



1 July 2019

Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

Dear Arnold

Comments on the IAASB's Proposed International Standards on Quality Management 2 (ISQM 2)

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

We appreciate this opportunity to comment on the proposed International Standards on Quality Management 2 (ISQM 2), developed by the International Auditing and Assurance Standards Board (IAASB).

Our response has been prepared by the Audit Research and Development Business Unit of the Auditor General of South Africa's office. Our comments are presented under the following sections:

1. General comments;
2. Request for specific comments and responses; and
3. Additional comments

If further clarity is required on any of our comments, kindly e-mail us at ardsupport@agsa.co.za. Alternatively, phone us directly on +27 12 422 9819.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alice Muller', with a large, stylized loop at the end.

Alice Muller (CA) SA

Acting National Leader: Audit

General Comments

1. The Auditor General South Africa (AGSA) welcomes and supports the IAASB's new Proposed International Standard on Quality Management 2 to address public interest issues relevant to engagement quality reviews by enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer and enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including the nature, timing and extent of the engagement quality review procedures. Furthermore, we support the IAASB's decision to develop a separate standard for engagement quality reviews as this will place an emphasis on the importance of the engagement quality review.
2. The enhanced requirements for the appointment and eligibility of engagement quality reviewers that include the limitation on the eligibility of individuals to be appointed as engagement quality reviewers for an engagement on which the individual was previously an engagement partner will be an appropriate safeguard against self-interest and self-review threats to objectivity.
3. The new requirement that requires the firms to establish policies or procedures that requires the engagement quality review to be completed at the right time and that sufficient time should be allocated to the engagement quality reviewer will allow for proper execution of these reviews in order to provide an effective response to identified risks to the quality management system. This will also allow the engagement quality reviewer to communicate significant issues to the engagement partner timeously. The standard further promotes the exercise of professional judgement by the engagement quality reviewer to ensure that conclusions reached are appropriate and thereby achieve quality.

Request for specific comments and responses

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?

4. Yes, we do support a separate standard for engagement quality reviews. The ISQM 1 will prompt the firm and the engagement partner to identify engagements where an engagement quality review is required, and ISQM 2 sets out the framework in terms of which it should be performed as a standard response to quality risks at firm level.

Question 2

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

5. Yes, the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 are clear. As stated in question 1 above, the ED-ISQM 1 sets out requirements for engagements for which an engagement quality review is to be performed, and ED-ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer and the performance of the engagement quality review.

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?

6. Yes, we support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer”. We do not foresee any adverse consequences of changing the terminology in our jurisdiction.

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?

7. Yes, we 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. However, the paragraphs do not address cooling off periods for a person previously employed by the audit client/auditee.

Question 4 (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?

8. Guidance should be provided with respect to cooling off periods, the duration and whether judgement can be applied where risks can be mitigated.
9. In addition to question 4 above, we recommend that guidance be provided on instances where an engagement quality reviewer was employee of the audit client/auditee.

Question 4(b)

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

10. The guidance should be included in the application guidance of ISQM 2 and not the

IESBA code, as this standard deals with all matters of engagement quality reviews whereas the IESBA code applies foremost to all professional accountants broadly.

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)?

11. Yes, we agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures. The responsibilities of the engagement quality reviewer are to perform engagement quality reviews as a firm level response to the assessed quality risks, this responsibility involves appropriate communication with the engagement partner. On the other hand, the engagement partner per ED-220 shall take overall responsibility for managing and achieving quality on audit engagements that he/she is assigned to. Therefore, the responsibilities of the engagement quality reviewer are appropriate.

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 engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism. In assessing the audit team's exercise of judgement and professional skepticism, so too should the engagement quality reviewer exercise professional skepticism to arrive at an objective view.

Question 7

Do you agree with the enhanced documentation requirements?

13. Yes, we agree with the enhanced documentation requirements. This will assist in ensuring that there is sufficient documentation on file that can enable an experienced practitioner having no previous connection to the engagement, to understand the nature, timing and extent of the engagement quality review procedures performed.

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?

14. Yes, the requirements for the engagement quality are scalable to all firms of varying sizes and complexity. The Appendix to the ED-ISQM 2 does state that an engagement quality review is not required for all firm's engagements, but only for specified engagements in accordance with ED-ISQM 1.

Additional comments

15. Paragraph A12 of the ED-ISQM 2 states that, 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, when applicable, 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.
16. The paragraph is written in such a way that one could misinterpret it to think that the engagement quality reviewer does not always have to be independent in the case of the public sector audits. We recommend that the wording be amended to reflect that the engagement quality reviewer should be independent in order to provide an objective evaluation.