

5 June 2019

Professor Arnold Schilder  
Chair  
International Auditing and Assurance Standards Board (IAASB)  
529 5<sup>th</sup> Avenue  
New York, New York 10017  
UNITED STATES OF AMERICA

Dear Professor Schilder

**Exposure Draft ISQM 2 – Proposed International Standard on Quality Management 2,  
Engagement Quality Reviews**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft – Proposed International Standard on Quality Management ISQM 2, Engagement Quality Reviews (ED-ISQM 2). The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG agrees with ED-ISQM 2. However, ACAG has raised some matters for the IAASB to consider so as to ensure the suite of quality management standards are coherent, the requirements are easily understood, and can be practically applied by firms of all sizes.

One of the more significant matters identified by ACAG relates to the interrelationship between the proposed suite of quality management standards and the IESBA Code (the Code), in particular the introduction and application of the ‘significant public interest entity’ compared to the existing ‘public interest entity’ concept within the Code; and the requirement to rotate engagement quality reviewers already established within the Code not currently replicated in ED-ISQM 2.

ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

The attachment to this letter addresses the IAASB’s requests for comments outlined in ED-ISQM 2.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Andrew Richardson  
**Chairman**  
**ACAG Audit Standards Committee**

## IAASB Specific Matters for comment

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?**

Yes, ACAG supports a separate standard for engagement quality reviews, in that ED-ISQM 1 deals with engagements for which an engagement quality reviewer is to be appointed, and ED-ISQM 2 deals with the remaining aspects of engagement quality reviewer's authority, eligibility and skills and capabilities.

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

ACAG acknowledges that there are linkages between ED-ISQM 1 and ED-ISQM 2, but they are not robust. Where requirements are linked, ACAG recommends linkages be made to specific paragraph references to enhance clarity and understandability.

Additionally, ACAG recommends better linkages be made between ED-ISQM 2 and ED-220 to address conflicts and resolution of differences of opinion between the engagement partner and engagement quality reviewer. ED-ISQM 2 paragraph 26 requires the engagement quality reviewer to notify appropriate person(s) where their concerns are not satisfactorily resolved. In order to round out the process, ACAG suggests the IAASB incorporate the guidance in paragraphs A93 – A94 of ED-220 which provides avenues for the engagement team / engagement quality reviewer to take when differences of opinion arise.

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?**

ACAG supports the change and does not foresee any adverse consequences arising from this change.

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?**

Yes, ACAG supports the eligibility requirements as described in paragraphs 16 and 17 of ED-ISQM 2.

- a) ACAG believes additional guidance is required in relation to rotation requirements and the related ‘cooling off’ period for engagement quality reviewers to address instances where:
- an individual only performs the engagement quality reviewer role; or
  - where the engagement quality reviewer role has been performed before or after other roles, such as that of the engagement partner.

ED-ISQM 2 is silent on the maximum length of service for an engagement quality reviewer and the related ‘cooling off period’. The only reference to a ‘cooling off period’ is included in paragraph A5 and relates to when a partner of a listed entity becomes the listed entity's engagement quality reviewer. The lack of guidance in ED-ISQM 2 is inconsistent with the Code, which stipulates specific guidelines for time served and the related ‘cooling off period’, depending on type of engagement and role the individual performs on that engagement.

In relation to the type of engagement, the Code defines the term public interest entity (PIE) which attracts additional requirements given the associated risk. The terms public interest entities and significant public interest entities are referred to in the suite of quality

management standards, however are not sufficiently defined to determine how they relate to, or differ from PIEs referred to in the Code. The lack of clarity for terms that are so closely worded but which may have different meanings will cause confusion and result in misapplication.

Moreover, without additional guidance on what constitutes significant public interest entities, it will be difficult for firms to assess and determine those entities for which an engagement quality reviewer is required to be appointed.

- b) ACAG believes this additional guidance is better placed in ED-ISQM 2 as the scope of the Code expands beyond that of the engagement quality reviewer and focuses requirements for those involved with PIEs.
- c) Further to responding to the question, ACAG has concerns over the explanatory memorandum material paragraph 28 that states that there may be circumstances where no cooling-off period is necessary.

*'28. The IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm's policies or procedures may specify a different cooling-off period. The IAASB is of the view that ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue.'*

ACAG does not believe there will be any instances where no cooling-off period would ever be appropriate:

- given the nature of engagements where an engagement quality reviewer is required to be appointed; and
- irrespective of the engagement, long standing associations, even for the engagement reviewer role, will give rise to familiarity and self-review threats.

**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)?**

ACAG supports the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures which are considered appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). ACAG recommends additional guidance on the method of resolution for unresolved quality concerns, as suggested in our response in question 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 scepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?**

Yes, ACAG agrees it is appropriate for the engagement quality reviewer to evaluate the teams' significant judgements and that this would require exercising professional scepticism.

The enhanced focus in the profession on the sufficiency and appropriateness of documentation by engagement teams of their exercise of professional skepticism, should also extend to that of the engagement quality reviewer.

ACAG believes that additional guidance on the nature and the extent of documentation by the engagement quality reviewer in their evaluation of the engagement team's exercise of professional scepticism would be useful.

**7. Do you agree with the enhanced documentation requirements?**

ACAG supports the enhanced 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?**

Yes, ACAG believes the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity. There is flexibility in the timing and extent of procedures as well as the ability to use external services or internal/external assistants with relevant expertise.

**Other comments**

ACAG believes additional clarity would assist in the application of ED-ISQM 2 paragraphs A12 and A13:

- a) In relation to paragraph A12, ACAG is unclear why the specific public sector consideration was called out given it appears to reiterate that the requirements for the private sector would also be applicable for the public sector. If this is the case, then ACAG does not believe its inclusion is necessary. If instead the IAASB intended to address the issue of authority in the public sector context, ACAG recommends additional explanation and guidance be inserted to address this.
- b) In relation to paragraph A13, ACAG recommends the IAASB provide an example of what is intended when making the statement '*various provisions of relevant ethical requirements may only apply to individual professional accountants, such as an engagement quality reviewer, and not the firm*'.