

## Proposed ISQM 2, *Engagement Quality Reviews* – Draft (Marked from December 2019)

This paper is a complete draft of proposed ISQM 2, which is marked from the clean version presented at the December 2019 IAASB meeting (see [Agenda Item 8-E](#) for that meeting).

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Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, should be read in conjunction with Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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<b>Introduction</b>	
<b>Scope of this ISQM</b>	
1. This International Standard on Quality Management (ISQM) deals with: <ul style="list-style-type: none"> <li>• The appointment and eligibility of the engagement quality reviewer; and</li> <li>• The engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review.</li> </ul>	
2. This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ISQM 1. <sup>1</sup> This ISQM is premised on the basis that the firm is subject	

<sup>1</sup> Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph [3741A\(e\)](#)

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to proposed ISQM 1 or to national requirements that are at least as demanding.	
2A. An engagement quality review performed in accordance with this ISQM is <del>one a specified response, among others,</del> that is designed and implemented by the firm <del>to address assessed quality risks</del> in accordance with proposed ISQM 1. <sup>2</sup> <del>Although t</del> The performance of an engagement quality review is undertaken at the engagement level, <del>it is a response that is implemented</del> by the engagement quality reviewer on behalf of the firm.	
<i>Scalability</i>	<del>Scalability (Ref: Para. 2B)</del>
2B. The nature, timing and extent of the engagement quality reviewer's procedures required by this ISQM vary depending on the nature and circumstances of the engagement. For example, the engagement quality reviewer's procedures would normally be less extensive for engagements involving fewer significant judgments made by the engagement team. <del>(Ref: Para. A0)</del>	<del>A0. Examples of paragraphs that include guidance on how the requirements of this ISQM can be scaled include paragraphs A26–A228A.</del>
<b>The Firm's System of Quality Management and Role of Engagement Quality Reviews</b>	
3. Proposed ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to assessed quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance	

<sup>2</sup> [Proposed ISQM 1, paragraph 41A\(e\)](#)

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with this ISQM.	
<p>4. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:</p> <p>(a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and</p> <p>(b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>3</sup></p>	
<p>5. The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the nature and circumstances of the engagement, exercising professional skepticism.</p>	

<sup>3</sup> Proposed ISQM 1, paragraph 18

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<p>6. An engagement quality review is an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon. The engagement quality reviewer’s evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements. 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.</p>	
<p>7. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not change the responsibilities of the engagement partner <del>in accordance with proposed ISA 220 (Revised)<sup>4</sup> for managing and achieving quality on the engagement, or</del> for the direction and supervision of the members of the engagement team and the review of their work. 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 in responding to matters raised during the engagement quality review.</p>	
<b>Authority of this ISQM</b>	
<p>8. This ISQM contains the objective for the firm in following this ISQM, and requirements designed to enable the firm</p>	

<sup>4</sup>—~~Proposed International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements, paragraphs 27 and 37~~

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<p>and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ISQM, and definitions. Proposed ISQM 1<sup>5</sup> explains the terms objective, requirements, application material and other explanatory material, introductory material, and definitions.</p>	
<b>Effective Date</b>	
<p>9. This ISQM is effective for:</p> <p>(a) Audits and reviews of financial statements for periods beginning on or after [Date]; and</p> <p>(b) Other engagements beginning on or after [Date].</p>	
<b>Objective</b>	
<p>10. The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.</p>	
<b>Definitions</b>	
<p>11. In this ISQM, the following terms have the meanings attributed below:</p>	

<sup>5</sup> Proposed ISQM 1, paragraphs A6–A9

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<p>(a) 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.</p> <p>(b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.</p> <p>(c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking an engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ <i>International Code of Ethics for Professional Accountants (including International Independence Standards)</i> (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.</p>	
<b>Requirements</b>	
<b>Applying, and Complying with, Relevant Requirements</b>	
<p>12. The firm and the engagement quality reviewer shall have an understanding of this ISQM, including the application and other explanatory material, to</p>	

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understand the objective of this ISQM and to properly apply the requirements relevant to them.	
13. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ISQM, unless the requirement is not relevant in the circumstances of the engagement.	
14. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, shall take further actions to achieve the objective.	
<b>Appointment and Eligibility of Engagement Quality Reviewers</b>	
	<i>Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 15)</i>
15. The firm shall 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 fulfill the responsibility. Those policies or procedures shall require such individual(s) to appoint the engagement quality reviewer. (Ref: Para. A1–A3)	<p>A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:</p> <ul style="list-style-type: none"> <li>• The responsibilities of an engagement quality reviewer;</li> <li>• The criteria in paragraphs 16 and 16A regarding the eligibility of engagement quality reviewers; and</li> <li>• The nature and circumstances of the engagement or the entity subject to an engagement quality review, including the composition of the engagement team).</li> </ul>

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	<p>A2. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm’s policies or procedures may specify a different process for appointing engagement quality reviewers for audits of listed entities than for audits of non-listed entities or other engagements, <a href="#">with different individuals responsible for each process</a>.</p> <p>A3. In certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer, for example, in the case of a smaller firm or a sole practitioner.</p>
	<p><i>Eligibility of the Engagement Quality Reviewer</i> (Ref: Para. 16)</p>
<p>16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4)</p>	<p>A4. In some circumstances, for example, in the case of a smaller firm or a sole practitioner, there may not be a partner or other individual within the firm who is eligible to perform the engagement quality review. In these circumstances, the firm may 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 58–<del>63–62</del> of proposed ISQM 1, or the requirements for <a href="#">resources from service providers</a> in paragraphs <del>64–65</del><del>38</del> of proposed ISQM 1, respectively.</p> <p>A5. <b>[Moved to A17A]</b></p>



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<p>(a) <del>Have</del> <u>Has</u> the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)</p>	<p><i>Eligibility Criteria for the Engagement Quality Review</i></p> <p>Competence and Capabilities, Including Sufficient Time (Ref: Para. 16(a))</p> <p>A6. Competence<sup>6</sup> refers to the integration and application of technical competence, professional skills, and professional ethics, values and attitudes, and the appropriate experience relevant to the nature and circumstances of the engagement, including:</p> <ul style="list-style-type: none"> <li>• An understanding of professional standards and applicable legal and regulatory requirements and of the firm’s policies or procedures relevant to the engagement;</li> <li>• Knowledge of the entity’s industry;</li> <li>• An understanding of, and experience relevant to, engagements of a similar nature and complexity; and</li> <li>• An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.</li> </ul> <p>A7. An engagement quality review is a <u>specified</u> response to assessed quality risks relating to engagement performance. Accordingly, <u>the factors considered by the firm in determining that an engagement quality review is an appropriate response to assessed quality risks</u><sup>7</sup><del>an understanding of the reasons for the assessments given to the quality risks</del> may be an important consideration in the firm’s determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other <del>factors to consider</del><u>considerations that the firm may take into account</u> in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example:</p> <ul style="list-style-type: none"> <li>• The nature of the entity.</li> </ul>

<sup>6</sup> Proposed ISQM 1, paragraph A117

<sup>7</sup> Proposed ISQM 1, paragraphs 41A(e)(iii) and A153I

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	<ul style="list-style-type: none"> <li>• The specialization and complexity of the industry or regulatory environment in which the entity operates.</li> <li>• The extent to which the engagement relates to matters requiring specialized expertise (e.g., with respect to information technology or specialized areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A18.</li> </ul> <p>A8. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm’s monitoring activities (e.g., findings from the inspection of in-process or completed engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.</p> <p>A9. A lack of appropriate competence or capabilities affects the ability of the engagement quality reviewer to exercise appropriate professional judgment in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, where appropriate, challenge significant judgments made, and the exercise of professional skepticism, by the engagement team on a complex, industry-specific accounting or auditing matter.</p> <p>Appropriate Authority (Ref: Para. 16(a))</p> <p>A10. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer’s authority may be enhanced by the firm’s policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.</p> <p>A11. The authority of the engagement quality reviewer may be diminished when:</p>

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	<ul style="list-style-type: none"> <li>• The culture within the firm promotes respect for authority only of individuals at a higher level of hierarchy within the firm.</li> <li>• The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.</li> </ul> <p>Public Sector Considerations</p> <p>A12. In the public sector, an auditor (e.g., an Auditor General, or other suitably qualified individual appointed on behalf of the Auditor General) may act in a role equivalent to that of the engagement partner with overall responsibility for public sector audits. In such circumstances, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.</p>
<p>(b) Comply with relevant ethical requirements, including in relation to threats to objectivity <u>and independence</u> of the engagement quality reviewer; and (Ref: Para. A13–A16)</p>	<p>Relevant Ethical Requirements (Ref: Para. 16(b))</p> <p>A13. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of engagements subject to an engagement quality review. Various provisions of relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm.</p> <p>A14. <b>[Moved from A17C]</b> <u>Relevant ethical requirements may include specific independence requirements that would apply to individual professional accountants, such as an engagement quality reviewer.</u> Relevant ethical requirements may <u>also</u> include provisions that address threats <u>to independence</u> created by the long association of <u>individuals personnel</u> with an audit <u>or assurance</u> client. <u>In this regard, the application of any such provisions dealing with long association is distinct from, but may need to be taken into consideration in applying, the required cooling-off period in accordance with paragraph 16A of this ISQM.</u></p>

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	<p>Threats to the Objectivity of the Engagement Quality Reviewer</p> <p>A15. Threats to the engagement quality reviewer’s objectivity may be created by a broad range of facts and circumstances. For example:</p> <ul style="list-style-type: none"> <li>• A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular as the engagement partner or <del>other engagement team member</del><u>another key audit partner</u>.</li> <li>• A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.</li> <li>• An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).</li> </ul> <p>A16. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the IESBA Code <del>specifically addresses intimidation threats in certain circumstances</del><u>provides specific guidance, including examples of types of threats to objectivity in relation to circumstances in which a professional accountant is appointed as an engagement quality reviewer, factors that are relevant in evaluating the level of such threats, and safeguards or actions that might address such threats.</u></p>
<p>(c) Comply with provisions of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)</p>	<p>Law or Regulation Relevant to Eligibility of the Engagement Quality Reviewer (Ref: Para. 16(c))</p> <p>A17. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality</p>

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	<p>reviewer may need to possess certain qualifications or be licensed to be able to perform the engagement quality review.</p>
	<p><i>Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner</i> (Ref: Para. 16A)</p>
<p>16A. The firm’s policies or procedures established in accordance with paragraph 16(b) shall <u>also</u> address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17A–<del>A17C</del><u>A17B</u>)</p>	<p>A17A. [Moved from A5] In recurring engagements, the matters on which significant judgments are made often do not vary and therefore significant judgments made in prior periods <del>often may continue to</del> affect judgments of the engagement team in subsequent periods. The ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is therefore affected when the individual was previously involved with those judgments as the engagement partner. In <del>these such</del> circumstances, it is <del>particularly</del> important that appropriate safeguards are put in place to reduce threats to objectivity, in particular the self-review threat, to an acceptable level. Accordingly, this ISQM requires the firm to establish policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.</p> <p>A17B. The firm’s policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual’s role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an <del>audit engagement</del> partner <del>on a</del> <u>responsible for the performance of audit procedures on the financial information of a</u> component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner’s involvement in the significant judgments affecting the group audit engagement.</p> <p>A17C. [Moved back to A14] <del>Relevant ethical requirements may include provisions that address threats created by the long association of individuals with an audit client.</del></p>
<p>17. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the</p>	

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engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:	
(a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (Ref: Para. A18)	<p><i>Circumstances <del>when</del> When the Engagement Quality Reviewer is Assisted by Other Individuals</i> (Ref: Para. 17 <del>–</del> 18)</p> <p>A18. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise. For example, highly specialized knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgments made by the engagement team related to those transactions.</p>
(b) Comply with relevant ethical requirements, including in relation to threats to their objectivity and, if applicable, the provisions of law and regulation. (Ref: Para. A18A–A19)	<p>A18A. The guidance in paragraph A15 may be helpful to the firm when establishing policies or procedures that address threats to objectivity of individuals who assist the engagement quality reviewer.</p> <p>A19. When the engagement quality reviewer is assisted by an external individual, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.</p>
<p>18. The firm shall establish policies or procedures that:</p> <p>(a) <del>require</del> <u>Require</u> the engagement quality reviewer to take <u>overall</u> responsibility for the performance of the engagement quality review; <del>and including</del></p> <p>(b) <del>Address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision that of the work of individuals assisting in the review, and the review of their work is appropriate.</del> (Ref: Para.</p>	<p>A19A. The firm's policies or procedures <del>may address the nature, timing and extent of the direction and supervision of assistants and the review of their work by the engagement quality reviewer. Such policies or procedures</del> may include responsibilities of the engagement quality reviewer to:</p> <ul style="list-style-type: none"> <li>Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and</li> </ul>

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A19A)	<ul style="list-style-type: none"> <li>Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.</li> </ul>
<i>Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review</i>	<i>Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 19–20)</i>
<p>19. The firm shall establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: Para. A20)</p>	<p>A20. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:</p> <ul style="list-style-type: none"> <li>Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;</li> <li>Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or</li> <li>Notification from the engagement quality reviewer in accordance with paragraph 20.</li> </ul>
<p>20. When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer shall notify the appropriate individual(s) in the firm, and: (Ref: Para. A21)</p> <p>(a) If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review; or</p> <p>(b) If the engagement quality review has commenced, discontinue the performance of the engagement quality review.</p>	<p>A21. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified or may specify the period of time after notification within which the firm is required to appoint a replacement. The firm's policies or procedures may also <del>specify the nature, timing and extent of the procedures to be performed by</del> <u>address the responsibility of</u> the individual appointed to replace the engagement quality reviewer to <u>perform procedures sufficient to</u> fulfill the requirements of this ISQM with respect to the performance of the engagement quality review. <u>Such policies or procedures may further address the need for consultation in such circumstances.</u></p>

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<b>Performance of the Engagement Quality Review</b>	<b>Performance of the Engagement Quality Review (Ref: Para. 21–24)</b>
21. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:	
(a) The engagement quality reviewer's responsibilities to perform procedures in accordance with paragraphs 22–23 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon;	
(b) The responsibilities of the engagement partner in relation to the engagement quality review, including <del>that prohibiting</del> the engagement partner <u>is precluded</u> from dating the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 24 that the engagement quality review is complete; and (Ref: Para. A22–A23)	<p><i>Engagement Partner Responsibilities in Relation to the Engagement Quality Review</i> (Ref: Para. 21(b))</p> <p>A22. Proposed ISA 220 (Revised)<sup>8</sup> establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including:</p> <ul style="list-style-type: none"> <li>• Determining that an engagement quality reviewer has been appointed;</li> <li>• Cooperating with the engagement quality reviewer and informing <u>other</u> members of the engagement team of their responsibility to do so;</li> <li>• Discussing significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and</li> <li>• Not dating the auditor's report until the completion of the engagement quality review.</li> </ul>

<sup>8</sup> Proposed [International Standard on Auditing \(ISA\) 220 \(Revised\)](#), [Quality Management for an Audit of Financial Statements](#), paragraph ~~33~~36



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	A23. ISAE 3000 (Revised) <sup>9</sup> also establishes requirements for the engagement partner in relation to the engagement quality review.
(c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A24)	<p><i>Discussions Between the Engagement Quality Reviewer and the Engagement Team</i> (Ref: Para. 21(c))</p> <p>A24. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgment. 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. For example, in these circumstances the firm may require consultation about such significant judgments with other relevant personnel in accordance with the firm's consultation policies or procedures.</p>
	<i>Procedures Performed by the Engagement Quality Reviewer</i> (Ref: Para. 22–24)
22. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A25–A28A <del>x</del> )	<p>A25. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.</p> <p>A26. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, risk assessment, performance, completion, reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation</p>

<sup>9</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, paragraph 36

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	<p>to the overall strategy and plan for the engagement at the completion of the planning phase. <del>When the engagement is not complex, and is completed within a short period of time</del><del>In other circumstances</del>, it may be appropriate for the engagement quality reviewer to perform the procedures near the end of the engagement <del>(e.g., when the engagement is not complex and is completed within a short period of time)</del>. Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, as applicable, professional skepticism, by the engagement team in planning and performing the engagement.</p> <p>A27. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:</p> <ul style="list-style-type: none"> <li>• The reasons for the assessments given to quality risks, for example, engagements performed for entities in emerging industries or with complex transactions.</li> <li>• Findings arising from the firm's monitoring activities, and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.</li> <li>• The complexity of the engagement.</li> <li>• The nature and size of the entity, including whether the entity is a listed entity.</li> <li>• Other information relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or concerns raised about the commitment to quality of the firm or its personnel.</li> <li>• The firm's acceptance and continuance of client relationships and specific engagements, which may indicate new risks to achieving quality for an engagement.</li> <li>• For assurance engagements, the engagement team's consideration of, and responses to, <del>areas of</del> risks of material misstatement in the engagement.</li> </ul>

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	<ul style="list-style-type: none"> <li>Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm’s policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.</li> </ul> <p>A28. The nature, timing and extent of the engagement quality reviewer’s procedures may need to change based on circumstances encountered in performing the engagement quality review.</p> <p>Group Audit Considerations</p> <p>A28A. The performance of an engagement quality review for an audit of group financial statements may involve additional considerations for the individual appointed as the engagement quality reviewer for the group audit, depending on the size and complexity of the group. <u>Paragraph 18(a) requires the firm’s policies or procedures to require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review. In doing so, For for larger, and more complex group audits, the group engagement quality reviewer may need to discuss significant matters and significant judgments with other key members of the engagement team other than the group engagement team</u> (e.g., the partners or other individuals responsible for performing audit procedures on the financial information of a component). In these circumstances, the engagement quality reviewer may be assisted by individuals in accordance with paragraph 17 of this ISQM, <del>including, when applicable, individuals appointed to perform an engagement quality review of a component.</del> The guidance in paragraph A19A may be helpful when the engagement quality reviewer for the group audit is using assistants.</p> <p><u>A28Ax In some cases, an engagement quality reviewer may be appointed for a component of a group, for example, when required by law, regulation or other reasons. In such circumstances, communication between the engagement quality reviewer for the group audit and the engagement quality reviewer for the component may assist the group</u></p>

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	<p><u>engagement quality reviewer in fulfilling the responsibilities in accordance with paragraph 18(a) when significant judgments that relate to the group financial statements were made at the component level.</u></p>
<p>(a) Read, and obtain an understanding about, information communicated by: (Ref: Para. A28B)</p> <p>(i) The engagement team regarding the nature and circumstances of the entity and the engagement; and</p> <p>(ii) The firm about the results of its monitoring and remediation activities, in particular about identified deficiencies that may relate to, or affect, the areas involving significant judgments by the engagement team.</p>	<p>Information Communicated by the Engagement Team and the Firm (Ref: Para. 22(a))</p> <p>A28B. Obtaining an understanding about information communicated by the engagement team and the firm in accordance with paragraph 22(a) of this ISQM may assist the engagement quality reviewer in understanding the significant judgments that may be expected for the engagement. Such an understanding may also provide the engagement quality reviewer with a basis for discussions with the engagement team about the significant matters and significant judgments made in planning, performing, concluding and reporting on the engagement.</p>
<p>(b) Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing, concluding and reporting on the engagement. (Ref: Para. A29–A31A)</p>	<p>Significant Matters and Significant Judgments (Ref: Para. 22(b)–22(c))</p> <p>A29. For audits of financial statements, proposed ISA 220 (Revised)<sup>10</sup> requires the engagement partner to review audit documentation relating to significant matters<sup>11</sup> and significant judgments, including those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.</p> <p>A30. For audits of financial statements, proposed ISA 220 (Revised)<sup>12</sup> provides examples of significant judgments that may be identified by the engagement partner related to</p>

<sup>10</sup> Proposed ISA 220 (Revised), paragraph [2931](#)

<sup>11</sup> ISA 230, *Audit Documentation*, paragraph 8(c)

<sup>12</sup> Proposed ISA 220 (Revised), paragraph [A79A88](#)

ISQM 2 Requirement	Application and Other Explanatory Material
	<p>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.</p> <p>A31. For engagements other than audits of financial statements, the significant judgments made by the engagement team may depend on the nature and circumstances of the engagement. For example, in an assurance engagement performed in accordance with ISAE 3000 (Revised), the engagement team’s determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment.</p> <p>A31A. In performing the engagement quality review, the engagement quality reviewer may become aware of <u>other</u> areas where significant judgments would have been expected to be made by the engagement team <u>for which further information may be needed about the engagement team’s procedures or conclusions</u>. In those circumstances, <u>discussions with</u> the engagement quality reviewer <u>may result in</u> <del>may discuss such areas with the engagement team, and</del> the engagement team <del>may conclude</del> <u>concluding</u> that additional procedures need to be performed.</p>
<p>(c) Based on the information obtained in (a) and (b), review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate: (Ref: Para. <del>A31B</del><u>A31Ax</u>–A31Cb)</p> <p>(i) The basis for making those significant judgments, including, when applicable to the type of engagement, the <del>appropriate</del> exercise of professional skepticism by the engagement team;</p> <p>(ii) Whether the engagement documentation supports the conclusions reached; and</p>	<p><u>A31Ax. In evaluating the engagement team’s basis for making significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism, the engagement quality reviewer may:</u></p> <ul style="list-style-type: none"> <li><u>• Remain alert to changes in the nature and circumstances of the engagement or the entity that may result in changes in the significant judgments made by the engagement team;</u></li> <li><u>• Apply an unbiased view in evaluating responses from the engagement team;</u> <u>and</u></li> <li><u>• Follow-up on inconsistencies identified in reviewing engagement documentation, or inconsistent responses by the engagement team to questions relating to the significant judgments made.</u></li> </ul> <p>A31B. The firm’s policies or procedures may specify engagement documentation to be reviewed by the engagement quality reviewer. In addition, such policies or procedures</p>

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<p>(iii) Whether the conclusions reached are appropriate.</p>	<p>may indicate that the engagement quality reviewer exercises professional judgment in selecting additional engagement documentation to be reviewed relating to significant judgments made by the engagement team.</p> <p>A31C. <u>Discussions about significant judgments with the engagement partner, and if applicable, other members of the engagement team, and the engagement team’s documentation, may <del>provide support of</del>assist the engagement quality reviewer in evaluating</u> the exercise of professional skepticism by the engagement team in relation to those significant judgments.</p> <p><u>A31Ca. Requirements and relevant application material in ISA 315 (Revised 2019),<sup>13</sup> ISA 540 (Revised)<sup>14</sup> and other ISAs provide examples of ways in which the auditor can exercise professional skepticism, or ways in which documentation may provide evidence of the auditor’s exercise of professional skepticism. Such guidance may also assist the engagement quality reviewer in evaluating the exercise of professional skepticism by the engagement team.</u></p> <p><u>A31Cb. Proposed ISA 220 (Revised)<sup>15</sup> provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.</u></p>
<p>(d) For audits of financial statements, evaluate the <u>basis for the</u> engagement partner’s determination that relevant ethical requirements relating to</p>	<p>Whether Relevant Ethical Requirements Relating to Independence Have Been Fulfilled <u>(Ref: Para. 22(d))</u></p> <p>A31D. Proposed ISA 220 (Revised)<sup>16</sup> requires that, prior to dating the auditor’s report, the engagement partner shall <u>take responsibility for</u> determining whether relevant ethical</p>

<sup>13</sup> ~~Proposed~~ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph ~~A248~~A238

<sup>14</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

<sup>15</sup> Proposed ISA 220 (Revised), paragraphs A35-A37

<sup>16</sup> Proposed ISA 220 (Revised), paragraph ~~49~~21

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independence have been fulfilled. (Ref: Para. A31D)	requirements, including those related to independence, have been fulfilled.
(e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A32)	Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 22(e)) A32. <del>The firm may establish policies or procedures that address</del> Proposed ISQM 1 <sup>17</sup> <del> sets out requirements for the firm to establish policies or procedures addressing</del> consultation on difficult or contentious matters, <del>including the engagement team's responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented.</del> Proposed ISQM 1 <sup>18</sup> <del> also sets out requirements for the firm to establish policies or procedures to address</del> differences of opinion <del>that arise</del> within the engagement team, or between the engagement team and the engagement quality reviewer <del>or personnel performing activities within the firm's system of quality management, including those who provide consultation.</del>
(f) For audits of financial statements, evaluate whether the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. (Ref: Para. A33–A33A)	Sufficient and Appropriate Involvement of the Engagement Partner on the Engagement (Ref: Para. 22(f)) A33. Proposed ISA 220 (Revised) <sup>19</sup> requires the engagement partner to determine, prior to dating the auditor's report, that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement. Proposed ISA 220 (Revised) <sup>20</sup> also <del>provides guidance</del> <u>indicates</u> that the documentation of the <del>performance of the requirements of the ISA, including</del> <u>evidencing</u> involvement of the engagement partner, may be accomplished in different

<sup>17</sup> ~~Proposed ISQM 1, paragraphs 3736(c) and 36(d)~~

<sup>18</sup> ~~Proposed ISQM 1, paragraph 37(d)~~

<sup>19</sup> Proposed ISA 220 (Revised), paragraph ~~3740~~(a)

<sup>20</sup> Proposed ISA 220 (Revised), paragraph ~~A402A114~~

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	<p>ways. Discussions with the engagement team, and review of <u>such</u> engagement documentation <del>relating to significant judgments</del>, may assist the engagement quality reviewer's evaluation of the sufficiency and appropriateness of the engagement partner's involvement <del>in accordance with paragraph 22(f) of this ISQM</del>.</p>



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<p>(g) Review:</p> <p>(i) For an audit of financial statements, the financial statements and the auditor’s report thereon, including, if applicable, the description of the key audit matters; or (Ref: Para. A33B)</p> <p>(ii) For an assurance or related services engagement, the engagement report, and when applicable, the subject matter information. (Ref: Para. A33C)</p>	<p>Review of Financial Statements and Engagement Reports (Ref: Para. 22(g))</p> <p>A33B. For audits of financial statements, the engagement quality reviewer’s review of the financial statements and auditor’s report thereon may include consideration of whether the presentation and disclosure of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer’s understanding of those matters based on the review of selected engagement documentation, and discussions with the engagement team. <u>In reviewing the financial statements, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team’s procedures or conclusions. Such review may also identify matters for further discussion with the engagement team, for example, areas where significant judgments would have been expected to be made by the engagement team.</u></p> <p>A33C. For assurance or related services engagements, the engagement quality reviewer’s review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A33B (e.g., whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer’s understanding based on the procedures performed in connection with the review).</p>
	<p>Unresolved Concerns of the Engagement Quality Reviewer (Ref: Para. 23)</p>

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<p>23. The engagement quality reviewer shall notify the engagement partner if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are 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. (Ref: Para. A35)</p>	<p>A35. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s) may include the individual assigned the responsibility for the appointment of engagement quality reviewers. <u>With respect to such unresolved concerns,</u> <del>t</del>The firm's policies or procedures may also <del>include</del><u>require</u> <del>, for example, in the case of a smaller firm or a sole practitioner, consulting consultation with</del><u>in or outside</u> <del>another practitioner or the</del> firm, <del>or (e.g.,</del> a professional or regulatory body).</p>
<p><i>Completion of the Engagement Quality Review</i></p>	
<p>24. 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 so, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.</p>	
<p><b>Documentation</b></p>	<p><b>Documentation</b> (Ref: Para. 25–27)</p>
<p>25. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A36)</p>	<p>A36. Paragraphs 66 to 69 of proposed ISQM 1 require the firm to prepare documentation of the firm's system of quality management. <u>An e</u>Engagement quality reviews performed in accordance with this ISQM <del>are is one a specified</del> response to assessed quality risks related to the performance of engagements, and <del>are is</del> therefore subject to those documentation requirements in proposed ISQM 1.</p>
<p>26. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 27, and that such</p>	

ISQM 2 Requirement	Application and Other Explanatory Material
documentation be included with the engagement documentation.	
<p>27. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes: (Ref: Para. A37–A39)</p> <p>(a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;</p> <p>(b) An identification of the engagement documentation reviewed;</p> <p>(c) The basis for the engagement quality reviewer's determination in accordance with paragraph 24;</p> <p>(d) The notifications required in accordance with paragraphs 23 and 24; and</p> <p>(e) The date of completion of the engagement quality review.</p>	<p>A37. The form, content and extent of the documentation of the engagement quality review may depend on factors such as:</p> <ul style="list-style-type: none"> <li>• The nature and complexity of the engagement;</li> <li>• The nature of the entity;</li> <li>• The nature and complexity of the matters subject to the engagement quality review; and</li> <li>• The extent of the engagement documentation reviewed.</li> </ul> <p>A38. The performance and notification of the completion of the engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented as part of the engagement documentation, for example, minutes of the engagement team's discussions where the engagement quality reviewer was present.</p> <p>A39. Paragraph 21(b) of this ISQM requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. Provided that all requirements with respect to the performance of the engagement quality review have been fulfilled, the documentation of the review may be <del>completed</del> <u>finalized</u> after the date of the engagement report, but before the assembly of the final engagement file. <u>However, firm policies or procedures may specify that the documentation of the engagement quality review needs to be finalized on or before the date of the engagement report.</u></p>