

June 28, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Botha,
U.S.A.

Dear Mr. Botha,

Re: IAASB Exposure Draft of Proposed ISQM 2, Engagement Quality Reviews

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB's Exposure Draft of Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB's Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB's ED. In our response, "Canadian stakeholders" refers to those who provided us with input. Also, "we" refers to the AASB.

Our comments are set out under the following main headings:

- A. Overall Comments;
- B. Request for Comments; and
- C. Other Comments on Specific Paragraphs.

Editorial comments on ED-ISQM 2 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@asbcanada.ca.

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

A. Overall Comments

Separate standard

Canadian stakeholders expressed mixed views on ED-ISQM 2. Some Canadian stakeholders raised concerns that a separate standard gives the impression that the EQR is a more important response to a quality risk than other responses, while it is only one of many possible responses. Other Canadian stakeholders supported a separate standard, noting that for firms that have engagements that meet the criteria for having an EQR, there is no significant difference from the extant standard (except for the location of the requirements). For these engagements, ED-ISQM 2 is seen as a matter of geography (i.e., where the requirements are located). However, if a firm determines that an EQR is not a required response to a quality risk, then the requirements of the standard will not apply. Therefore, having a separate standard improves scalability of the standards, as firms would not need to refer to ED-ISQM 2 when an EQR is not required.

Objective of ED-ISQM 2

In ED-ISQM 1 and the ISAs, the objective typically expands on the scope of the standard as set out in the first paragraph(s) of the standard. We understand the objective of ED-ISQM 2 was rewritten in response to comments raised in September and December 2018, when IAASB members did not agree with setting out two objectives in the standard – one for the firm and one for the EQR. However, as currently written, the objective does not cover all aspects of the standard (i.e., does not address the appointment and eligibility of the EQ reviewer).

The objective of a standard is typically focused on the desired outcome of applying the requirements. As such, we recommend the objective be worded as follows:

The objective of the firm is to establish policies or procedures in relation to:
(a) The appointment and eligibility of the engagement quality reviewer; and
(b) Performance and documentation of the engagement quality review,

that result in an objective evaluation of the significant judgments made by an engagement team and the conclusions reached thereon.

Length of the standards

As noted in our response to ED-ISQM 1, Canadian stakeholders expressed concern about the overall length of the combined package of standards. Although ED-ISQM 2 is not overly long, and would only apply when an EQR is necessary, it is still part of the quality management standards. We noted several paragraphs that provide no new guidance. For example, paragraphs A22, A29, A30 and A33 repeat requirements from ED-ISA 220, without adding specific information relevant to ED-ISQM 2. We believe these paragraphs can be removed or simplified to state that ISA 220 contains requirements and application material dealing with the specific topics. AASB staff will provide suggested wording to IAASB staff.

B. Request for Comments

- 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?***

As noted in our overall comments above, we heard mixed views from our Canadian stakeholders regarding a separate standard dealing with EQR. However, most agreed with including requirements in ED-ISQM 1 that establish which engagements require an EQR.

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

Yes. We believe it is clear that ED-ISQM 1 establishes the requirements for determining which engagements are subject to an EQR, while ED-ISQM 2 deals with the eligibility and appointment of a reviewer and the performance and documentation of the EQR.

- 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?***

We have no information on which to base a response.

- 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?***

We note that ED-ISQM 2 refers to “appointment and eligibility” throughout the standard. We think the IAASB should consider reversing the terms, as a firm will first need to determine whether an individual is eligible, then appoint that individual as EQR.

Currently there is confusion in practice whether the EQR needs to be a partner or can be someone who is not a partner, for example a principal or senior manager. ED-ISQM 2 establishes criteria for the competence and capabilities of the EQR, and the definition of EQR is clear that the person does not need to be a partner. However, Canadian stakeholders noted that ED-ISQM 2 could provide more clarity by giving examples of which individuals in the firm might meet the criteria.

We note that the definition of engagement quality reviewer in paragraph 11(b) refers to an “other individual in the firm”. The IAASB may consider adding application material to the definition of engagement quality reviewer to provide examples of who the other individual might be as follows:

Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

AM – The other individual in the firm might be a principal or senior manager, as long as that individual is eligible to be appointed as the engagement quality reviewer. Firms may use different titles to describe these individuals.

(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?*

Canadian stakeholders expressed some concern with the cooling-off period proposed in ED-ISQM 2. Canadian stakeholders agree that a cooling-off period is appropriate for audits of listed companies. However, in some cases in smaller firms or engagements other than audits of listed entities, continuity of knowledge can contribute to the overall quality of an engagement. Requiring a cooling-off period may result in the loss of knowledge of the client or of specialized technical areas and could have a detrimental effect on engagement quality. Paragraph 28 of the EM indicates that the firm may determine that no cooling-off period is necessary for certain types of engagements. However, this is not clear in the standard. ED-ISQM 2, paragraph 16 indicates that the firm shall establish limitations on the eligibility to be appointed as EQR. This suggests that there must always be a cooling-off period.

Further, paragraph A5 states that “an individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual’s objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level.” Although this paragraph is application material, the wording “is not likely” sounds very much like a requirement.

We suggest the following revisions to address the above concerns:

16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that, where appropriate, include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner.
- A5. An individual who has served as the engagement partner ~~is not likely to~~ may not be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because ~~it is not~~

~~likely that~~ the threats to the individual's objectivity with regard to the engagement and the engagement team ~~can~~ may not be able to be reduced to an acceptable level. ... Accordingly, this ISQM requires the firm to establish policies or procedures that limit, where appropriate, the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation or relevant ethical requirements. In the case of an audit of financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted. For engagements other than audits of listed entities, the firm may determine that no cooling-off period is necessary, or the firm's policies or procedures may specify a different cooling-off period.

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

Canadian stakeholders did not express strong views on this 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)?

ED-ISQM 2 paragraph 22 sets out a number of procedures that the EQR is required to perform. Further, paragraph 23 requires the EQR to notify the engagement partner of any concerns related to significant judgments. However, ED-ISA 220 paragraph 33(c) only deals with discussing significant matters arising during the engagement with the EQR. The remaining requirements in paragraph 33 address ensuring an EQR has been appointed, cooperating with the EQR and not dating the auditor's report until the completion of the review. There is no requirement for the engagement partner to respond to issues raised by the EQR. We believe ED-ISA 220 should require the partner to respond to issues raised by the EQR to establish a stronger linkage to the requirement in ED-ISQM 2. We do not believe any changes are necessary to ED-ISQM 2.

- 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?***

We agree with the requirement in paragraph 22 for the EQR to evaluate the engagement team's exercise of professional skepticism.

We noted that the EQR will need to apply professional skepticism in reviewing and assessing areas involving significant judgments made by the engagement team and in reviewing selected engagement documentation. Therefore, we believe that ED-ISQM 2 should further address the exercise of professional skepticism by the EQR. For example, applying professional skepticism during the engagement quality review may involve:

- Appropriately responding to inconsistent responses by the engagement team to questions about significant judgments.
- Applying an unbiased view of responses from the engagement team.
- Being aware of unconscious biases that may affect the exercise of professional judgment.

- 7) ***Do you agree with the enhanced documentation requirements?***

Yes. We agree with the documentation requirements.

- 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?***

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.

C. Other Comments on Specific Paragraphs

Paragraph 5 repeats paragraph 7 of ED-ISQM 1, although the wording is slightly different. We believe that having two paragraphs that are similar, but not identical, could cause confusion amongst readers. We suggest revising paragraph 5 as follows:

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~~ type of ~~the~~ engagement, exercising professional skepticism.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> • 19 practitioners from SMPs/Sole Practitioners • Some perform audits, reviews and compilations, while others are compilation-only
Video roundtable consultation – CPA British Columbia	May 2	<ul style="list-style-type: none"> • 17 practitioners from SMPs/Sole Practitioners • 2 CPA Quebec staff members
Virtual roundtable Consultations – CPA Quebec	May 6	<ul style="list-style-type: none"> • 7 practitioners from SMPs • 1 academic • 1 AASB board member • 3 CPA Quebec staff members • 1 member from the public sector
In-person roundtable consultation – CPA Ontario SMP Committee	May 10	<ul style="list-style-type: none"> • 11 practitioners from SMPs/Sole Practitioners • 4 staff of CPA Ontario
Video roundtable consultation – Compilation Engagements Task Force	May 21	<ul style="list-style-type: none"> • 4 practitioners from SMPs/Sole Practitioners • 2 staff of provincial bodies of CPAs
In-person workshop to field test the proposals (note: report to be included in June 25 meeting agenda papers)	May 15	<ul style="list-style-type: none"> • 5 practitioners from practices ranging from SMP to larger firms

We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector