraph 16(c)) and in relation to ethical requirements (paragraph 17(b)). We recommended making it clear in the standard that the EQR needs to be performed in compliance with all relevant aspects of laws and regulation.

4 National Auditing Standard Setters

10_ISQM 2_AICPA

In general, we believe that the responsibilities of the engagement quality reviewer are appropriate, with some specific comments.

We believe that an engagement quality review is an objective review of the engagement team’s significant judgments, including the date selected by the engagement team to date the report. Accordingly, we suggest that the requirement that the engagement quality review be performed before the report is dated be changed to before the report is released, with the caveat that, when the engagement quality review results in additional procedures having to be performed, the date of the report would be changed. This change would more closely align the dating requirements with other standard setters to allow for more consistency in application.
We also believe that although the engagement quality reviewer is not a member of the engagement team, the engagement quality reviewer should satisfy the independence requirements relating to the engagements reviewed. We believe this is broadly addressed in the requirement in paragraph 16(b). However, we believe an explicit reference to independence in application material would be helpful in reminding practitioners of this important consideration. We suggest the following edits to paragraph A13 to incorporate the concept of independence:

A13. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagements subject to an engagement quality review. **For example, requirements for the engagement quality reviewer to be independent of the entity for whom the engagement is being performed would be relevant for audit engagements but may not be relevant for related services engagements.** Various provisions of relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm. **For example, if a firm uses an external provider to perform an engagement quality review, that individual may be subject to independence requirements, but the entire firm for whom the individual works may not need to comply with independence requirements related to the entity.**

We note that paragraph 22a(ii) refers to results of monitoring “provided” by the firm, whereas ED-ISQM 1 discusses “communication” related to monitoring (paragraphs 52-54 of ED-ISQM 1), ED-ISA 220 paragraph 36a refers to results “as communicated” by the firm. We suggest that, to be consistent, paragraph 22a(ii) refer to results of monitoring “communicated” by the firm. We believe that using the term “communicated” is preferable to “provided” because of the linkage to the terminology in the ED-ISQM 1 of the information and communication component of the firm’s system of quality management.

In paragraph 22(g), the engagement quality reviewer is instructed only to “review” the financial statements and auditor’s report thereon. In the other subpoints to paragraph 22, the action of the engagement quality reviewer is more clearly defined (i.e., read and understand, review and evaluate). We believe it is not clear what the objective of the engagement quality reviewer’s “review” is intended to be. We believe that the clarity of ED-ISQM 2 could be improved by adding a new application paragraph related to 22(g), such as the following:

**AX. The review of the financial statements and the auditor’s report thereon is performed to evaluate items such as:**

- **The compliance of the auditor’s report with appropriate professional standards, including the appropriateness of the report in relation to the conclusions reached in the audit of the financial statements**
- **The compliance of the financial statements with the applicable financial accounting framework**
- **When applicable, the faithful representation of key audit matters to documentation of such items within the engagement working papers.**

Paragraphs 34–36 of the explanatory memorandum are helpful in clarifying confusion between significant judgments and significant matters. Paragraph 35 of the explanatory memorandum states that “[t]he IAASB concluded that the engagement quality reviewer’s review of the engagement team’s significant judgments in ED-ISQM 2 needed to be consistent with the approach taken in relation to the engagement partner’s review of audit documentation in ED-220.” Because these concepts are
fundamental to an engagement quality review and its consistent application, we believe that this concept should be included in application material in ED-ISQM 2 as follows:

A30. For audits of financial statements, the engagement quality reviewer’s review of the engagement team’s significant judgments is consistent with the approach taken in relation to the engagement partner’s review of audit documentation in proposed ISA 220 (Revised). Proposed ISA 220 (Revised) provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.

For engagements other than audits, specific guidance about significant judgments and significant matters in the context of other assurance engagements is needed to aid consistent application (i.e., the suggestion in paragraph A31 of ED-ISQM 2 that the ISA 220 guidance may be helpful in this regard is not sufficient on its own). We recommend that guidance related to these concepts either be included directly in ED-ISQM 2 or consideration be given to consequential amendments to the IAASB standards that address assurance engagements.

We also suggest making it explicit in paragraph 23 of ED-ISQM 2 that the firm’s policies or procedures to address differences of opinion, required to be established by paragraph 37(d) of ED-ISQM 1, would apply in instances when the engagement quality reviewer’s concerns are not satisfactorily resolved by the engagement partner. The guidance in paragraph A100 of ED-ISQM 2 that “[p]rocedures to resolve such differences may include consulting with another practitioner or firm, or a professional or regulatory body” would be helpful here as well. Further, it would aid scalability for SMPs to note in paragraph A35 that there may not be an appropriate individual within the firm, other than the engagement partner, to notify pursuant to the requirement in paragraph 23.

To avoid an interpretation that the firm could issue a report for an engagement with an incomplete engagement quality review, we recommend that application material be added that effective policies and procedures addressing differences of opinion require that conclusions reached be documented and implemented and the report not be released until the matter is resolved. The last sentence of paragraph A100 of ED-ISQM 1 could be included as paragraph A35X.

11_ISQM 2_AUASB

The AUASB agrees with the requirements in ED-ISQM 2 relating to the nature, timing, and extent of EQR’s procedures, with the following exceptions:

- Paragraph 22(c), the use of “identify the areas involving significant judgments” could be viewed as expanding the role of the EQR beyond what is intended. We recommend replacing “identify” with “evaluate”.
- Paragraph 22(f), it is uncertain as to how an EQR would “evaluate the basis for the engagement partner’s conclusion” and the related application guidance does not provide further clarity. We recommend further clarification around the documentation of the evaluation of the conclusion.

We also refer to the AUASB’s submission on ED-ISA 220 and our response to Question 2 of the ‘Request for Comments’ where we comment further on the proportionality between the roles of the engagement team and the EQR.

The AUASB is not supportive of the inclusion of the “stand back” requirement in paragraph 24 as currently
drafted. The AUASB notes that the stand back provision may represent good practice for some recently revised auditing standards, however there needs to be a clearer articulation of the purpose of the stand back requirement as it relates to the role of the EQR in ISQM 2.

The AUASB is supportive of the second limb of paragraph 24 being that the EQR shall notify the engagement partner that the EQR is complete.

12 ISQM 2_CAAASB

ED-ISQM 2 paragraph 22 sets out a number of procedures that the EQR is required to perform. Further, paragraph 23 requires the EQR to notify the engagement partner of any concerns related to significant judgments. However, ED-ISA 220 paragraph 33(c) only deals with discussing significant matters arising during the engagement with the EQR. The remaining requirements in paragraph 33 address ensuring an EQR has been appointed, cooperating with the EQR and not dating the auditor’s report until the completion of the review. There is no requirement for the engagement partner to respond to issues raised by the EQR. We believe ED-ISA 220 should require the partner to respond to issues raised by the EQR to establish a stronger linkage to the requirement in ED-ISQM 2. We do not believe any changes are necessary to ED-ISQM 2.

14 ISQM 2_CNCC-CSOEC

We have the following comments concerning the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures:

- We suggest moving the last sentence of paragraph 6 (part of the introduction) to the end of paragraph 11 (a) (definition of engagement quality review).
  
  Paragraph 11 (a) would become:
  "Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm’s policies or procedures."

- Moreover, concerning paragraph 22 that deals with the procedures that the engagement quality reviewer has to perform for the engagement quality review, we consider that the paragraph 22 (f), i.e. “for audits of financial statements, evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement”, is too wide and goes beyond the role of EQR who has to focus on the significant judgments (cf. Paragraph 11(a)).

16 ISQM 2_HKICPA

In general, we agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. However, we would like the IAASB to clarify whether the requirement set out in paragraph 22(f) “For audits of financial statements, evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.” applies to engagements other than audit engagements as well.
We consider the engagement partner should take responsibility for the overall quality on management. In addition, the responsibility of the engagement quality reviewer should not outweigh those of the engagement partner and the performance of an engagement quality review does not reduce the responsibilities of the engagement partner.

18_ISQM 2_JICPA

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. However, regarding the description in the Introduction section that explains the responsibilities of the engagement quality reviewer and engagement partner (paragraph 7), we have the following comments:

- We believe that it is critical that the engagement partner takes overall responsibility for managing and achieving quality on the engagement to distinguish the responsibilities of engagement quality reviewers and engagement partners, and this perspective should be added to paragraph 7.
- The latter part of the second sentence, “nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team” should be deleted because it causes misunderstanding. We believe that the engagement team may change the nature, timing and extent of procedures in response to the engagement quality reviewer’s comments.
- The third sentence states that the engagement quality reviewer is not required to obtain evidence, which is obvious and therefore this sentence is not helpful.

In order to make the description in paragraph 7 concise and clear, we suggest the following amendments:

"7. The engagement quality reviewer is not a member of the engagement team. The engagement partner takes overall responsibility for managing and achieving quality on the engagement. Therefore, the performance of an engagement quality review does not reduce the responsibilities of the engagement partner for managing and achieving quality on the engagement, nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence through its responses to matters raised in the engagement quality review."

19_ISQM 2_KSW

We believe that more clarity should be given to ensure an appropriate balance between the responsibilities of the engagement partner and the engagement quality reviewer.

In particular, further clarity could be given as to the specific expectations of certain significant judgments that the EQ reviewer is required to evaluate.

21_ISQM 2_NZAASB

The NZAuASB is supportive of the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures, however, it is not clear why paragraph 22(f) is applicable only to audits of financial statements. The application material in paragraph A34 indicates that other pronouncements of the IAASB, including ISRE 2400 (Revised), ISAE 3000 (Revised) and ISRS 4410 require the engagement partner to take responsibility for the overall quality of the engagement.

Additionally, the NZAuASB notes that the extant requirement for the firm to establish policies and procedures to require the engagement quality review to include consideration of the engagement team’s
evaluation of the firm’s independence in relation to the specific engagement and the related requirement in extant ISA 220 have not been included in ED ISQM 2. The NZAuASB views this as an important consideration made by the engagement quality reviewer and recommends that paragraph 22 be amended to include evaluation about whether relevant ethical requirements, including those related to independence, have been fulfilled. This would also be consistent with the requirement on the engagement partner in ED 220.

22_ISQM 2_NBA

In general we agree with the requirements, but we feel that the standard should be more explicit on the role of an engagement quality reviewer in a group audit.

In our opinion this is even more important since the definition of engagement team includes the members of component engagement teams.

It is mentioned that the engagement quality reviewer should avoid situations in which he is making decisions on behalf of the team in paragraphs 21c and A24.

We support these paragraphs. However, it could be mentioned that in practice the boundaries may not always be clear. It is also mentioned in paragraph A26 that timing of the procedures is important. We support this paragraph.

In paragraph 22aii is mentioned that the engagement quality reviewer will read and understand information about the results of its monitoring and remediation, in particular identified deficiencies. We support this paragraph as this is part of the ‘learning cycle’.

5 Accounting Firms

23_ISQM 2_BTI

Overall the timing and extent of the EQR’s procedures are reasonable and appropriate. However, we note the discussion in the explanatory memorandum regarding the distinction between “significant matters” and “significant judgments”. In this context we wonder whether it is necessary to complicate the EQR process by using these two different terms and whether the requirement of ED-ISQM2.22a(ii) should simply refer to discussing significant judgments with the engagement partner to simplify requirements.

The requirement in ED-ISQM2.23 for the EQR to notify an appropriate person in the firm of disputes may be very difficult to achieve in a small firm. For example, in a single partner firm where an external EQR is appointed, to whom should the EQR refer their concerns. Guidance and illustrative examples will be required to assist firms and engagement quality reviewers in complying with this requirement.

25_ISQM 2_BDO

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures in ED-ISQM 2 paragraphs 22 and 23. However, we suggest adding the following wording in paragraph 23 to recognise that engagement quality reviewers are also concerned with adequacy of documentation (additional wording is bolded):

‘If the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate or are not appropriately documented, …’
We also agree with the requirements in paragraph 21 as we believe these policies are necessary to fulfill the engagement quality review objectives.

We agree that the responsibilities of the engagement quality reviewer are mostly appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 insofar as they relate to interactions with the engagement quality reviewer. We note that the proposed standard no longer requires the engagement quality reviewer to have a role in consideration of independence matters. In our view, the role of the engagement quality reviewer, combined with their interaction with the engagement team, could arguably provide a more objective standpoint in this regard.

However, ED-ISQM 2 does not provide application guidance on the responsibilities of a replacement engagement quality reviewer appointed during the engagement when the eligibility of the original engagement quality reviewer became impaired (paragraph 19).

Also, in order to further support the requirements in:

- Paragraph 22 (a), (i) and (ii) about the availability, provision, nature and timing of results of a firm’s monitoring and remediation findings, and
- Paragraph 22 (g) regarding what could conceivably be a wide variety of current practices regarding engagement quality reviewer review of the financial statements,

for both situations it would be helpful to have clarification about the nature, timing and extent of each aspect of the engagement quality reviewer role.

While we acknowledge the application guidance A32 which supports paragraph 22 (e), it would be helpful to link this guidance to the concept of the firm’s intellectual resources as per ED-ISQM 1.

27_ISQM 2_CHI

We agree that overall the requirements are appropriate. We feel that there should be additional guidance, specifically as it relates to:

- The involvement of the engagement quality reviewer in the engagement planning process and the extent and timing of their procedures. If the engagement quality reviewer is not a member of the engagement team, there is concern that the objectivity of the EQR may be threatened based on the extent and timing of their discussions with the engagement team. For example: the participation in planning meetings and discussions may lead to the EQR making decisions or influencing the nature and extent of audit procedures performed and evidence obtained by the engagement team. As a consequence, there is a perceived lack of objectivity on the part of the EQR in performing their evaluation. Although Paragraph 21(c) identifies the requirement to address these circumstances, we feel that they will become a common occurrence in many engagements unless there is more explicit guidance on the extent of the EQR’s involvement; and
- As noted in Paragraph A28, the nature, timing and extent of the EQR’s procedures may need to change based on circumstances encountered in performing the engagement quality review but there is no guidance, such as examples of possible circumstances and additional procedures required to appropriately respond to them.

28_ISQM 2_DTTL

DTTL is supportive of enhancing the extant requirements and related application material regarding the nature, timing, and extent of the procedures performed by the engagement quality reviewer. In addition,
we believe the responsibilities of the engagement quality reviewer are appropriate considering the engagement partner’s revised responsibilities in proposed ISA 220 (Revised) (“ED-220”), with the exception of the following recommendation related to the engagement quality reviewer’s responsibilities in connection with the “stand-back” requirement in paragraph 37 of ED-220.

Rather than requiring the engagement quality reviewer to specifically “evaluate the basis” for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement, DTTL recommends deletion of (f) from paragraph 22 of ED-ISQM 2 (and related relevant application material) and revisions to paragraph 23, as follows:

**Paragraph 22(f)**

> For audits of financial statements, evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.

**Paragraph 23**

If the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate, the engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that: (a) the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate; or (b) for audits of financial statements, that the engagement partner’s involvement throughout the engagement has not been sufficient and appropriate in order to take overall responsibility for managing and achieving quality on the audit engagement. If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed.

The proposed revisions reflect the intent of the engagement quality reviewer’s responsibilities relating to the engagement partner’s responsibility for managing and achieving quality on the audit engagement and for being sufficiently and appropriately involved throughout the engagement (as stated in ED-220, paragraph 37).

Regardless of whether the Board finds it appropriate to combine the requirements in paragraphs 22(f) and 23, DTTL recommends including within the application material considerations for the engagement quality reviewer when evaluating whether the engagement partner’s involvement throughout the audit engagement has been sufficient and appropriate to take overall responsibility for managing and achieving quality.

Further, DTTL recommends deleting paragraph A34 as the requirement in paragraph 22(f), or as we have proposed in revised paragraph 23 above, is specific to audits of financial statements.

With respect to other specific requirements related to performance of the engagement quality review, DTTL provides the following suggestions:

**Completion of the engagement quality review**

DTTL recommends the following revision to paragraph 21(b) of ED-ISQM 2 elevating language from the application material (paragraph A39) to emphasize that completion of the engagement quality review includes resolving matters raised by the engagement quality reviewer.
Paragraph 21(b)

The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review, which includes resolving matters raised by the engagement quality reviewer; and

Identifying areas involving significant judgments made by the engagement team

Paragraph 22(c) of ED-ISQM 2 requires the engagement quality reviewer to identify the areas involving significant judgments made by the engagement team based on the information obtained in (a) and (b). The phrase “identify the areas involving significant judgments” may be viewed as expanding those activities required by the standard, which is an objective evaluation of the significant judgments made by the team and the conclusions reached thereon. Further, in recognition that there may be other forms of information from which the engagement quality reviewer learns about the engagement and the issues that may be relevant, DTTL recommends combining the requirements in paragraph 22(c) and (d) as follows:

Paragraph 22(c) and (d)

Based on the information obtained in (a) and (b), identify the areas involving significant judgments made by the engagement team, including those related to:

i. The overall strategy and plan for performing the engagement;

ii. The performance of the engagement; and

iii. Forming an opinion or conclusion, when applicable, and reporting on the engagement.

(d) Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and evaluate:

i. The engagement team’s basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;

ii. Whether the engagement documentation supports the conclusions reached; and

iii. Whether the conclusions reached are appropriate.

31_ISQM 2_EYG

We believe that the enhanced requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures are helpful to improve the robustness of the engagement quality review as well as consistency in the depth of the review. We also support the added emphasis of the engagement quality reviewer’s involvement at appropriate times throughout the engagement.

Paragraphs 34–36 of the explanatory memorandum are helpful in clarifying confusion between significant judgments and significant matters. Because these concepts are fundamental to an engagement quality review and its consistent application, we believe that the guidance should be enhanced as follows:

- For audit engagements, the guidance should be more explicit that the significant judgments required to be evaluated by the engagement quality reviewer are the same significant judgments that are in scope of the engagement partner’s review requirement in paragraph 29 (a) and (b) of ED-ISA 220.

- For engagements other than audits, specific guidance about significant judgments and significant
matters in the context of other assurance engagements is needed to aid consistent application (i.e., the suggestion that the ISA 220 guidance may be helpful in this regard is not sufficient on its own). We recommend that guidance related to these concepts either be included directly in ED-ISQM 2 or consideration be given to consequential amendments to the IAASB standards that address assurance engagements.

In addition, we are unclear of what is expected by the engagement quality reviewer in paragraph 22(f) to “evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement”. We recommend that the IAASB consider adding guidance on how the engagement quality reviewer might perform this evaluation. The guidance should be explicit as to whether the engagement quality reviewer is making this evaluation through interactions with the engagement partner and review of workpapers as part of the engagement quality review or whether the engagement quality reviewer is expected to perform procedures beyond what is inherently part of the engagement quality review.

We also suggest making it clear that the firm should establish policies or procedures to address instances when the engagement quality reviewer’s concerns are not satisfactorily resolved as described in paragraph 23. In addition, we believe that paragraph 24 could be enhanced by rewriting it as follows: “The engagement quality reviewer shall determine whether the requirements in this ISQM with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If the engagement quality reviewer’s concerns described in paragraph 23 are not resolved, the engagement quality review is not complete. If so, Upon completion of the engagement quality review, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.” Updating paragraphs 23 and 24 as suggested, would avoid an interpretation that an incomplete engagement quality review is a possible outcome.

As it relates to the balance of responsibilities, we believe that the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

32_ISQM 2_GTIL

We support the proposed requirement for the EQ reviewer to perform EQ review procedures at appropriate points in time during the audit. This will allow for a more fulsome review by the EQ reviewer and will afford the engagement team the time to respond appropriately to the EQ reviewer’s questions and comments.

Whilst we agree that the procedures listed in paragraph 22 of ED-ISQM 2 are those procedures that are likely to be performed by the EQ reviewer in the execution of an EQ review, we are concerned that the requirement as currently drafted will facilitate a checklist approach rather than a risk based approach to the performance of the review, which would be neither scalable nor result in an enhancement to quality. In fact, it may result in EQ reviewers completing a checklist, rather than taking the opportunity to think more holistically and determine which review procedure may be necessary.

More specifically, we have concerns with the following specific parts of paragraph 22:

- 22(d) requires that the EQ reviewer review selected engagement documentation that supports significant judgments made by the engagement team. Firstly, it is not clear whether this pertains to judgments that the engagement team itself has determined to be significant or those judgments that are significant in the view of the EQ reviewer. Secondly, ED-220, paragraph A79 includes an extensive list of judgments that are considered to be significant. This would appear to be an onerous
responsibility for an EQ reviewer, given that this forms only one step of the review procedures that are required to be performed. We would recommend that consideration is given to scaling the requirement by specifying that the nature and extent of the review performed by the EQ reviewer is a matter of the EQ reviewer’s professional judgment.

- **22(f)** requires the EQ reviewer to “evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the engagement. The related application material to this requirement largely references the new requirement proposed in ED-220. Our issue with this requirement is two-fold, ED-220 does not provide any guidance on how the engagement partner provides evidence that supports this conclusion and ED-ISQM 2 does not provide any guidance as to how the EQ reviewer should operationalise and evidence the required evaluation. We would recommend that ED-220 clarifies how the engagement partner evidence the conclusion that overall responsibility for managing and achieving quality on the engagement has been taken; and that the EQ reviewer’s responsibility is to confirm that the engagement partner has made this evaluation.

34_ISQM 2_KPMG

We highlight that certain proposed amendments may result in a lack of clarity as to the fundamental nature and purpose of an EQ review, which may lead to different interpretation and give rise to inconsistent application in practice. This is because the revised material has introduced/exacerbated certain inconsistencies within the standard, as follows:

- Certain requirements/guidance suggest that the EQ review is performed as a separate review process to the audit engagement itself, with relatively limited interaction between the Engagement Partner and the EQ Reviewer, such that the EQ review is more similar in nature to a “second opinion”, or an internal or external quality performance review;

- Other requirements/guidance suggest that although the EQ review is part of the firm’s quality management processes, it is performed at the engagement level and may, as a result, change the course of the audit.

Please see our response to Question 5 for more detail regarding the above.

We consider that the second view above, i.e. that the EQ review is performed at the engagement level and may change the course of the audit, albeit that it is part of the firm’s quality management process and is performed objectively by an individual who is not part of the engagement team, is more appropriate. We consider that EQ reviews performed in accordance with this principle would better drive increased audit quality, primarily because through robust discussions between experienced partners (the Engagement Partner and the EQ Reviewer) the EQ Reviewer may shape the direction of the audit as a particular course of action may be agreed on that is different to that which the Engagement Partner would have taken in the absence of the EQ review. We also highlight that we believe that this view is aligned with the intention underlying extant ISA 220.

Accordingly, we recommend that the Board consider clarification of this important aspect of the standard. In particular, we note that it is critical that the standard does not preclude interaction and robust discussions between the Engagement Partner and the EQ Reviewer, because we believe, as we note above, that this may be an important aspect of audit quality on engagements that are subject to an EQ review.
Responsibility to Identify Significant Matters

We are concerned that the proposed requirements may change the overall balance of responsibility, in terms of identifying significant matters, between the Engagement Partner and EQ Reviewer, i.e. the extent to which the EQ Reviewer needs to actively identify significant matters and judgements versus the extent to which the Engagement Partner and team would bring these issues to his/her attention. It appears that this balance has shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer’s responsibility would ultimately stop.

Such lack of clarity may result in inconsistencies in practice as procedures performed by the EQ Reviewer in order to identify “significant matters” become more extensive in order to fulfil the revised requirements. As a result, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel process may even be necessary, as we note above.

As we set out in our comment letter on ED ISA 220 (Revised), the description of responsibilities of the Engagement Partner at ED ISA 220.33 includes language that appears relatively “soft” in that it refers to “cooperation” with the EQ Reviewer and requirements to “discuss significant matters arising”.

We suggest, therefore, that ED ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer’s attention to areas of significant judgement and to go beyond simply “cooperation” with the EQ Reviewer to take a more “active” role in this process. We do not believe that this would diminish the EQ Reviewer’s responsibility in any way, for example, this would not detract from the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other significant matters, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including expertise regarding the particular industry, would expect the engagement team to have identified. Instead, we believe that drawing the EQ Reviewer’s attention to such matters would assist them in properly executing their role.

We also suggest that ISQM 2 be amended to clarify that the EQ Reviewer is required to understand the engagement team’s basis for determining which areas involve significant judgements, but is not required to identify such areas him/herself.

Clarity of interaction with ISQM 1

As we highlight above, we support the IAASB’s decision to include requirements and guidance relating to EQ reviews in a separate quality management standard with appropriate linkage to the requirements in ISQM 1.

However, we note that ED ISQM 2 paragraph 22(a)(ii), in describing interaction between the firm and the EQ Reviewer, requires the EQ Reviewer to read and understand information provided by the firm about the results of its monitoring and remediation, in particular about “identified deficiencies that may relate to, or affect, the areas involving significant judgements by the engagement team”. We are concerned that it is unclear as to how, and to what degree, the EQ Reviewer should consider and act on such information about the firm’s deficiencies in quality processes. ED ISQM 1 does not categorise deficiencies in the firm’s system of quality control, or provide definitions such as “significant deficiency”. We presume this requirement relates, conceptually, to less than significant deficiencies since the three parts of the quality framework (firm, Engagement Partner and EQ Reviewer roles/responsibilities) all need to function as
required for engagement quality to be achieved overall. We also note that a significant deficiency in one aspect cannot be compensated for by enhancement in another.

We acknowledge the IAASB’s possible intention in introducing this requirement because of the clearer delineation of responsibilities between an Engagement Partner and his/her firm. However, we note that this requirement is rather ambiguous and may be challenging to apply in practice and that there would be benefit in the standard including further clarification or application guidance to drive consistency in the interpretation and application of this requirement.

In general, we support the requirements set out in the proposed standard regarding the nature, timing and extent of the EQ Reviewer’s procedures as we believe the additional requirements add clarity and will help to drive a more robust EQ review process. We note the following concerns below.

**Nature of procedures**

We believe the nature of an EQ review is not intended to be changed as a result of the amendments proposed to these standards, in particular, because, as noted at ED ISQM 2 paragraph 6, this is not “intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, as well as with the firm’s policies or procedures”.

However, as we set out in our overarching comments, we highlight that certain proposed amendments may result in a lack of clarity as to the fundamental nature and purpose of an EQ review, which may lead to differing interpretation and give rise to inconsistent application in practice. This is because the revised material has introduced/ exacerbated certain inconsistencies within the standard, as follows:

- Certain requirements/guidance suggest that the EQ review is performed as a separate review process to the audit engagement itself, with relatively limited interaction between the Engagement Partner and the EQ Reviewer, such that the EQ review is more similar in nature to a “second opinion”, or an internal or external quality performance review. For example:
  - The revised structure of the standards themselves, i.e. the placement of all EQ review requirements, including those performed at the engagement level, in a separate quality management standard rather than within ED ISA 220 (Revised), where other quality management requirements relating specifically to an audit engagement reside;
  - The overall balance of responsibility in terms of identifying significant matters and forming conclusions over these appears to have shifted towards the EQ Reviewer, with the Engagement Partner being required only to “cooperate” with the review process;
  - The increased emphasis on objectivity of the EQ Reviewer, including commentary at paragraph 21 and A24 that frequent interactions and discussions may impair objectivity;
  - The recognition that the EQ Reviewer may involve other individuals, e.g. specialists, in performing the review, may suggest that there is a “parallel audit process”;
  - The requirements for more extensive documentation, in particular, the requirement for the EQ Reviewer to “document their own conclusions”.

- Other requirements/guidance suggest that, although the EQ review is part of the firm’s quality management processes, it is performed at the engagement level and may, as a result, change the course of the audit. For example:
The requirement for the EQ Reviewer to be involved on a timely basis, and the recognition that they may exercise professional skepticism, together suggest that the EQ Reviewer may be more involved in the audit engagement itself, and potentially “change its course”. This is notwithstanding the fact that they are not part of the engagement team, and are required to remain objective, and that it is the Engagement Partner who is responsible for the direction of the audit and the audit opinion;

The acknowledgement that, although the EQ Reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, the engagement team may obtain further evidence through its responses to matters raised in the EQ review;

The recognition in the IESBA Code that the EQ Reviewer is a “key partner” on an audit engagement, and as such is captured in the requirements relating to rotation in the context of long association.

As we note in our overarching comments, we consider that the second view above, i.e. that the EQ review is performed at the engagement level and may change the course of the audit, albeit that it is part of the firm’s quality management process and is performed objectively by an individual who is not part of the engagement team, is more appropriate. We consider that EQ reviews performed in accordance with this principle would better drive increased audit quality, primarily because through robust discussions between experienced partners (the Engagement Partner and the EQ Reviewer) the EQ Reviewer may shape the direction of the audit as a particular course of action may be taken by the Engagement Partner and engagement team that is different to that which the Engagement Partner would have taken in the absence of the EQ review. We also highlight that we believe that this view is aligned with the intention underlying extant ISA 220.

Accordingly, we recommend that the Board consider clarification of this important aspect of the standard. In particular, we note that it is critical that the standard does not preclude interaction and robust discussions between the Engagement Partner and the EQ Reviewer, because we believe, as we note above, that this may be an important aspect of audit quality on engagements that are subject to an EQ review.

Please also refer to our response to Question 7.

Responsibility in Respect of Quality Deficiencies

As we state in our overarching comments, we support the IAASB’s decision to include requirements and guidance relating to EQ reviews in a separate quality management standard with appropriate linkage to the requirements in ISQM 1.

As we note in our response to Question 3, we also welcome the material that clarifies the nature of the role, i.e. that although it forms part of the firm’s system of quality management, it is not intended in any way to involve a “compliance check” as to whether the firm’s policies and procedures have been applied across the engagement. Rather, the proposed standard explains that the role is performed on behalf of the firm by an individual who is not part of the engagement team, and constitutes an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon.

However, we note that ED ISQM 2 paragraph 22(a)(ii), in describing interaction between the firm and the EQ Reviewer, requires the EQ Reviewer to read and understand information provided by the firm about the results of its monitoring and remediation, in particular about “identified deficiencies that may relate to,
or affect, the areas involving significant judgements by the engagement team”. We are concerned that it is unclear as to how, and to what degree, the EQ Reviewer should consider and act on such information about the firm’s deficiencies in quality processes. ED ISQM 1 does not categorise deficiencies in the firm’s system of quality control, or provide definitions such as “significant deficiency”. We presume this requirement relates, conceptually, to less than significant deficiencies since the three parts of the quality framework (firm, Engagement Partner and EQ Reviewer roles/responsibilities) all need to function as required for engagement quality to be achieved overall. We also note that a significant deficiency in one aspect cannot be compensated for by enhancement in another.

A potential example may be a less than significant deficiency in the firm’s process for engaging specialists when an audit under EQ review has used the work of a specialist, in which case the EQ Reviewer should understand that weakness, and consider whether and how it may affect the audit.

We acknowledge the IAASB’s possible intention in introducing this requirement because of the clearer delineation of responsibilities between an Engagement Partner and his/her firm. However, we note that this requirement is rather ambiguous and may be challenging to apply in practice.

We are concerned that absent further clarification or specific application guidance as to what this requirement is intended to accomplish, it may be subject to differing interpretations and diversity in practice.

Extent of procedures – responsibility to identify significant matters

We are concerned that the proposed requirements may change the overall balance of responsibility, in terms of identifying significant matters, between the Engagement Partner and EQ Reviewer, i.e. the extent to which the EQ Reviewer needs to actively identify significant matters and judgements versus the extent to which the Engagement Partner and team would bring these issues to his/her attention. It appears that this balance has potentially shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer’s responsibility would ultimately stop.

Such lack of clarity may result in inconsistencies in practice as procedures performed by the EQ Reviewer in order to identify “significant matters” become more extensive in order to fulfil the revised requirements. As a result, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel review process may even be necessary.

As we set out in our comment letter on ED ISA 220 (Revised), the description of responsibilities of the Engagement Partner at ED ISA 220.33 includes language that appears relatively “soft” in that it refers to “cooperation” with the EQ Reviewer and requirements to “discuss significant matters arising”.

We suggest, therefore, that ED ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer’s attention to areas of significant judgement and to go beyond simply “cooperation” with the EQ Reviewer to take a more “active” role in this process. We do not believe that this would diminish the EQ Reviewer’s responsibility in any way, for example, this would not detract from the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other significant matters, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including expertise regarding the particular industry, would expect the engagement team to have identified. Instead, we believe that drawing the EQ Reviewer’s attention to such matters would assist them in properly executing their role.
We also suggest that ED ISQM 2 be amended to clarify that the EQ Reviewer is required to understand the engagement team’s basis for determining which areas involve significant judgements, but is not required to identify such areas himself/herself.

Please also refer to our response to Question 6 regarding interaction between the Engagement Partner and EQ Reviewer and the appropriate balance between achieving an open and transparent dialogue between the two whilst not impairing the independence/objectivity of the EQ Reviewer.

**Timing of procedures**

We are supportive of the increased emphasis on the timeliness of the EQ review, in particular, the new requirement for the review to be performed at “appropriate points” during the engagement. We agree with the statement in the Explanatory Memorandum that “an effective review is achieved when the Engagement Quality Reviewer is involved at appropriate points in the engagement, consistent with when significant judgements are being made by the team. This will also facilitate the resolution of issues in a timely manner”, although we highlight that we do not believe the changes are intended to mean that there should be a continuous dialogue between the EQ Reviewer and the engagement team.

**35_ISQM 2_KI**

Consideration could be given to the engagement quality control reviewer being expected to assess the completeness of the significant risks identified by the engagement team.

The evaluation of conclusions on consultations could be difficult for the engagement quality control reviewer. In many cases consultations will have been undertaken with subject experts whose knowledge and experience will be significantly greater than that of the EQR. A more appropriate response could be to assess whether the person undertaking the consultation is appropriately knowledgeable and experienced and the consultation process and conclusions have been appropriately documented.

Reviewing the financial statements is a likely to be a significant exercise. The firm’s policies and procedures should be designed to ensure that appropriate detailed review activities have been undertaken. The EQR should be restricted to ensuring the required procedures have been completed and that any issues identified have been appropriately resolved. The presentation in the financial statements of the significant issues identified in the audit could be part of the role of the EQR.

**36_ISQM 2_MZRS**

Partially: we believe that goes beyond the role of the EQR to “identify” the areas involving significant judgements” (§ 22 c). We believe “identify” should be replaced by “challenge”.

Also, more guidance would be appreciated on § 22 f.

**37_ISQM 2_MZRSUS**

We agree with the guidance in paragraphs 20-20(b) and A21 providing for when the EQR’s eligibility becomes impaired, whether prior to or subsequent to commencing the engagement quality review, the EQR ceases performing the engagement quality review and notifies the appropriate individual. If the original EQR did not commence the review, then the replacement EQR performs the review from beginning to end. If the original EQR commenced the review, then eligibility became impaired, please consider application material to address if the replacement EQR should continue the engagement quality review from where the original EQR left off or does the replacement EQR need to reperform the original EQR’s work.
The final standard should address if the impairment of the original EQR and the assignment to the replacement EQR, should be documented.

Overall, we agree with the requirements related to nature, timing, and extent of the engagement quality reviewer’s procedures, with these precise recommendations for change: 1) Paragraph 22(c) should be aligned with PCAOB AS 1220 by inserting the word “evaluate” instead of “identify”. As written, this requirement implies a higher level of responsibility for the EQR than we believe is intended, which is to be an objective challenger. 2) Paragraph 22(f) as written requires the EQR to “evaluate the basis for the engagement partner’s conclusion...” for achieving audit quality. We believe this requirement should be removed in this context, as we see the implied EQR threshold responsibility as not possible to execute or practical to demonstrate compliance. Paragraph 23 seems to be a more appropriate place for the EQR to consider concerns related to execution of the engagement team’s performance. Application and Other Explanatory Material should be modified accordingly.

38 ISQM 2_MNP

We generally agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. Paragraph 22(a)(ii) of ED-ISQM 2 requires the engagement quality reviewer to read and understand information provided by the firm about the results of its monitoring and remediation. Paragraph 27 of the application guidance states that the nature and extent of the engagement quality reviewer’s procedures may depend on factors such as the findings from the firm’s monitoring activities. We agree that an understanding of such findings can provide useful information in assisting the engagement quality reviewer in determining the nature and extent of their procedures, but we do not believe that the engagement quality reviewer should be required to read and understand such information. A high-quality review can be performed by an engagement quality reviewer based on current accounting and auditing standards without prior knowledge of the firm’s specific history or current monitoring and remediation plans. By introducing a “shall” statement to paragraph 22(a)(ii), proposed ISQM-2 would treat the failure to know the firm’s specific remediation plans as a deficiency across all engagements for which the engagement quality reviewer performed a review, notwithstanding the fact that the engagement quality reviewer has knowledge of audit quality issues in their relevant jurisdiction and beyond. This recommendation is consistent with the application guidance noting that the results of inspections undertaken by an external oversight authority may affect the nature and extent of the engagement quality reviewer’s procedures but does not require the engagement quality reviewer to obtain this understanding.

Proposed ISQM 2 does not address circumstances where the engagement quality reviewer changes during an audit. Paragraph 26 of the application guidance states that a timely review of engagement documentation should be performed by the engagement quality reviewer at appropriate points in time throughout all stages of the engagement. In circumstances where the engagement quality reviewer changes, the timing of the review may only occur near the end of the engagement. The guidance should clarify whether, in such circumstances, the engagement quality reviewer still complies with the requirements of ED-ISQM 2.

The responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). As noted below, additional guidance should be included in ED-ISQM 2 regarding the exercise of professional skepticism by the engagement partner.

39 ISQM 2_MSI

We have some specific issues with the articulation of the requirements – we believe there is some scope for
confusion as a result of drafting choice. The references to significant matters and significant judgements could certainly give rise to confusion, possibly especially when the terms are translated. We believe there is a danger that the word significant is becoming overused and that it is become a catch all term and we believe this is unfortunate. We also have a problem with the use of the phrase ‘appropriate points in time’ in para 21 since there is scope for this to be interpreted as meaning procedures should be performed once rather then as and when necessary (which might include repetition or revisitation). We would like to see more emphasis on the timeliness of the EQR. An EQR performed at the last minute will face challenges which are not present if the EQR is performed in a more timely manner.

41_ISQM 2_NSW

In our view, the objective in paragraph 10 does not sit well with the objective of the firm as set out in paragraph 4. One aspect of achieving the latter objective is for EQRs to be performed by appropriate individuals. We therefore believe that the objective of ISQM 2 should be couched in terms of the reviewer rather than the firm (though there could be an explicit link back to the objective of the firm as expressed in paragraph 4).

42_ISQM 2_PKFI

In response to the first question, we generally agree with the requirements relating to the nature, timing and extent of the engagement quality review procedures.

However, we have a concern about the use of the word “timing” within the second sentence of paragraph A24 of ED-ISQM 2. As an unintended consequence, the word “timing” in this context could be misinterpreted by firms and wrongly applied to restrict and limit the involvement of the engagement quality reviewer by delaying the timing of their initial involvement in the engagement until closer to the completion phase. Such an interpretation may arise as part of a firm’s efforts to safeguard the objectivity of the engagement quality reviewer, but to the detriment of involving them to an appropriate extent during all phases of the audit from planning through to completion. Consequently, we suggest that deleting the word “timing” from that sentence would avoid such an interpretation and would help in encouraging engagement quality reviewers to be appropriately involved throughout all phases of an engagement.

In response to the second question, in our view the responsibilities of the engagement quality reviewer are generally appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). However, we have explained in the paragraph above that there is a risk that the wording in paragraph A24 of ED-ISQM 2 could be misinterpreted by firms, leading to the potential consequences we noted.

We encourage the IAASB to amend the wording of paragraph A24 of ED-ISQM 2 to address this concern.

43_ISQM2_PKFSA

We generally agree with the requirements relating to the nature, timing and extent of the engagement quality review procedures.

However, we have a concern about the use of the word “timing” within the second sentence of paragraph A24 of ED-ISQM 2. Its use could be misinterpreted, and wrongly applied, by firms to restrict and limit the involvement of the engagement quality reviewer. This may occur as part of a firm’s efforts to safeguard the objectivity of the engagement quality reviewer, but at the expense of involving him/her to an appropriate extent during all phases of the audit from planning through to completion.
We suggest that deleting the word “timing” from that sentence would avoid such an interpretation and that it would also help to encourage engagement quality reviewer’s to be involved appropriately throughout the course of an engagement.

In our view the responsibilities of the engagement quality reviewer are generally appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

In addition to the above, we propose that further guidance be issued, in addition to consultations, relating to paragraph A24: “The firm’s policies or procedures may set forth the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team.”

44_ISQM 2_PwC

We support bringing clarity to the nature and extent of work expected of an engagement quality reviewer. However, we are concerned that the proposed requirement in paragraph 22(f) for the engagement quality reviewer to evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement lacks sufficient context. The evaluation needs to be anchored to the engagement partner’s involvement, and evidence thereof, in the significant judgements that are within the scope of the engagement quality review. We recommend the requirement should be amended to make the basis for the evaluation clear, with application material providing additional guidance on factors the engagement quality reviewer may take into account in making the evaluation. We also support bringing further clarity to the significant judgements that the engagement quality reviewer may be expected to evaluate.

We support the emphasis on the engagement quality reviewer’s involvement at all key stages of the engagement.

We also support bringing clarity to the nature and extent of work expected of an engagement quality reviewer. In doing so, it is important to recognise the respective roles of the engagement partner and engagement quality reviewer. The engagement quality reviewer is not a second engagement partner, repeating all of the same responsibilities as the engagement partner to act as a “check” on all of the judgements made.

The engagement quality reviewer supports quality on the engagement by bringing an objective perspective to the significant judgments made by the engagement team in the engagement. However, the engagement quality reviewer is not able to make an independent assessment as to whether the significant judgments identified by the engagement team represents a complete population, as this would effectively mean reviewing all areas of the engagement and related audit documentation. That is not to say that if the engagement quality reviewer becomes aware of a matter that they believe the team has not addressed, the reviewer should not raise this. We believe that application material is needed to clarify these points to help facilitate consistent application of the standard. In practice, a firm’s policies and procedures will also likely give direction to engagement quality reviewers as to a baseline of significant judgements that need to be reviewed by the engagement partner and evaluated by the engagement quality reviewer. We also propose an amendment to paragraph 22(c) in appendix 2.

We understand the desire to align the content describing significant judgements with that in proposed ISA 220 (Revised). However, we believe a cross-reference is not helpful and suggest that, as with proposed ISA 220 (Revised), specific examples are needed in the application material. The simplest option may be to replicate paragraph A79 of proposed ISA 220 (Revised), amending the context to refer to the
engagement quality reviewer’s role. To the extent that there are significant judgements that the Board believes should always be evaluated by the engagement quality reviewer, we support including those as direct requirements, for example, materiality, risk assessment and disposition of corrected and uncorrected misstatements, to name a few.

We have a specific concern that the proposed requirement in paragraph 22(f) for the engagement quality reviewer to evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement lacks sufficient context. This needs to be clearly anchored to the observations the engagement quality reviewer is able to make in the course of performing their responsibilities under the standard. Otherwise, this is an open-ended and subjective requirement, and could be interpreted as requiring the engagement quality reviewer to replicate the audit performed in order to “second guess” whether the engagement partner has an appropriate basis for taking overall responsibility for managing and achieving quality on the audit engagement. Therefore, the evaluation needs to be grounded in the context of the engagement partner’s involvement, and evidence thereof, in the significant judgements that are within the scope of the EQR (note, we have a related concern in relation to proposed ISA 220 (Revised) about how the involvement of the engagement partner may be sufficiently evidenced). Absent those clear boundaries, the engagement quality reviewer would not have a sufficient basis for making such an evaluation - as we note above they are not acting as a second “engagement partner” and are not evaluating the sufficiency and appropriateness of the involvement of the engagement partner across the entirety of the engagement. We recommend the requirement should be amended to make the basis for the evaluation clear, with application material providing additional guidance on factors the engagement quality reviewer may take into account in making the evaluation.

We support the requirement in paragraph 24 regarding the notification to be provided by the engagement quality reviewer to the engagement partner and agree that the engagement partner cannot sign the auditor’s report until receiving this notification. However, we believe guidance is needed to clarify that the nature of such notifications and the way they are documented may differ depending on the firm’s established policies and procedures (e.g., there is no requirement for a written communication that needs to be provided by the engagement quality reviewer).

We recommend the following change to make clear that the engagement quality reviewer is not making an independent judgement (second-guessing) as to the significant judgements made on the engagement. The reviewer evaluates the significant judgements that were identified as such by the engagement team:

"Based on the information obtained in (a) and (b), identify obtain an understanding of the areas involving significant judgments made by the engagement team, including those related to:

……."

We recommend application material replicate the content from proposed ISA 220 (Revised) describing significant judgements and that consideration be given as to whether certain significant judgements, for which it is always expected that they be evaluated, should be addressed in the requirements.

We recommend redrafting the requirement to anchor the evaluation to consideration of the engagement partner’s involvement in the significant judgements that are within the scope of the EQR.

We recommend including application material to clarify that notification methods may vary based on a firm’s policies, procedures, and information and communication systems.
45_ISQM 2_RSMI

Yes although we suggest using “communicated” rather than “provided” in paragraph 22a(ii) to be consistent with the terminology used in ED ISQM 1 paragraphs 52-54.

We agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism. Additional references to professional skepticism could be added to paragraphs 21 and 23 to help clarify and reinforce this point. Also, specific reference to reviewing work on significant risks, not just significant matters, could be included for clarity.

6 Public Sector Organizations

47_ISQM 2_ACAG

ACAG supports the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures which are considered appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). ACAG recommends additional guidance on the method of resolution for unresolved quality concerns, as suggested in our response in question 2.

48_ISQM 2_INTOSAI

As noted in our analysis of ED-220, there appears to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters and their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader's involvement including the extent to which they believe significant judgments are present in the engagement.

49_ISQM 2_NAOM

Yes. If the engagement partner performs his duties well, the engagement quality reviewer may decrease the amount of testing.

50_ISQM 2_OAGNZ

We agree with the requirements relating to the engagement quality reviewer’s procedures.

However, we believe that the proposed standard would work better if it included guidance on what constitutes a significant matter, which could be based on the application material in paragraph A8 in ISA 230.

It would also be helpful if the proposed standard was to make reference to acceptance and continuance and independence assessments in paragraph 22(c).

The IAASB may also want to consider whether the engagement quality reviewer has to evaluate the appropriateness of the auditor’s report based on the engagement team’s evaluation of uncorrected misstatements, or has to report significant deficiencies in internal control to Management or Those Charged with Governance.
However, we note that ED-ISQM 2 clearly indicates that the role of the EQR is not solely a control process. Under ED-ISQM 2, the EQR is required to agree with “the significant judgements made by the engagement team and the conclusions reached thereon” (ISQM 2.11(a)). The board should be aware that requiring the EQR to agree with the significant judgements is indirectly questioning the professional judgement of the engagement team. Under the current ISQM, some firms used the EQCR as a control to ensure an engagement team followed standards and firm methodology. Under ED-ISQM 2, the EQR must also agree with the significant judgements. Due to their nature, “significant judgements” include a high level of professional judgement and most likely include the matters of considerable debate within the profession. For example, consider accounting for Endowments in the public sector. There has been little consensus on how to treat endowments. Is the debit an “asset,” “non-asset,” or “trust funds under administration?” The credit can also be debated, is it a “liability” or “revenue?” When an engagement team concludes how to record an endowment contribution, the EQR would be required to agree with this judgement. Or consider fund raising revenues for not for profit entities? Some firms classify these as a scope limitation as firm policy. Would both the engagement team and EQR be required to agree with this firm position? We raise these examples to illustrate that ED-ISQM 2 should provide the EQR the ability to complete their review when differences in professional judgement exist (ISQM 2.23 & A35) and the engagement team has sufficiently followed standards and office processes.

As noted in our response to ED-ISQM 1, definition of engagement quality review (EQR) states the EQR can be “completed on or before the dated of the engagement report.” EQR should be performed throughout the engagement. The standard should not permit an EQR to be completed or performed on the date of the engagement report. The definition of EQR should clearly communicate the requirement to perform the EQR throughout the engagement in order to provide the team with sufficient time and resources to incorporate the EQR's feedback. In addition, see response to question three above.

There appears to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters and their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader’s involvement including the extent to which they believe significant judgments are present in the engagement.

The ED does not propose a scalable approach to the work programme of the EQR. We think that ISQM 2 should be clearer on the fact that the work programme should be tailored to the quality risks of the firm and their potential impact in the individual engagement circumstances. For example, because of a higher going concern risk, an EQR would be expected to focus on quality risks affecting this aspect and may not need to look at all areas of the engagement.

We think that the IAASB should elaborate on the interconnection between significant matters and significant judgements. Both concepts are used a lot in ED-ISQM 2 without proper consideration on how they relate to
each other.

In terms of the timing of when the review should take place, paragraph 21 might not portray the engagement quality review as a fully continuous process, rather the work of the reviewer seems concentrated too late in the process.

In terms of extent of the work to be performed, it is not clear if the review should also encompass the work of the component auditors.

57_ISQM 2_APESB

APESB supports the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures. However, APESB does not comment in respect of whether the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in the proposed ISA 220 as this is a matter for AUASB.

61_ISQM 2_CalCPA

Paragraph 22 – We think it should be made clear that the time to assign the EQR is before the engagement starts so that the EQR can be involved in the planning.

Yes. We don’t see these as directly related. Whatever are the engagement partner responsibilities, the EQR’s responsibilities do not change.

62_ISQM 2_CAQ

Overall, we support the requirements related to the nature, timing, and extent of the EQR’s procedures and that they are appropriate; however, we recommend the following:

- In paragraph 22(c), the phrase “identifying significant judgments” could be viewed as expanding the role of the EQR beyond what is intended. Consider replacing “identifying” with “evaluating” consistent with PCAOB AS 1220, paragraphs .02 and .10a.

- Paragraph 22(f) requires the EQR to “evaluate the basis for the engagement partner’s conclusion” on the achievement of audit quality on the engagement. The requirements and application guidance of ED ISQM-2 do not provide a sufficient framework to execute this requirement effectively. We recommend the following:
  - Delete paragraph 22(f) and update paragraph 23 as follows:

    If the engagement quality reviewer has concerns that:
    a. the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate, or
    b. for audits of financial statements, that the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement is not appropriate.

    If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed.
Regardless of whether the Board finds it appropriate to collapse the requirement in 22(f) into paragraph 23, we recommend deleting the current application guidance in ED-ISQM 2 paragraphs A33-34. Currently, it is a reference to the engagement partner’s responsibilities as outlined in ED-220 and other pronouncements which could imply that the EQR is required to re-perform the responsibilities of the engagement partner. The application guidance should provide a framework for the EQR to determine whether the engagement partner’s conclusion that (s)he has taken overall responsibility for managing and achieving quality on the audit engagement is appropriate.

**63_ISQM 2_CAANZ-ACCA**

Our stakeholders were generally supportive of the proposals. However there could be more clarification of:

- What procedures are required for other reviews such as concurring reviews
- What happens if the EQR performs the review and is not satisfied with the engagement team’s work
- 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.

**71_ISQM 2_SMPC**

The SMPC noted that para 12 of the Explanatory Memorandum to ISQM 2 states: “The IAASB agreed that … the EQR is a response to an assessed quality risk(s) …..)”. Thus the IAASB is proposing a significant change from the extant ISQC 1, as EQR would be applicable for engagements that have (only) some (internal) quality risk attached. Unless the impact of such quality risks is entirely pervasive (impacting all significant judgments) – in which case it is likely that the firm should not have accepted the engagement in the first place – a full EQR would appear be excessive, because the focus should instead be on isolated areas of risk. Such focus could be more appropriately achieved by other means of e.g., subject matter review or consultation on a specific issue. An EQR may add to the perception that a really effective QM measure is in place, irrespective of whether it is in fact always warranted in the individual circumstances. Such perception may be of importance for the PIE market but may not necessary be so outside this market.

As such, in our view, it is questionable whether EQR should be viewed as an appropriate measure to deal with pervasive (firm - internal) quality risks, as it should not be seen as a remedy allowing a firm to take on engagements for which it is unable to handle. For this reason, the preliminary decision on whether or not an EQR is needed should be made at engagement acceptance (and reviewed, if circumstances have changed).

This change as highlighted here will, as a consequence, impact the overall nature, timing and extent of the EQR’s procedures. The IAASB may want to re-evaluate the rationale of such an approach.

We would like the IAASB to clarify whether the reviewer is required to consider the completeness of significant judgements i.e. is the reviewer required to consider whether there is anything that they deem to be a significant judgement that the engagement partner and team have possibly overlooked? The explanation in the Explanatory Memorandum (paras 34 to 36) may need more clarity when finally communicated.

We also foresee some issues with para 22(f) as it seems very unlikely that the engagement partner will
conclude that they have not taken overall responsibility for managing and achieving quality. The focus should instead be on what the reviewer will expect to see on the audit file to support this conclusion.

72_ISQM 2_ICPAS

The proposed standard requirements for review throughout the engagement seems to have the potential to negate the objectivity of the EQR. The EQR would seem to become part of the engagement team rather than being an unbiased reviewer. With the amount of seeming interaction the proposed standard requires of the EQR (for example during audit planning and at various stages during the audit) it could create some challenges in remaining objective. More guidance is warranted.

The proposed standard reinforces the need for robust communication and interactions during the audit between the engagement team and the engagement quality reviewers. Overall it seems to add a whole new layer of required compliance. The process may impinge on objectivity with the engagement team.

74_ISQM 2_ICAEW

Para 21 requires policies and procedures to ensure that the engagement quality reviewer’s procedures are performed ‘at appropriate points in time during the engagement’. The word ‘appropriate’ allows flexibility, but would benefit from application guidance explaining the risks associated with performing these procedures only once. This may be too late in practice to deal with problems that should have been identified earlier, particularly for smaller firms using external reviewers. Reference should also be made to the need for delay in completion of the audit if issues are identified at a late stage.

We are concerned about the general overuse of closely related terms such as 'high', 'higher' and 'significant', particularly in close proximity. Confusion around the use of 'significant matters' and 'significant judgements' in para 22 seems inevitable.

Examples of significant matters are given in ISA 230 para A8. Examples of significant judgements are given in ISA 220 para A79. Based on this, it seems there could be significant judgements that do not relate to significant matters. Paras 22 (a) and (b) require the engagement quality reviewer to read and understand information from the engagement team about the nature and circumstances of the engagement and discuss significant matters with the engagement team. Is this sufficient to enable the reviewer to identify the significant judgements? Is the reviewer required to consider the completeness of significant judgements, i.e., is the reviewer required to consider whether there is anything they consider to be a significant judgement that the engagement team has not? The explanations in paras 34 to 36 of the explanatory memorandum are not particularly helpful.

In para 22(e), does the requirement to evaluate whether appropriate consultation took place and to evaluate conclusions extend to requiring the reviewer to check whether the team took account of those conclusions, by requiring amendments to the financial statements, for example?

We foresee some issues with para 22(f) as it seems very unlikely that the engagement partner will conclude that they have not taken overall responsibility for managing and achieving quality. The focus should be on what the reviewer will expect to see on the audit file to support this conclusion.
**76_ISQM 2_ICAS**

We would also welcome greater emphasis in paragraph 21 that the engagement quality review is a continuous process and should not be initiated too late in the process, particularly in relation to audit engagements.

We are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more principles-based standards where the requirements focus on the objectives of the standard, with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating the proportionate application of the standards.

We also believe that a scalable approach could be better facilitated by the inclusion of greater clarification within ED-ISQM 2 that the work of the engagement quality reviewer should be tailored to the identified quality risks and their potential impact based on the circumstances of the individual engagement.

Our responses to the specific questions are included below.

We are concerned that the ED does not propose a scalable approach to the work required of the engagement quality reviewer. For that reason, we believe that ED-ISQM 2 could clarify that the work of the engagement quality reviewer should be tailored to the identified quality risks and their potential impact based on the circumstances of the individual engagement. Therefore, in areas where high audit risks have been identified, an engagement quality reviewer would be expected to focus on the quality risks affecting these aspects and may not need to look at all areas of the engagement.

However, we are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more principles-based standards where the requirements focus on the objectives of the standard, with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating the proportionate application of the standards.

We believe that the IAASB should provide greater clarity around the interconnection between the concepts of significant matters and significant judgements. Both concepts are used throughout ED-ISQM 2 without sufficient detail on how they relate to, and impact, each other.

We also support that ED-ISQM 2 includes a new requirement addressing the engagement quality reviewer’s responsibility to perform the procedures at appropriate points in time during the engagement. In terms of the timing of the engagement quality reviewer’s procedures, we believe that paragraph 21 could emphasise more strongly that the engagement quality review is a continuous process to emphasise that the work of the reviewer should not be initiated too late in the process, thereby risking a delay in the completion of the audit.

**79_ISQM 2_ISCA**

Paragraph 22(c) states that “Based on the information obtained in (a) and (b), identify the areas involving significant judgments made by the engagement team…”. In this context, the usage of the phrase “identify” can be misinterpreted to mean that the EQR needs to identify and conclude on the significant judgement areas of the engagement.
We also have a specific concern that the proposed requirement in paragraph 22(f) for the EQR to “evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement” lacks sufficient context. This requirement needs to be clearly anchored to the consideration of the engagement partner's involvement in the significant judgements that are within the scope of the engagement quality review. Without those clear boundaries, the EQR would not have a sufficient basis for making such an evaluation, as the EQR is not performing a second partner role and is not evaluating the sufficiency and appropriateness of the involvement of the engagement partner across the entirety of the engagement. We believe that the requirement should be amended to make the basis for the evaluation clear, with application material providing additional guidance on factors that the EQR may take into account when making the evaluation.

80_ISQM 2_ICJCE

Procedures to be performed by the engagement quality reviewer are described in ISQM 2 Para 22 and 23 and we understand that there is no overlapping with the responsibilities of the engagement partner according to ED ISA 220

81_ISQM 2_IMCP

Agree. We suggest detailing the responsibility of the engagement quality reviewer related to the identification of significant judgements.

82_ISQM 2_KICPA

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures, and the responsibilities of the engagement quality reviewer are appropriate, since his/her responsibility should not be bigger than those of engagement partner.

83_ISQM 2_MICPA

Yes, the Institute agreed to the requirements proposed by ED-ISQM 2. However, there should be a balance of responsibilities between the engagement quality reviewer and the engagement partner.

At the moment, based on the procedures set out in ED-ISQM 2, there could be overlaps in responsibilities engagement and engagement quality reviews.

85_ISQM 2_NYSSCPA

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.

We believe the Board should seek to emulate requirements of AS 1220, Engagement Quality Review, with respect to mandated EQRs, such as for listed companies and other “public interest entities,” but to allow greater flexibility with respect to engagements selected for discretionary EQRs based on risk considerations.

86_ISQM 2_NRF

Overall, we support this. However, the way the requirements in ISQM 2 relating to the nature, timing and extent of the engagement quality reviewer’s procedures are drafted, implies that there is no room for
scalability or tailoring the performance based on the specific quality risk that it is supposed to respond to.

The requirements for having an engagement quality reviewer that are listed in para. 37 (e) in ISQM 1, relate to either certain kinds of entities or certain circumstances within the entities where an engagement quality reviewer may be the appropriate response to the assessed quality risk. In situations where an engagement quality reviewer is engaged based on the latter situation, the individual necessarily may not have to review all areas of the engagement but should rather focus on the aspects that initiated the assessment to have a quality engagement reviewer.

88_ISQM 2_SAICA

During our engagement with members, an overall concern around the extent of work required to be performed by the engagement quality reviewer was expressed. ED-ISQM 2 is more prescriptive than ED-220. At face value, it seems that the nature and extent of the engagement quality reviewer’s procedures are more than those required to be performed by the engagement partner.

SAICA welcomes and supports the requirement contained in paragraph 21(a) for the firm to establish policies or procedures that address the engagement quality reviewer’s responsibilities to be performed at appropriate points in time during the engagement in mitigating the risk for this response only being carried out right before the issue of the auditor’s report.

Paragraph 22(a) of ED-ISQM 2 requires the engagement quality reviewer to read and understand certain information. It is not clear what is meant by understand, nor is it clear how the engagement quality reviewer will demonstrate compliance with this requirement.

In relation to the information that the engagement quality reviewer is required to read and understand, it is our view that paragraph 22(a)(ii) is not clear in that the results of monitoring and remediation should include both internal and external results; as well as firm level and engagement level results.

Paragraph 22(b) of ED-ISQM 2 requires that the engagement quality reviewer discuss significant matters with the engagement partner. Paragraph 22(c) then requires the engagement quality reviewer to identify areas involving significant judgement.

It is SAICA’s view that ED-ISQM 2 is light in providing guidance around significant matters and significant judgements. SAICA suggests that a definition for the terms significant matters and significant judgements be included in both ED-ISQM 2 and ED-220. We further suggest that the information included in paragraph A27 of Agenda Item 6-A to the September 2018 meeting, namely ISQM 2 (Exposure Draft: 2nd Read) be reintroduced into the application material as this was seen as useful in explaining the interrelationship between significant matters and significant judgements. The examples of significant matters are seen as being particularly useful in providing guidance.

Paragraph 22(d) required the engagement quality reviewer to review selected engagement documentation. Additional guidance in terms of how to select the documentation that will be subject to review will be useful.

ED-ISQM 2 is silent on the engagement quality reviewer’s responsibility in relation to the schedule of misstatements. With the prescriptive manner in which this standard is drafted, we suggest that this is an area that needs to be clarified. It is our suggestion that ED-ISQM 2 includes a requirement for the engagement quality reviewer to review the schedule of misstatements and evaluate whether the conclusion reached thereon is appropriate.
Paragraph 22(g) of ED-ISQM 2 requires that the engagement quality reviewer review the financial statements and the auditor’s report or the engagement report and related subject matter, as the case may be. It is not clear to what extent the engagement quality reviewer is required to perform this review.

In relation to the completion of the EQR, paragraph 23 of ED-ISQM 2 requires that if concerns about the significant judgements made by the engagement team are not resolved to the engagement quality reviewer’s satisfaction, he/she shall notify an appropriate individual within the firm that the EQR cannot be completed. In terms of the requirement contained in paragraph 21(b), this means that the engagement report cannot be issued as the EQR has not been completed. It is our view that ED-ISQM 2 is not clear in terms of how this situation is addressed and/or resolved.

To this end, we suggest that reference be made to the requirement for the firm to establish policies or procedures addressing differences of opinion as contained in paragraph 37(d) of ED-ISQM 1.

In line with the comment noted in paragraph 20 above, it is not clear how the engagement quality reviewer demonstrates that he/she has read and understood information.

89 ISQM 2 WPK

The requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures increased significantly compared to the provisions in extant ISQC 1 where the relating provisions are embedded into the requirements of the Engagement Performance.

Regarding the nature of the procedures of an EQR mentioned in Para 22 we are not convinced whether all of them shall necessarily be performed or whether selected procedures are sufficient. EQR procedures should always focus on the underlying risks. If for instance an EQR shall be performed due to fraud risks regarding the revenue recognition the focus of the ECQ should lie on the discussion of significant matters with the engagement partner and other members of the engagement team and on the review of selected engagement documentation. If a going concern risk demands specific experience in this area the EQR should focus on the work performed in this aspect rather than reviewing other issues that may not be considered significant.

According to Para 22 (b) the engagement quality reviewer shall discuss significant matters with the engagement partner and, if applicable, other members of the engagement team. According to Para 22 (d) he shall however review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon.

Both concepts are used without adequate consideration on how they relate to each other. The interconnection between “significant matters” and “significant judgments” should be elaborated and the term “significant judgment” should be defined.

8 Individuals and Others

90 ISQM 2 TAS-CAA

Yes

We agree with the requirements relating to the nature, time & extent of the engagement quality reviewer's procedures and that the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner proposed in ISA220. This is due to the fact the engagement will serve as a fresh set of objective eyes ensuring that the engagements partners leadership and project management was appropriate. Also, we agree that the engagement review should be done in
time but also should be given enough time to allow for the reviewer to do a thorough review.

However, we feel there is a gap with regard the criteria used to determine the nature, timing and extent of the engagement quality review as neither ED-ISQM 1 or ED_ISQM 2 address this. We suggest that the criteria to determine the nature, timing and extent of the EQR be set in ED_ISQM 1 and that ED-ISQM 2 allow the EQ reviewer to change the scope based on the specific circumstances of the particular engagement.
ED-ISQM 2 – Question 5: Nature, timing and extent of EQ reviewer’s procedures – Disagree

4 National Auditing Standard Setters

EQRs should be more scalable by including a consideration of quality risks and therefore focus on the more important quality risks

We are not convinced that the proposed work effort for EQRs is proportionate because it does not focus on the more important quality risks. For example, if the judgments in an audit of the financial statements of an entity’s ability to continue as a going concern represent the greatest risk to quality and an EQR is performed, then the EQR should focus on the significant judgments for this matter compared to other significant judgments. We believe that engagement quality reviewers should consider quality risks and thereby focus on the significant judgments with greater risks to engagement quality with a concomitant lesser focus on other significant judgments for which engagement quality risks are lower. This implies that an engagement quality reviewer would need to consider quality risks and then address those risks. This may mean that in some circumstances, in particular for Non-PIEs where particular quality risks gave rise to the need for an EQR, for engagement quality risks related to certain significant judgments that are considered as being acceptably low, the engagement quality reviewer may not need to address those risks.

As noted in the body of our comment letter, we do not agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures because we believe that the work effort they will cause is disproportionate due to not focusing on the more important quality risks. We believe that EQRs should also require a consideration of quality risk by focusing on the significant judgments with greater risks to engagement quality with a concomitant lesser focus on other significant judgments for which engagement quality risks are lower. This implies that an engagement quality reviewer would need to consider quality risks and then address those risks. This may mean that in some circumstances where the engagement quality risks related to certain significant judgments are considered as being acceptably low, the engagement quality reviewer may not need to address those risks.

7 Member Bodies and Other Professional Organizations

In our opinion, the ED-ISQM 2 does not propose a scalable approach to the work programme of the EQR. We think that the standard should be clearer on the fact that the work programme should be tailored to the firm’s quality risks and their potential impact in the individual engagement circumstances.
ED-ISQM 2 – Question 5: Nature, timing and extent of EQ reviewer’s procedures – Unclear or no specific response or refer to other respondent’s views

1 Monitoring Group

02_ISQM 2_IAIS

IAIS

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)

4 National Auditing Standard Setters

13_ISQM 2_CICPA

The Chinese Institute of Certified Public Accountants (CICPA)

5 Accounting Firms

24_ISQM 2_BTVK

Baker Tilly Virchow Krause, LLP

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.

70_ISQM 2_FSR

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.