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

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

ED-ISQM 2 – Question 8: Scalability of requirements for EQ reviews in ED-ISQM 2 – Agree

3 Regulators and Oversight Authorities

07_ISQM 2_FRC

Yes.

08_ISQM 2_IRBA

We are confident that the requirements are sufficiently scalable.

4 National Auditing Standard Setters

11_ISQM 2_AUASB

The AUASB agrees that the requirements in ED-ISQM 2 are scalable for firms of varying sizes and complexity.

12_ISQM 2_CAASB

We believe that ED-ISQM 2 can be scaled to engagements of different sizes and complexity. It is clear that the EQR is not meant to be a detailed review of the engagement, but rather is a review of significant judgments. We believe that for less complex engagements, there will likely be fewer significant matters or significant judgments made by the engagement team that the EQR would need to review compared to a large or complex engagement.

15_ISQM 2_CFC

Yes, the requirements are scalable.

20_ISQM 2_MAASB

Yes, the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity.

22_ISQM 2_NBA

Engagement quality reviews are required for audits of listed entities and for other engagements for which the firm has decides that such an review is necessary. This is a first step in making engagement quality reviews scalable and proportionate.

The fact that the engagement quality reviewer may be an external individual, which is supported by us, helps to apply the standard by smaller firms that might not have the capabilities, for instance due to resource constraints to perform a review themselves.
Furthermore, the requirements in paragraphs 21-23 are focused on understanding in which areas there are significant judgements and whether these judgements are made with sufficient care. This drives the performance of such reviews and makes them scalable for less as well as more complex engagements. 

In this respect we refer to paragraphs A25-A28 (especially A27) that describe that procedures are dependent upon the circumstances.

5 Accounting Firms

23_ISQM 2_BTI

We believe that the requirements are sufficiently scalable in this instance.

26_ISQM 2_CASI

Yes, the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity.

28_ISQM 2_DTTL

DTTL believes that the requirements for engagement quality reviews are scalable for firms of varying size and complexity as well as for engagements where nature and circumstances differ.

29_ISQM 2_DTL

Yes, we believe that they are. Smaller, less complex firms will have fewer clients that require an EQR (per ISQM1) and the standard not being prescriptive in many areas means that entities can appropriately tailor the requirements to their size and complexity.

30_ISQM 2_ETY

Yes, they are.

33_ISQM 2_HM

The requirements appear to be appropriately scalable for a firm of our size and complexity.

34_ISQM 2_KPMG

We believe that these requirements are sufficiently scalable, in terms of when they are applicable, the clarifications regarding what an EQ review involves and does not involve, as well as the fact that several requirements may not be relevant to particular firm/engagement circumstances. We believe the requirements provide the ability for smaller firms to appoint eligible EQ Reviewers, for example, such reviewers may be external to the firm, and we believe the application material is helpful in providing additional context regarding these considerations.

42_ISQM 2_PKFI

The requirements for the engagement quality reviews in ED-ISQM 2 are suitably scalable for firms of varying size and complexity.
The requirements for the engagement quality reviews in ED-ISQM 2 are suitably scalable for firms of varying size and complexity.

Yes, we believe that the requirements are scalable.

Yes, the requirements for the engagement quality are scalable to all firms of varying sizes and complexity. The Appendix to the ED-ISQM 2 does state that an engagement quality review is not required for all firm’s engagements, but only for specified engagements in accordance with ED-ISQM 1.

Yes, ACAG believes the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity. There is flexibility in the timing and extent of procedures as well as the ability to use external services or internal/external assistants with relevant expertise.

Yes.

The requirements for EQR in ED-ISQM 2 are scalable for our firm of 150 people.

Yes the requirements are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.

We support the IAASB’s efforts to address the scalability of engagement quality review standards. The nature, extent, and formality of an audit organization’s quality management system will vary based on the organization’s circumstances, such as its size, number of offices, and geographic dispersion; knowledge and experience of its personnel; nature and complexity of its engagement work; and cost-benefit considerations. We believe that the proposed scalability measures in the appendix provide practical options for audit organizations of various sizes.

APESB is of the view that ED-ISQM 2 is scalable for firms of varying size and complexity.
59_ISQM 2_BICA

Given that criteria for performance of Engagement Quality Review has been made clear in ED-ISQM 1 firms of different sizes and complexity should be able to apply the standard. Furthermore, ED-ISQM 2 provides guidance for appointment of Engagement Quality Control outside the firm for smaller firms or sole practices.

60_ISQM 2_CAI

We consider the requirements laid out in the ED ISQM2 are scalable.

62_ISQM 2_CAQ

We support the requirements and guidance establishing a scalable system to implement the policies and procedures used to determine eligibility requirements and selection of the EQR reviewers assigned to an engagement.

77_ISQM 2_ICPAU

ICPAU agrees that the requirements for engagement quality reviews in ED- ISQM 2 are scalable for firms of varying size and complexity through different aspects. These reviews will only be required for specified engagements in accordance with ED- ISQM 1. The relevance of some of the requirements also varies depending on the nature and circumstances of the engagement.

78_ISQM 2_IBRACON

Yes.

83_ISQM 2_MICPA

Yes, ED-ISQM 2 addresses the scalability issue.

88_ISQM 2_SAICA

We are satisfied that the requirements of ED-ISQM 2 are scalable for firms of varying sizes and complexities.

8 Individuals and Others

90_ISQM 2_TAS-CAA

Yes

The engagement quality reviewers in ED-ISQM 2 are scalable for varying firms. The fact that the standard is more focused on the principle, which is engagement quality and not serving as an executive summary allows for firms to determine the best way to address the principle. Also, allowing SMPs to outsource will help them to ensure quality. The scalability also comes through in that the requirements for eligibility and documentation also apply to the external reviewer. As the ED-ISQM 2 allows the EOR to be considered based on the specific circumstances of the engagement this further buttresses the scalability of the standard.
ED-ISQM 2 – Question 8: Scalability of requirements for EQ reviews in ED-ISQM 2 – Agree but with further comments

3 Regulators and Oversight Authorities

84_ISQM 2_NASBA

We believe that the requirements for engagement quality review in ED-ISQM 2 will be challenging for smaller firms in having adequate qualified reviewers. Improvements for scalability for engagement quality reviews in ED-ISQM 2 will depend on the specificity of the engagements that require an engagement quality review prescribed in ED-ISQM 1 as well as the implementation guidance provided, especially for the smaller firm and sole proprietor.

4 National Auditing Standard Setters

10_ISQM 2_AICPA

We believe that, generally, the requirements are scalable. We believe, as expressed in our response to question #4 above, that the limitations on the eligibility of an individual to be appointed as an engagement quality reviewer for an engagement on which the individual previously served as engagement partner, as required by paragraph 16 of ED-ISQM 2, are not scalable to SMPs. As noted above, we believe that focusing the requirement on the objectivity of the engagement quality reviewer and not requiring a “cooling-off” period would be both principles-based and scalable.

13_ISQM 2_CICPA

The scalability has been improved, meanwhile the ability to understand and implement the standards also need to be enhanced (e.g., greater exercise of professional judgment), which brings great challenges, especially to SMPs. While the standards provide flexibility in terms of size, complexity and circumstances, SMPs may not be able to accurately understand and apply these requirements in practice. Thus they may be hesitant or may not know how to apply scalability as allowed in the standards. We fully understand and support the principles-based approach. However, we still recommend that IAASB continue to improve the ability of the standards to be implemented in practice, such as developing more guidelines and implementation aids.

In order to improve the scalability, the length of the standard has been substantially increased, which further increases difficulties in reading. It may be harder for SMPs to accurately identify the provisions specifically designed for them in terms of scalability. Besides, business in SMPs is much more diverse compared to that in large firms. It may not be enough to address SMPs’ demand only by simplifying and lowering the requirements which are more applicable to large firms in extant standards. Therefore, we believe that one set of standards may be difficult to achieve real scalability for SMPs.

14_ISQM 2_CNCC-CSOEC

Scalability is less of an issue as ED-ISQM2 is intended to be applied in listed entities or entities that are of significant public interest (cf. paragraph 37e ISQM1).

However, we have the following comments that should improve scalability. It would be relevant to create appendix to the proposed standard to include the tables of pages 14 and 15 of the exposure draft that deal with scalability for firms of different sizes and for engagements where nature and circumstances differ.
16 ISQM 2_HKICPA

We appreciate the efforts made by the IAASB in addressing the scalability for firms of varying size and complexity. In particular, we find the Appendix helpful as it highlights how the proposed ISQM 2 is scalable to the nature and circumstances of engagements that the firm performs.

However, we would like to share a feedback from our SMPs that it is difficult for sole proprietors and even medium sized firms to locate external quality reviewers as there are limited professionals offering quality review services in Hong Kong. In addition, they consider that it is difficult for the firms to ensure the quality of external individuals.

18 ISQM 2_JICPA

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable. However, for a cooling-off period, see our comment on question 4.

19 ISQM 2_KSW

Smaller firms may find it challenging in complying with the requirements addressing criteria for the eligibility of engagement quality reviewer when there is a small population of individuals who could fulfil that role.

Scalability is only given for the extent of the engagement quality reviewer’s work effort as this depends on the facts and circumstances of the engagement subject to a quality review.

21 ISQM 2_NZAASB

While the requirements for engagement quality reviews in ED-ISQM 2 appear scalable for firms of varying size and complexity the focus of the standard appears to be engagement quality reviews for audits of historical financial information. There is little guidance in the standard around the use of engagement quality reviews in other assurance engagements. With increasing focus on EER, more firms are likely to become involved in assurance engagements other than audits or reviews of historical financial information. Accordingly, the NZAuASB encourages the IAASB to consider whether such engagements may present specific challenges to the engagement quality reviewer that need to be addressed either in the standard or in implementation guidance dealing with other assurance engagements.

5 Accounting Firms

25 ISQM 2_BDO

Yes, we believe that the requirements, in combination with the related application guidance, provide sufficient scalability for firms of varying size and complexity. An area that could potentially be considered through provision of an FAQ may be when an engagement quality reviewer is reviewing an engagement partner who also happens to be senior member of a firm’s leadership team along with potential mechanisms for dealing with this situation.

If the intention of ED-ISQM 2 is to increase usage of engagement quality reviews, then this may lead to potential challenges about availability of engagement quality reviewers in certain firms as well as a question about whether this is an appropriate safeguard in the case of non-audit engagements. For those firms who use external engagement quality reviewers, the expanded requirements also have the potential to impact audit quality by placing an even greater responsibility on firms to apply quality control processes to those external engagement quality reviewers to ensure they are competent and sufficiently familiar with the firm’s policies and procedures.
We consider that the approach is scalable and that this has been addressed in the standard and application guidance. However, implementation support is essential to help achieve scalable solutions in practice.

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity as summarized in the Appendix to the explanatory memorandum. It may be helpful for the IAASB to consider providing examples to illustrate how scalability might be applied in different circumstances such as when applying the standard to a complex listed entity as opposed to a small listed entity.

In respect of the scalability of the proposed new standard, we have highlighted concerns in relation to the practical operation for smaller firms of the requirement for the person appointing the engagement quality reviewer to always be independent of the engagement team and in relation to the extent of the procedures listed as required to be performed by the engagement quality reviewer.

Overall, we are of the view that the requirements in ED-ISQM 2 are scalable for firms of varying sizes and complexity. We do, however, have concerns in a number of areas:

- Appointment of the EQ reviewer – paragraph 15 requires that the firm “establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfil the responsibility...” Paragraph A3 acknowledges that “in certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.” This creates the expectation that the default position will be that the individual appointing the EQ reviewer will be independent of the engagement team. We are of the view that this requirement may be too onerous for a number of firms to comply with. We are also concerned that absent further guidance in this area, firms may be open to criticism where an EQ reviewer is appointed by a member of the engagement team or another individual that is deemed not to be independent of the engagement team.

- Procedures required to be performed by the EQ reviewer – paragraph 22 of ED-ISQM 2 creates a list of procedures to be performed by the EQ reviewer. By including a list of specific procedures, this is a move away from a principles-based requirement and creates the danger of this becoming a “checklist” for firms to provide to the EQ reviewer when performing an EQ review. We are of the view that checklists are inherently not scalable and would therefore recommend reconsideration of the drafting of paragraph 22 to a more principles-based requirement.

- The establishment of a cooling off period – for smaller firms, this may result in firms needing to obtain the services of external individuals to perform the EQ review. This may result in such a burden on the firm that it is either no longer able to perform audits of entities that require an EQ review, or where the firm has the option to designate engagements, elects to not designate an engagement as requiring the EQ review. This has the potential to adversely impact quality.
35_ISQM 2_KI
The requirements are scalable with the key element the identification of assignments that should be covered by an EQR. In some cases for SMPs, appropriate consultation will be the appropriate route rather than a too wide requirement for an EQR.

36_ISQM 2_MZRS
Yes, we cannot identify any improvements that could enhance the scalability of the requirements for smaller firms without compromising quality, although we appreciate it may be harder for smaller firms to apply all the requirements of ED-ISQM 2.

37_ISQM 2_MZRSUS
Overall, the requirements of ED-ISQM 2 are scalable for firms of varying sizes and complexities as long as the firm may utilize non-partners within the firm and external individuals, as noted in paragraph 11(b), or have others assist in completing the EQR responsibilities.

38_ISQM 2_MNP
The requirements for engagement quality reviews in ED-ISQM 2 are generally scalable for firms of varying size and complexity. It may be more onerous for small- and medium-sized practices (“SMP’s”) to establish policies or procedures to address differences of opinion that arise between the engagement team and the engagement quality reviewer, as required by paragraph 22(e) and A32 of the application guidance in ED-ISQM 2. To comply with the “cooling off”, and other eligibility, requirements in ED-ISQM 2, SMP’s may have to obtain the services of external individuals to perform the engagement quality review as well as consult on differences in opinions that arise. In such circumstances, SMP’s may find it difficult to find suitable individuals and they may have to incur additional costs, making the requirements more onerous.

39_ISQM 2_MSI
We believe that the requirements are scalable in theory however we also believe that in practice they may prove to be challenging for some LCE engagements. On balance this is an issue better considered in the context of IAASBs ongoing LCE project.

40_ISQM 2_NI
YES but it will be challenging for SMEs if they need to resort to external resources.

41_ISQM 2_NSW
Yes, we believe that the requirements are scalable.

However, we note that the appendix to the explanatory memorandum summarises how the proposed standards address scalability. We do not understand how “Consideration of the reasons for the assessments given to the quality risks in determining competence and capabilities required for an engagement” and “Impact of firm culture on authority of the engagement quality reviewer” contribute to scalability per se.
Proposed ISQM 2: NVivo MS Word Report – ED-ISQM 2_Question 8
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44_ISQM 2_PwC

In principle, the requirements should be sufficiently scalable as the extent of the engagement quality reviewer’s work effort should be commensurate with the nature and circumstances of the engagement subject to review.

Some smaller firms may find challenges in complying with the requirements addressing criteria for the eligibility of engagement quality reviewers when there is a particularly small population of individuals who could fulfil that role, in particular when taking into account the cooling-off provisions, as noted in our response to question 4. This may require more firms than at present to have to seek the services of external parties (other network firms or “service providers”).

6 Public Sector Organizations

48_ISQM 2_INTOSAI

The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include similar level of explanation in the application material.

Having said that, in practice, very small firms are unlikely to be auditing PLCs or similar SPI clients...

50_ISQM 2_OAGNZ

Generally, we do not envisage any issues in respect of the scalability of the requirements. However, we have noted locally that smaller firms have difficulty obtaining the services of external individuals to perform the engagement quality reviews because other firms consider the risks are too high.

7 Member Bodies and Other Professional Organizations

56_ISQM 2_AE

Scalability is less of an issue as ED-ISQM 2 is intended to be applied in listed entities or entities that are of significant public interest. Nevertheless, it will depend on the scope of application of engagement quality reviews. There are countries in our European region where very small public interest entities require an audit of financial statements and could therefore require applying ISQM 2. In these cases, scalability could be an issue. We note some aspect of this in our answers above.

Moreover, in some countries where availability of resources is limited, especially in specific sectors, it could be potentially complicated to find a reviewer, even externally.

58_ISQM 2_IBR-IRE

As mentioned in answer to question 4 (a), under certain circumstances, when specific competences are needed, finding a qualified reviewer (responding to the criteria) might be an issue for smaller firms.

61_ISQM 2_CaICPA

Yes.

If not, what else can be done to improve scalability?
For SMPs (and other firms) there will be significant work effort in implementing these changes and on an ongoing basis for Engagement Quality Reviewers (EQRs) to produce the documentation required by the standard. For the changes to deliver clear benefits, there needs to be implementation guidance addressing the documentation requirements and providing examples of how the EQR would document certain requirements (such as demonstrating their evaluation of the team’s exercise of professional scepticism).

While the concepts in the standard appear scalable, as stated above and in our submissions on proposed ISQM 1 and ISA 220, preparing documentation in relation to these standards will represent a significant work effort, particularly for SMPs. Implementation guidance and examples of documentation would assist SMPs to reduce this effort. We note that there is little guidance in the standard around the use of EQRs in other assurance engagements. With increasing focus on emerging forms of external reporting, more firms are likely to become involved in assurance engagements other than audits of financial statements. We encourage the IAASB to consider whether such engagements may present specific challenges for the EQR that need to be addressed either in the standard or in implementation guidance dealing with other assurance engagements.

They are scalable, more practical and simpler guide can clarify timely manner scalability.

They are scalable, plus a practical and simple guide would clarify in a punctual way the scalability.

As engagement quality reviews are only required for “entities that are of significant public interest” in the proposed ISQM 1, this standard will not apply to all small practices so scalability is less of a concern. Nevertheless, we consider it is sufficiently scalable for its purpose.

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity and welcome the fact that a separate standard is established for engagement quality reviews as this subject rather concerns audits of listed entities or entities that are of significant public interest. Nevertheless, separate sections in the standard which show facilitations for SMPs would be helpful in adoption of the standard in this area.

The SMPC would like to commend the Board for providing the Appendix under page 14 and 15. This table provides the reader an understanding of the scalability of the standard for firms of different sizes and for engagement where nature and circumstances differ. However, in our view, more can still be done in this context. For example, providing practical examples based on a SMP environment would be helpful for SMPs implementing the standard. The SMPC would be happy to work with the Board in this respect.

As indicated under Question (5) above, we are concerned that the work required of an engagement quality reviewer is not wholly tailored (hence, lack of scalability) to the quality risks applicable to the individual engagement circumstances. For example, a going concern risk demanding specific experience in this area
could focus more on work performed in this aspect of the engagement but may not need the EQR to look at all areas including all other judgements made during the engagement that may or may not be considered significant (e.g., a contentious matter would require more detailed consideration by the EQR than an uncontentious issue).

We note the relationship between ISQM 2 and ISA 220, but suspect that a robust definition of the term “significant judgment” will be needed to foster a common understanding between the engagement partner and the EQR and that this is where the IAASB could introduce the need to focus on really key judgments arising from those significant matters.

The cooling off period, appointment and eligibility of the EQR is still overly prescriptive with little recognition of how smaller firms will manage the EQR process. The IAASB could reflect on what additional support and guidance could be developed to assist SMPs.

72_ISQM 2_ICPAS

Although the proposed standard indicates scalability to firms of different sizes, the proposed requirements could be burdensome and costly for smaller firms.

The up-front requirements to design a system of quality management, and the initial implementation and operation of the system, as well as the performance of the EQR itself, could be costly for a small firm due to a lack of resources. Perhaps some sort of two-tier system could be a better solution for small firms, as some smaller firms would potentially have to hire an outside party for the design and implementation of an enhanced quality management system.

For smaller firms, these standards could produce a costly burden – not only in the initial implementation stages, but in subsequent years as well.

73_ISQM 2_IEC-IAB

The scope is limited. The firms exercising the engagements within the scope of ISQM 2 are, in many cases, larger firms. On the other hand, the draft doesn’t contain many references to sole practitioners or SMPs. This could be expanded and assembled in a single section of the standard.

74_ISQM 2_ICAEW

When major changes are proposed to a regulated activity, firms performing only a few such engagements are likely to be most affected. Firms performing just a few PIE audits may consider that the regulatory cost of such work simply is not worth it. However, it is often the regulatory approach to the changes that tips the scales, rather than the changes themselves and IAASB needs to consider the damage that is done to its reputation by the over-zealous interpretation of changes by audit regulators particularly SMPs. A dialogue is needed on this subject, and IAASB needs to take part.

We note in our answer to question 5, above, the need to refer to the risks associated with performing the review very late.

The reference to ‘frequent communication between the engagement team and engagement quality reviewer’ in para A24 is not appropriate in some LCE audits and the removal of the word ‘frequent’ would make little difference in other cases. The use of the word ‘appropriate’ later in the sentence is the critical one.

The appendix to the explanatory memorandum purports to summarise how the proposed standard addresses scalability. Some of the matters included are stretched, at best. ‘Consideration of the reasons for
the assessments given to the quality risks in determining competence and capabilities required for an engagement’ and ‘Impact of firm culture on authority of the engagement quality reviewer’ may very indirectly contribute to scalability, but so do virtually all of the other requirements.

75_ISQM 2_ICAP

For SMPs, it will be challenging to implement all aspects of engagement quality due to resources constraints. However, the scalability provided in the proposed ISQM 2 would be helpful to SMPs.

76_ISQM 2_ICAS

Although we acknowledge that ED-ISQM 2 is primarily targeted towards the audits of larger entities, we are concerned about its scalability as there may be instances where very small public interest entities, or small listed entities would fall within its scope. In these cases, scalability could be an issue, as well as the availability of, and access to, a suitably skilled and experienced reviewer.

Scalability is less of an issue for ED-ISQM 2 as it is intended to be applied in engagements involving listed entities or entities that are of significant public interest. Nevertheless, there may be instances where very small public interest entities, or listed entities would fall within the scope of ED-ISQM 2. In these cases, scalability could be an issue. A further consideration for small and medium-sized firms is the availability of, and access to, a suitably skilled and experienced reviewer, especially in some specialised sectors. Therefore, in relation to audit engagements, the need for this to be considered at an early stage of the tender process could be strengthened.

79_ISQM 2_ISCA

We also note that smaller set-ups, especially sole proprietors, may have difficulties meeting the rotation requirements. While the standard does not mandate that the EQR has to come from the same firm, it may be difficult for sole proprietors to find eligible alternatives. Locally, we observe smaller firms forming alliances for the purposes of peer review, but such collaborations are not common. However, we note that the engagements that are undertaken by smaller firms might not require an EQR, and such requirements should be considered by the firm during engagement acceptance.

86_ISQM 2_NRF

With regard to the expanded scope of situations where an engagement quality reviewer is or may be required, combined with stricter rules on cooling-off periods that should be general applicable, we believe that the biggest challenge for SMPs will be to find a reviewer.

The cooling off period, appointment and eligibility of the engagement quality reviewer is overly prescriptive with little recognition of how smaller firms will manage this process.

Also, an important element with having an engagement quality reviewer is that this individual, as stated in para. 23, shall notify an appropriate individual in the firm when the engagement quality review cannot be completed due to the concerns of the engagement quality reviewer that the significant judgments made by the engagement team, or the conclusions thereon, are not appropriate. This requirement, and the objective it is aiming to achieve, will most likely have the intended affect in big firms, but it is not applicable in situations involving a sole practitioner and might be a challenge even within small firms.
87_ISQM 2_SRO-AAS
Not entirely
Para.8, 12-14 are excessive and should be excluded.

89_ISQM 2_WPK
We appreciate the Appendix on page 14 and 15 illustrating the scalability for firms of different sizes and for engagements where nature and circumstances differ. Scalability is in our view less relevant for an EQR which basically applies for audits of listed entities or entities that are of significant public interest. Nevertheless even ISQM 2 needs to be scalable because some very small public interest entities in Germany / Europe require an audit of their financial statements and therefore require applying ISQM 2.

We are concerned that ED-ISQM 2 is not adequately scalable. Especially for very small public interest entities or non-listed entities with specific risks a scalable approach would be necessary.

8 Individuals and Others

91_ISQM 2_VM
Yes
Para.8, 12-14 are excessive and should be excluded.
ED-ISQM 2 – Question 8: Scalability of requirements for EQ reviews in ED-ISQM 2 – Disagree

4 National Auditing Standard Setters

17 ISQM 2_IDW

As noted in our response to the comment letter, we are not convinced that the proposed work effort for EQRs is proportionate because it does not focus on the more important quality risks. We believe 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 such 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.

6 Public Sector Organizations

53 ISQM 2_PAS

No, we did not see scalability within ISQM 2. Once a firm decides to undertake an engagement quality review, the requirements of ISQM 2 appear to apply to all such engagements.

7 Member Bodies and Other Professional Organizations

69 ISQM 2_FACPCE

The established requirements are not fully adaptable to the entities of variable size and complexity, especially when it comes to small firms of professionals who carry out audit engagements of financial statements of small and medium-sized entities, because the requirements are designed under the premise of large entities and listed companies.

Assuming that an external quality reviewer to the audit firm (because the firm does not have the right people) can intervene concomitantly or shortly after the important judgments are made by the engagement partner and their team, is not know in detail the way in which audit tasks are carried out in small firms.

The external professional can hardly commit to analyze and evaluate the significant issues and judgments in each opportunity in which they take place, since, in general, that professional will have his/her own signature and will therefore have his/her own commitments.

On the other hand, if the small firm that audits the financial statements of a small or medium-sized entity must resort to an external reviewer who must leave his/her own jobs to occupy the position of reviewer in another firm, it will surely have an excessive or very high cost, in relation to the cost of the audit performed.

To improve scalability, you should think about the small firm and small and medium-sized customers and design a specific standard accordingly. The same applies to most international auditing standards that are designed based on audits of large companies and then it is intended that with two or three specific paragraphs, everything drafted adapts to less complex or small and medium-sized entities.
ED-ISQM 2 – Question 8: Scalability of requirements for EQ reviews in ED-ISQM 2 – Unclear or no specific response or refer to other respondent’s views

1 Monitoring Group

01_ISQM 2_BCBS
Basel Committee on Banking Supervision

02_ISQM 2_IAIS
IAIS

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

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

2 Investors and Analysts

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

3 Regulators and Oversight Authorities

06_ISQM 2_CPAB
Canadian Public Accountability Board (CPAB)

09_ISQM 2_IAASA
IAASA

92_ISQM 2_CEAOB
CEAOB

5 Accounting Firms

24_ISQM 2_BTVK
Baker Tilly Virchow Krause, LLP

6 Public Sector Organizations

54_ISQM 2_SNAO
No comment.
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.

80.ISQM 2_ICJCE
No comments.

81.ISQM 2_IMCP
For those question in which we agree and support the approach, we did not include them in the appendixes mentioned before.

82.ISQM 2_KICPA
KICPA

85.ISQM 2_NYSSCPA
See our response to question 5), above.