About Accountancy Europe

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Submitted via the website  
Uploaded on website

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Subject: IAASB Consultation on Proposed International Standard on Quality Management 2

Dear Mr Botha,

Accountancy Europe is pleased to provide you its comments on the proposed International Standard on Quality Management 2 (ED-ISQM 2). We support a separate standard for engagement quality reviews. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals. In addition, we support the introduction of a ‘cooling off’ period.

Nevertheless, we would favour to more clearly separate the responsibilities of the engagement quality reviewer from those of the firm. In the context of the firm’s quality management systems, the role of the engagement quality reviewer should be properly defined as limited. Additionally, by creating a separate standard for the EQR, the IAASB should be cautious not to overemphasise the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

We therefore recommend that the IAASB emphasises more that an engagement quality review is just one aspect of quality management control and one particular response to quality risks. Developing a separate standard dealing with quality review should not overshadow other measures included in ISQM 1 that could be as effective.

Sincerely,

Olivier Boutellis-Taft  
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond. Accountancy Europe is in the EU Transparency Register (No 4713568401-18).
APPENDIX

Question 1 - Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

(1) We support a separate standard for engagement quality reviews. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals. Nevertheless, we would favour to more clearly separate the responsibilities of the engagement quality reviewer from that of the firm. In the context of the firm’s overall quality management systems, the role of the engagement quality reviewer should be properly defined as limited.

(2) By creating a separate standard for the EQR, the IAASB should be cautious not to overemphasise the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

(3) Additionally, we suggest redrafting the objective in paragraph 4 to ensure that the purpose of an EQR is properly understood. The objective of an EQR should be to improve the quality of engagements where there is a particular risk profile to help ensure full compliance with legal requirements and professional standards when performing those engagements. The language used in the standard is not entirely clear and we suggest it is reviewed in its entirety to ensure that plain English is used in all instances.

Question 2 - Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

(4) As far as the linkages between ISQM 1 and ISQM 2 are concerned, we note that an engagement quality review is just one aspect of quality management control and one particular response to quality risks; we urge the IAASB to emphasise this so that this does not overshadow other measures included in ISQM 1. We refer to our response to Question 1.

Question 3 - Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

(5) We believe that such nuances to the wording are unlikely to have any significant behavioural effect. However, it will force consequential amendments. For example, in countries where it is explicitly mentioned into law that an ‘engagement quality control review’ should be performed, there will be a need to amend the reference in the law. This might be seen as an administrative burden for policy makers. We refer for instance to article 8 of the EU Audit Regulation1.

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Question 4 - Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

(6) Generally speaking, we support the eligibility requirements and note that this might be challenging from an SMP perspective. In this environment, we agree that a cooling-off might be necessary in specific circumstances, for example when the engagement partner had to make past contentious decisions, but definitely not in all situations.

(7) Additionally, we think matters relating to cooling off periods are better suited to be included in the IESBA Code of ethics. IESBA’s mandate includes independence, and this should remain as is, we do not think that there is any need for duplication in the IAASB’s suite of standards and could even create precedent. Of course, this would not prevent the IAASB from providing examples in a document alongside the standard (Frequently Asked Questions or similar).

Question 5 - Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

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

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

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

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

Question 6 - Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional
skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

(12) Yes, we agree that the engagement quality reviewer’s evaluation of the judgments includes the evaluation of the exercise of professional scepticism. Concrete examples would be helpful (as in ISA 220).

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

Question 7 - Do you agree with the enhanced documentation requirements?

(14) The documentation aspect is not straightforward, and this is the case for ED-ISQM 1, but also ED-ISQM 2. We are concerned that the standard deals with the quality of documentation and the quality of evidence in the same manner. Emphasis should be on the latter, otherwise it will not be possible to document a good quality review.

Question 8 - 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?

(15) 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.

(16) 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.