Question 6(b) in the EM to ED-ISQM 2 asked respondents:

Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

**ED-ISQM 2 – Question 6(b): Exercise of professional skepticism by the EQ reviewer – Agree**

Professional skepticism is a key attribute for high quality audits. The lack of professional skepticism continues to be a driver for inspection findings. The standards need to reflect the importance of professional skepticism. We support the references to professional skepticism in the engagement performance sections of ISQM 1 (36(b)) and leadership sections of ISA 220 (12e) and paragraph 22(d)(i) of ISQM 2. We believe that the importance of professional skepticism should also be highlighted in the leadership and governance and engagement performance sections of ISQM 1 and ISA 220, respectively, and make clear reference to professional skepticism in relation to engagement quality reviewers (“EQ reviewers”) for engagements for which professional skepticism is required (including audits), both in the assessment of whether the engagement team applied appropriate professional skepticism and the application of professional skepticism to the evaluation of significant judgments by the engagement quality reviewer.

**3 Regulators and Oversight Authorities**

Professional skepticism is a critical element of engagement quality and is applied by the EQ reviewer in order to act appropriately on their understanding of which matters they should challenge, when determining the extent of their challenge in relation to those matters, and what information they should obtain to satisfy those challenges. The EQ reviewer also applies professional skepticism in challenging themselves as to whether they have fulfilled the objective of the engagement quality review (please see comment in relation to the objective of ISQM2).

**4 National Auditing Standard Setters**

We believe that ISQM 2 could place more emphasis on professional skepticism. We encourage the IAASB to add a requirement that the EQ reviewer demonstrate his/her professional skepticism by documenting his/her considerations where he/she has applied professional skepticism.
skepticism by the EQR. For example, applying professional skepticism during the engagement quality review may involve:

- Appropriately responding to inconsistent responses by the engagement team to questions about significant judgments.
- Applying an unbiased view of responses from the engagement team.
- Being aware of unconscious biases that may affect the exercise of professional judgment.

### 5 Accounting Firms

**25_ISQM 2_BDO**

The IAASB may also wish to consider whether:

- There is an opportunity to replicate in ED-ISQM 2 some of the content in ISA 220 (Revised), paragraphs A27-A29 by exploring potential threats to engagement quality reviewer professional skepticism (such as confidence bias in the competence and capabilities of an engagement team).

**27_ISQM 2_CHI**

We believe that the exercise of professional scepticism by the EQR in performing their duties and responsibilities is necessary; however, additional guidance to provide clarity on the degree of scepticism and the documentation requirements would be beneficial.

**29_ISQM 2_DTL**

The requirements for the exercising of professional scepticism by the EQR themselves could be made more explicit and perhaps the standard could include application material suggestion activities that would demonstrate this.

**31_ISQM 2_EYG**

However, if it is determined that ED-ISQM 2 should address the exercise of professional skepticism by the engagement quality reviewer, then we believe that a separate definition for professional skepticism that is specifically relevant to the engagement quality reviewer needs to be created along with supporting guidance on how the engagement quality reviewer would appropriately exercise professional skepticism in carrying out their role.

**32_ISQM 2_GTIL**

In respect to the exercise of professional skepticism by the EQ reviewer in performing the review; the inherent nature of the role, i.e. an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, requires the EQ reviewer to exercise professional skepticism in performing that objective evaluation. As such, although not an explicit requirement, it is implicit in the role performed. Similar to the issues experienced by the engagement team, the difficulty is in evidencing that appropriate professional skepticism has been exercised in the performance of the review. We are therefore of the view that guidance in ED-ISQM 2 in this regard would be helpful. It may also be helpful if the proposed standard includes a definition or a description of an objective evaluation.
34. ISQM 2_KPMG

We agree with the IAASB that the standard should not require the exercise of professional skepticism by the EQ Reviewer specifically, since professional skepticism is understood primarily in the context of obtaining and evaluating audit evidence, which is not the responsibility of the EQ Reviewer.

However, we also agree that the EQ Reviewer, in evaluating the significant judgements made by the engagement team and reviewing related engagement documentation, may exercise professional skepticism, at least indirectly. We therefore suggest that the application material provide further guidance/examples as to when this may be applicable.

In connection with evaluating significant judgements, and the acknowledgement that the EQ Reviewer may exercise professional skepticism in doing so, we recognise that very frequent or significantly extensive interaction between the EQ Reviewer and Engagement Partner may, in certain cases (although likely rare), affect the objectivity of the EQ Reviewer. Whilst we understand the potential concern of the IAASB regarding this, we note that it is also important not to detract from collaborative discussions between the Engagement Partner and EQ Reviewer such that the Engagement Partner is less open/transparent or even hesitant to discuss issues with the EQ Reviewer. Whilst there are other avenues for the Engagement Partner to discuss issues e.g. with other partners with industry expertise, or to consult more formally with others within the firm (e.g. DPP), we would be concerned that the proposed changes may undermine or lose the benefits of open communication and discussions between the Engagement Partner and the EQ Reviewer.

The above may be compounded by the relatively “soft” nature of requirements of the Engagement Partner in ED ISA 220 (Revised), which refer to “cooperation” but which, as we note above, may need to be more “active” in terms of highlighting significant judgements to the Engagement Partner, and maintaining an open and transparent dialogue. Please see our comments in the overarching section as to the nature of the EQ Reviewer role, and also comments as to whether the balance of responsibility in this area has potentially shifted more towards the EQ Reviewer.

We recommend that the IAASB provide more detail in the application material, and consider inclusion of examples, as to the nature/extent of interaction that would be appropriate, and when this may impair the EQ Reviewer’s objectivity. We also suggest that it would be helpful to link these considerations also to paragraph 20 regarding considerations in respect of potential impairment of eligibility to perform the role.

37. ISQM 2_MZRSUS

We would recommend more clarity in this standard on how the tenants of professional skepticism apply to the execution of the EQR. How would the EQR demonstrate their challenge of the engagement team, examples of behaviors and the related documentation requirements would be helpful for effective execution by the EQR.

38. ISQM 2_MNP

The engagement quality reviewer will inherently apply professional skepticism in evaluating whether this has been applied by the engagement team. The engagement quality reviewer will also need to apply professional skepticism in critically assessing the audit evidence the engagement team has obtained to support the conclusions made regarding significant judgments, and whether these are appropriate (Ref: ED-ISQM 2 Par 22(d) (i)-(iii)). Therefore, ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. The procedures required to be performed by the
engagement quality reviewer in paragraph 22 of ED-ISQM 2 should be expanded to require that the engagement quality reviewer apply professional skepticism in order to critically assess the audit evidence obtained, including the sufficiency and appropriateness thereof, by the engagement team to support the conclusions reached regarding significant judgements. We note that ED-220 contains significant guidance regarding the exercise of professional skepticism by the engagement team and that it would be beneficial to include similar guidance in ED-ISQM 2, as well as appropriate linkages between these two standards.

If ED-ISQM 2 further addresses the exercise of professional skepticism by the engagement quality reviewer, additional guidance should also be included, outlining how the engagement quality reviewer documents how they have applied professional skepticism. We believe that there should be a requirement for the engagement quality reviewer to determine that there is adequate documentation to evidence how he or she applied professional skepticism, but the form of this documentation can be determined based on the nature and circumstances of the engagement.

6 Public Sector Organizations

46.ISQM 2_AGSA

In assessing the audit team’s exercise of judgement and professional skepticism, so too should the engagement quality reviewer exercise professional skepticism to arrive at an objective view.

47.ISQM 2_ACAG

The enhanced focus in the profession on the sufficiency and appropriateness of documentation by engagement teams of their exercise of professional skepticism, should also extend to that of the engagement quality reviewer.

49.ISQM 2_NAOM

Yes. We believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. In particular, professional skepticism is to be exercised by the engagement quality reviewer as regards the engagement team’s assessment of the risk of material misstatement in the financial statements, non-compliance with rules and regulations and the risk of fraud and corruption.

7 Member Bodies and Other Professional Organizations

57.ISQM 2_APESB

Members undertaking audit or other assurance engagements are required to exercise professional skepticism under IAASB standards and the IESBA Code. As such, APESB is of the view that whilst Engagement Quality Reviewers are not part of the engagement team, they are subject to professional skepticism requirements. However, APESB is not opposed to a specific requirement being included in ED-ISQM 2 for engagement quality reviewers to exercise professional skepticism.

61.ISQM 2_CalCPA

Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer?

Yes.
**64_ISQM 2_CICC-AIC**

Yes, we do it. We agree with the reviewer's evaluation ED-ISQM 2 should address professional skepticism on the part of the quality reviewer in a timely manner.

**65_ISQM 2_CCC-ICPARD**

Yes, we agree with the reviewer's evaluation. NIGC 2 should address professional skepticism by the quality reviewer in a timely manner.
ED-ISQM 2 – Question 6(b): Exercise of professional skepticism by the EQ reviewer – Agree but with further comments

5 Accounting Firms

23_ISQM 2_BTI
We believe that ED-ISQM2 should align with the IESBA project on “role and mindset” and require the EQR to apply an appropriate “role and mindset” (however that ends up being defined) in fulfilling their own responsibilities, rather than skepticism per se, which is typically applied when obtaining and assessing audit evidence.

30_ISQM 2_ETY
We believe the exercise of professional skepticism by the engagement quality reviewer should be address in the IESBA code for the unicity and consistency of this pronouncement and preventing dispersing requirements on the same matter in several standards.
ED-ISQM 2 – Question 6(b): Exercise of professional skepticism by the EQ reviewer – Disagree

3 Regulators and Oversight Authorities

84_ISQM 2_NASBA

We believe that the ED-ISQM 2 has appropriately addressed the exercise of professional skepticism by the engagement quality reviewer and has appropriately linked to ISA 220.

4 National Auditing Standard Setters

10_ISQM 2_AICPA

We do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. Doing so would necessitate defining what “being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence” means in the context of an engagement quality review.

11_ISQM 2_AUASB

The AUASB does not believe that ED-ISQM 2 should further address the exercise of professional scepticism by the EQR. The role of the EQR is limited to evaluating the significant judgments made by the engagement team, and whether an appropriate level of professional scepticism has been exercised and evidenced in designing and executing procedures and concluding on those areas by the engagement team and is appropriately reflected in the documentation.

The AUASB is not supportive of the use of the term ‘professional scepticism’ in place of what we regard as really being ‘professional judgement’ by the EQR. Specifically we consider the IAASB needs to review the current requirements in ED-ISQM 2 that require the EQR to evaluate and document the exercise of professional scepticism in relation to significant judgements made by the engagement team.

14_ISQM 2_CNCC-CSOEC

Moreover, we think that this is sufficient and that there is no need to further address the exercise of professional skepticism by the engagement quality reviewer.

16_ISQM 2_HKICPA

We are of the view that the engagement quality reviewer is not a member of the engagement team and is not required to obtain evidence to support the opinion or conclusion on the engagement (i.e. no need to exercise of professional skepticism).

17_ISQM 2_IDW

The term significant judgement should be defined

The term “significant judgments” is used in the definition of an EQR in paragraph 11 (a) and is therefore central to the scope of an EQR. A term that has such a great impact on the scope of the EQR needs to be clearly defined and – in particular – clearly distinguished from other concepts, such as professional judgments generally (as defined in ISA 200) and significant professional judgments (as used in ISA 230). The cross-reference to ISA 220 is not particularly helpful because ISA 220 does not define “significant judgments” either.
For these reasons, we believe that the term “significant judgements” should be clearly defined in ISQM 1 and ISQM 2.

Before answering the question posed, we note that the term “significant judgments” is used in the definition of an EQR in paragraph 11 (a) and is therefore central to the scope of an EQR. A term that has such a great impact on the scope of the EQR needs to be clearly defined – and in particular – clearly distinguished from other concepts, such as professional judgments generally (as defined in ISA 200) and significant professional judgments (as used in ISA 230). The cross-reference to ISA 220 is not particularly helpful because ISA 220 does not define “significant judgments” either. For these reasons, we believe that the term “significant judgements” should be clearly defined in ISQM 1 and ISQM 2.

Since an engagement quality control reviewer is not a part of the engagement team in an assurance engagement, the engagement quality reviewer DOES NOT gather evidence to support the opinion expressed in the assurance report. Consequently, in line with the current IESBA Project on Role and Mindset Expected of Professional Accountants, exercising professional skepticism cannot be required of an engagement quality reviewer. However, the engagement quality reviewer would be expected to apply the fundamental principles of the IESBA Code of Ethics, which would include the requirements in relation to the project noted.

18_ISQM 2_JICPA

We do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. We believe that ED-ISQM 2 sufficiently addresses the exercise of professional skepticism by the engagement quality reviewer by enhancing the requirements for the eligibility of engagement quality reviewers and the performance of the engagement quality review.

21_ISQM 2_NZAASB

The NZAuASB does not believe that the ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer. As noted in paragraph 6 of the exposure draft, an engagement quality review is an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached thereon.

5 Accounting Firms

28_ISQM 2_DTTL

We believe that ED-ISQM 2 appropriately addresses professional skepticism and do not believe that additional guidance is necessary in this area.

31_ISQM 2_EYG

Because the current definition of professional skepticism involves a critical assessment of evidence, we do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. Assessing evidence is not the role of the engagement quality reviewer; it is to evaluate the significant judgments made by the engagement team. In context of the current definitions of the professional judgment and professional skepticism, we believe that the current role of the engagement quality reviewer is to exercise professional judgment as opposed to professional skepticism in performing their review. However, if it is determined that ED-ISQM 2 should address the exercise of professional skepticism by the engagement quality reviewer, then we believe that a separate definition for professional
skepticism that is specifically relevant to the engagement quality reviewer needs to be created along with supporting guidance on how the engagement quality reviewer would appropriately exercise professional skepticism in carrying out their role.

33 ISQM 2_HM
ED-ISQM2 appears to adequately address the exercise of professional scepticism by the engagement quality reviewer.

35 ISQM 2_KI
The EQR is not a member of the engagement team and ISQM 2 does not need to further address the exercise of professional skepticism by the EQR.

39 ISQM 2_MSI
Regarding the exercise of professional scepticism by EQRs, we believe that other than emphasising that EQRs like auditors should be sceptical, there is nothing more really to say in the standard. EQRs should not be any more sceptical than any other auditor... it’s not actually possible. One either is sceptical or one is not. One cannot be slightly sceptical.

The key focus here is the scepticism deployed and documented by the engagement team.

41 ISQM 2_NSW
We believe that the attributes of professional scepticism already outlined in ISA 200 are equally applicable to the engagement quality reviewer and there would be no merit in repeating them in ED-ISQM 2. A cross-reference to this material would suffice.

42 ISQM 2_PKFI
We believe that ED-ISQM 2 appropriately addresses the exercise of professional skepticism by the engagement quality reviewer.

43 ISQM2_PKFSA
We believe that ED-ISQM 2 appropriately addresses the exercise of professional skepticism by the engagement quality reviewer.

7 Member Bodies and Other Professional Organizations

56 ISQM 2_AE
We think that this is sufficient and that there is no need to further address the exercise of professional scepticism by the engagement quality reviewer. The extent to which the behavioural aspects and the state of mind can be influenced within the standards is limited.

62 ISQM 2_CAQ
Overall, we support the enhanced discussion around professional skepticism as this further reinforces the requirement that the EQR must maintain objectivity in his or her role; however, we recommend the following:
• The emphasis with respect to professional skepticism should be refined to highlight that the EQR’s responsibility is to consider whether the engagement team appropriately exercised professional skepticism. While all auditors, including the EQR, are required to be professionally skeptical, the EQR uses professional judgment when making his or her assessment of the significant judgments made by the engagement team and the engagement team’s related conclusions reached in forming the overall conclusion on the engagement as a whole.

• While acknowledging in certain, although likely rare, cases that the objectivity of the EQR may be affected by extensive interaction with the engagement team, we recommend including application guidance that emphasizes the benefits of such interaction such as not to discourage collaborative discussions between the EQR and the engagement team that would support audit quality.

63_ ISQM 2_CAANZ-ACCA
We do not believe that the standard needs to be more specific on the exercise of professional scepticism by the EQR. As we have stated in previous submissions, we believe that professional scepticism is a ‘state of mind’ that cannot be instilled by it being mentioned more often in standards.

66_ ISQM 2_CPAA
We do not believe that it is necessary to set specific requirements for the engagement quality reviewer to exercise professional skepticism.

69_ ISQM 2_FACPCE
Regarding the suggestions for the reviewer to assess the skepticism of the partner in charge, we consider:

• The reviewer is not expected to execute the procedures exemplified in paragraph A.20 of ISA 200 with the same scope as the partner in charge should do.

These procedures should be combined with inquiries of the reviewer to the engagement team, in order to achieve greater efficiency and effectiveness in his/her review.

72_ ISQM 2_ICPAS
We believe that no additional assessment of professional skepticism by the EQR is warranted. The EQR’s review of the skepticism exercised by the audit team, in and of itself, will prompt any needed exercise of skepticism in the review.

74_ ISQM 2_ICAEW
We do not consider that there is a need for ISQM 2 to further address professional scepticism by the engagement quality reviewer, other than to emphasise the need to maintain a sceptical mindset throughout the review, and to focus on those areas where scepticism should have been applied.

75_ ISQM 2_ICAP
However, we believe that the engagement quality reviewer is not required to use professional skepticism, and this position requires clarification in the proposed standard.
76 ISQM 2 ICAS
We do not consider that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer and that the current requirements are sufficient in this regard.

77 ISQM 2 ICPAU
ICPAU doesn't believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer.

78 ISQM 2 IBRACON
Thus, it is not necessary to include any further requirement in ED-ISQM 2.

86 ISQM 2 NRF
Regarding the engagement quality reviewer’s own exercise of professional skepticism, this is rather implied than obvious in the drafting. However, we do not believe that this matter needs to be further expanded in this standard.

89 ISQM 2 WPK
The exercise of professional skepticism by the engagement quality reviewer is sufficiently addressed.
ED-ISQM 2 – Question 6(b): Exercise of professional skepticism by the EQ reviewer – Unclear or no specific response or refer to other respondent's views

1 Monitoring Group

01_ISQM 2_BCBS
Basel Committee on Banking Supervision

02_ISQM 2_IAIS
International Association of Insurance Supervisors (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)

3 Regulators and Oversight Authorities

06_ISQM 2_CPAB
Canadian Public Accountability Board (CPAB)

09_ISQM 2_IAASA
IAASA

92_ISQM 2_CEAOB
CEAOB

4 National Auditing Standard Setters

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

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

19_ISQM 2_KSW
KSW

22_ISQM 2_NBA
NBA
5 Accounting Firms

24.ISQM 2_BTVK
Baker Tilly Virchow Krause, LLP

26.ISQM 2_CASI
CASI

36.ISQM 2_MZRS
MAZARS

40.ISQM 2_NI
NI

44.ISQM 2_PwC
PwC

45.ISQM 2_RSMI
RSM International Limited

6 Public Sector Organizations

48.ISQM 2_INTOSAI
INTOSAI

50.ISQM 2_OAGNZ
OAGNZ

51.ISQM 2_OAGA
See response to question three above.

52.ISQM 2_OAGC
Office of the Auditor General of Canada

53.ISQM 2_PAS
We do not have any suggestions on how to further address the exercise of professional skepticism by the engagement quality reviewer.

54.ISQM 2_SNAO
Swedish National Audit Office

55.ISQM 2_GAO
GAO’s
7 Member Bodies and Other Professional Organizations

58_ISQM 2_IBR-IRE
As answered in question 1 (b) on ISQM 1, professional skepticism should be further defined.

59_ISQM 2_BICA
BICA

60_ISQM 2_CAI
Chartered Accountants Ireland

67_ISQM 2_EXPERT
EXPERTsuisse

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.

71_ISQM 2_SMPC
SMP Committee (SMPC)

73_ISQM 2_IEC-IAB
This should indeed include professional skepticism.

79_ISQM 2_ISCA
The Institute of Singapore Chartered Accountants (ISCA)

80_ISQM 2_ICJCE
No comments.

81_ISQM 2_IMCP
“Instituto Mexicano de Contadores Públicos”, A.C. (IMCP)

82_ISQM 2_KICPA
KICPA
83 ISQM 2_MICPA
THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

85 ISQM 2 NYSSCPA
The New York State Society of Certified Public Accountants (NYSSCPA)

87 ISQM 2_SRO-AAS
Self-regulatory organization of auditors Association

88 ISQM 2_SAICA
The South African Institute of Chartered Accountants (SAICA)

8 Individuals and Others

90 ISQM 2_TAS-CAA
Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS)

91 ISQM 2_VM
Vera F.Massarygina