

International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY
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01 July 2019

Dear Sirs

Exposure Draft February 2019: Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews

PKF South Africa Inc ("PKFSA"), administers the PKF network of legally independent member firms in South Africa. PKF in South Africa practise as separate incorporated entities in Eastern Cape, Free State, Gauteng, KwaZulu-Natal and Western Cape. PKFSA is a member firm of PKF International Limited, which is a member of the Forum of Firms and is dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKFSA, but not necessarily the views of any specific member firm or individual.

We welcome the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft on the Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews.

We are supportive of the IAASB's efforts to drive improvements in quality at both a firm level and at the engagement level through its development of ED-ISQM 1 and the related exposure drafts ISQM 2 and ISA 220. We believe that this suite of proposed quality standards will ultimately help to address the objectives that the IAASB set for this project.

Our responses to the questions raised in the request for comments are contained in [Appendix 1](#) of this submission.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely



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Appendix 1

Request for comments

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?

Response

We support a separate standard for engagement quality reviews (“EQR”). Generally, we believe it is appropriate for ED-ISQM 1 to deal with the engagements for which an EQR is to be performed. However, in order that a complete set of all of the relevant requirements and guidance on EQRs are contained within a single standard, we believe ED-ISQM 2 should also include the same guidance and requirements, as set out in ED-ISQM 1, on the circumstances in which an EQR is to be performed.

We however request the IAASB to consider issuing additional guidance regarding the transition to ISQM 2 and potential communication with the previous EQCR (extant ISA 220), including communication with the engagement partner as well as potentially what might impair the objectivity and judgement of the EQR.

Question 2

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

Response

We have a concern regarding the split between ED-ISQM 1 and ED-ISQM 2 of the requirements for the EQR. We believe this is an important area where the links between ED-ISQM 1 and ED-ISQM 2 are not sufficiently clear.

The EQR process has been brought into ED-ISQM 1 as a “response” (see paragraph 37 (e) of ED-ISQM 1), and we agree with and support this approach. However, we do believe that there are specific risks relating to the EQR process, and as a result of the EQR process being a response to a prescribed risk, and most requirements relating to the EQR process are set out in ED-ISQM 2, the firm’s risk assessment may not sufficiently consider the risks associated with the EQR process.

Accordingly, we recommend the following amendments to ED-ISQM 1:

- In order for the standard to require a risk assessment over other elements of the quality management system as they relate to the EQR process, the objective in paragraph 38 (b) of ED-ISQM 1, “Resources” should be expanded to include explicit reference to the EQR:

“The firm assigns an engagement partner, an engagement quality reviewer (where required by paragraph 37 (e) of ED-ISQM 1), and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.”

- Explicit reference should be made to the EQR process either within the objectives of the Governance and Leadership section of ED-ISQM 1, or within the Application Guidance which directly corresponds with the objectives of the Governance and Leadership section of ED-ISQM 1.

In addition, please see our point above regarding our suggestion that the requirements in ED-ISQM 1 for engagements for which an EQR is required, be repeated within ED-ISQM 2.

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?

Response

We are not concerned with the change from “engagement quality control review(er)” to “engagement quality review(er). Rather, we have concerns with the current **and** new proposed terminology. The “engagement quality control review” process under extant ISQC 1 is frequently confused with the engagement monitoring process as required by ISQC 1. ED-ISQM 1 retains requirements for firms to establish an engagement monitoring process, and the engagement monitoring process is conducted as a review focusing on engagement quality, all of which could be mistaken for an engagement quality review process. This increases the chance of continued confusion over the terminologies in the respective proposals of ED-ISQM 2 for the EQR process, and ED-ISQM 1 for the engagement monitoring process. We believe therefore that the introduction of ED-ISQM 2 provides an opportunity for a more fundamental change to the terminology than has been proposed.

The use of “engagement quality” within the terminology, is not entirely appropriate, since it implies that the “engagement quality” reviewer has the responsibility for reviewing all aspects of quality on the engagement.

Further, the objectives of an EQR, as set out in ED-ISQM 2 are focused predominately on a review of the significant judgements exercised by the engagement team, and of their application of professional skepticism. Therefore, the engagement quality reviewer’s responsibilities, by definition, is narrower in scope than a responsibility for engagement quality.

In order to avoid confusing the two, we suggest that the IAASB considers an alternative, and more apt, term for use within ED-ISQM 2 to describe the EQR process.

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?

- 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?

Response

We generally 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. Additionally, we believe it would be helpful for proposed ED-ISQM 2 to further enhance the guidance on the eligibility of an “other individual within the firm” to be an engagement quality reviewer. This would be beneficial for smaller firms with restricted partner resource and which would be more likely to need to utilise an “other individual within the firm” to perform an engagement quality review.

a. We believe that there is a need for guidance in proposed ISQM 2 regarding a “cooling-off” period. However, in its current form we believe that the guidance is ambiguous and contains inherent inconsistencies. For example, Para 26 and 28 of the Explanatory Memo to ISQM 2 contain contradictory views. Para 28 also appears to be inconsistent with para A5 of the Application Guidance.

From these three references, it is unclear whether or not a firm may establish a policy for no cooling-off period on engagements other than audits of listed entities, in certain circumstances.

We believe that a degree of flexibility in establishing cooling off periods should be retained in the proposed standard.

Further, we recommend that the IAASB reconsiders its use of the word “unlikely” in paragraph A5 of ED-ISQM 2.

We believe that the use of the word “unlikely” effectively makes this application guidance a de facto requirement. A cooling off period of two subsequent audits before the previous engagement partner can act as the engagement quality reviewer, would not be practicable for many smaller firms to implement. In order to support the scalability of ED-ISQM 2 the firm should be given more flexibility for determining the duration of the cooling off period.

b. We agree that the guidance should be located in ISQM 2 as opposed to the IESBA Code. This is principally because we believe the guidance will more likely be written in terms which are consistent with the objective of scalability, if located in ISQM 2.

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)?

Response

We generally agree with the requirements relating to the nature, timing and extent of the engagement quality review procedures.

However, we have a concern about the use of the word “timing” within the second sentence of

paragraph A24 of ED-ISQM 2. Its use could be misinterpreted, and wrongly applied, by firms to restrict and limit the involvement of the engagement quality reviewer. This may occur as part of a firm's efforts to safeguard the objectivity of the engagement quality reviewer, but at the expense of involving him/her to an appropriate extent during all phases of the audit from planning through to completion.

We suggest that deleting the word "timing" from that sentence would avoid such an interpretation and that it would also help to encourage engagement quality reviewer's to be involved appropriately throughout the course of an engagement.

In our view the responsibilities of the engagement quality reviewer are generally appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

In addition to the above, we propose that further guidance be issued, in addition to consultations, relating to paragraph A24: "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."

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?

Response

We agree that the engagement quality reviewer's evaluation of the engagement team's significant judgements includes evaluating the engagement team's exercise of professional skepticism.

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

Question 7

Do you agree with the enhanced documentation requirements?

Response

We agree with the enhanced document requirements.

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?

Response

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

Glossary of terms

ED-ISQM 1	Exposure draft February 2019: International Standards on Quality Management 1
ED-ISQM 2	Exposure draft February 2019: International Standards on Quality Management 2
ISQC 1	International Standards on Quality Control 1
IAASB	International Audit and Assurance Standards Board
EQR	Engagement Quality Review
ISA	International Standards on Auditing