



Proposed ISQM 2, *Engagement Quality Reviews*

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IAASB Meeting

March 19, 2020

Agenda Item 5

IAASB

International Auditing
and Assurance
Standards Board

Introduction

- Objectives of this session are to obtain the Board's views on:
 - (a) The recommendation relating to the scope of engagements subject to an engagement quality (EQ) review in proposed ISQM 1
 - (b) The revised draft of proposed ISQM 2

IAASB CAG Feedback

- Fully supportive of proposed revisions on the scope of the engagements subject to an EQ review (i.e., revised 3rd bucket is a good ‘catch-all’ category and provides a balanced approach)
- Generally supportive of proposed revisions on objectivity and the mandatory cooling-off period
 - Raised concerns about the impact or constraint on existing internal engagement partner rotation and external firm rotation requirements; Suggested carving out mandatory cooling-off period for SMPs, or exploring a similar exemption provided for smaller firms in the PCAOB standard for EQ reviews

IFAC SMPC Feedback

- Generally supportive of proposed revisions on the scope of the engagements subject to an EQ review
- Generally supportive of proposed revisions on objectivity and mandatory cooling-off period
 - Expressed concern for engagements that may not have continuing issues
 - Enquired about basis for the location (i.e., proposed ISQM 2 versus the IESBA Code)

Key Offline Board Comments to Date

- Scope of the engagements subject to an EQ review:
 - Suggestions to delete linkages to “engagement performance quality objectives” within the category of engagements subject to an EQ review as a response to assessed quality risks
- Objectivity and mandatory cooling-off period:
 - Concerns over potential constraints for SMPs
 - Flexibility in determining appropriate length of cooling-off period
 - Preference for requirement or guidance to be addressed in the IESBA Code

Scope of Engagements Subject to EQ Review

December 2019 Version:

41A. In designing and implementing responses, the firm shall, at a minimum, include the following specific responses:

...

- (c) The firm establishes policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for:
 - (i) Audits of financial statements of listed entities;
 - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A103)
 - (iii) Audits or other engagements for which the firm determines that an engagement quality review is appropriate:
 - (a) As a response to assessed quality risks, based on the reasons for the assessments given to those risks, or (Ref: Para. A104-A105x)
 - (b) Due to the nature and circumstances of the engagement or the entity. (Ref: Para. A105A-A106)

Scope of Engagements Subject to an EQ Review (Cont.)

Task Force's Proposed Revisions: *(see Section I of Agenda Item 5)*

- **Absorb separate category** for engagements subject to an EQ review 'due to the nature and circumstances of the engagement or the entity' (i.e., 4th category) into the broader category of engagements for which the firm determines an EQ review is 'an appropriate response to assessed quality risks' (i.e., 3rd category)
- **Align** the wording and structure of the related application material with proposed ISQM 1

Scope of Engagements Subject to an EQ Review (Cont.)

41A. In designing and implementing responses, the firm shall include the following responses in accordance with paragraph 22F: (Ref: Para. A153A)

...

- (e) The firm establishes policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for:
 - (i) Audits of financial statements of listed entities;
 - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A153H)
 - (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to assessed quality risks relating to the engagement performance quality objectives. (Ref: Para. A153I-A153K)

Scope of Engagements Subject to EQ Review (Cont.)

Matter for IAASB Consideration

1. Does the IAASB support the proposed changes to the requirements in paragraph 41A(e) of proposed ISQM 1 and related application material relating to the scope of engagements subject to an EQ review?

Discussion and Feedback on Proposed ISQM 2

Matters for IAASB Consideration

2. The IAASB is asked for its views on the changes to proposed ISQM 2 as presented in **Agenda Item 5-D**.

Requirement

Paragraphs 1-14

Paragraphs 15-20

Paragraphs 21-24

Paragraphs 25-27

Application Material

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Paragraphs A1-A21

Paragraphs A22-A35

Paragraphs A36-A39

Due Process Considerations and Way Forward

- Due process considerations
- After the March 2020 meeting, the Task Force will focus on:
 - Addressing comments received from the Board in March 2020, as well as feedback received from outreach activities with stakeholders noted in Appendix 1 to this paper and coordination activities with the ISQM 1, ISA 220 and ISA 600 Task Forces and IESBA Representatives
 - The conforming and consequential amendments to the ISAs arising from proposed ISQM 2
 - Developing an implementation plan
- Planned Board call on April 1 and Board approval in June 2020



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