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Dear Sirs

### **Proposed International Standard on Quality Management 2 (ED-ISQM2)**

We are pleased to have the opportunity to respond to the proposals laid out in the IAASB Group Consultation on ED-ISQM2. We set out below our overall comments on the consultation, followed by detailed responses to each question raised. In so doing, we are keen to distinguish between where we have comments or concerns in relation to the proposals and our suggestions that you may wish to consider.

#### **Questions**

- 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:** Yes, we believe that having a separate quality standard relating to the requirements around the engagement quality review will be beneficial in further highlighting the importance of the EQR process. We support the separation between ED-ISQM1 and ED-ISQM2 in the way in which the IAASB proposes, in particular that the firm-level requirement to have an EQR for certain audits is separated from the requirements relating to the appointment and performance of the EQR.

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

**Response:** Yes, we believe that are clear linkages between the two standards and there is clarity of what is required within each.

- 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 support the change in terminology in line with the changes in ED-ISQM1 to remove the reference to quality control, albeit a mainly cosmetic change in this context.

- 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?

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- (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?

**Response:** We believe that the IAASB is being naïve in its contention in the explanatory memorandum that including the two-year cooling off period in the application material will mean that this will not become a de facto cooling off requirement. In our experience, this sort of application material often becomes an expectation from regulators and others.

It is disappointing that the IAASB wishes to “place the onus on the firm” to address this issue. Therefore, if the IAASB believes that such a cooling off period is appropriate, and we agree that such a requirement is reasonable, then the Board should be bold enough to include this in the requirements. As it currently stands, it will be difficult to achieve consistent application of the standard in this regard.

- (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:** Typically, such requirements would be included in the IESBA code, however we see no reason why this should not be included in ED-ISQM2 as it specifically relates to requirements for the EQR. It may be appropriate in due course to incorporate this requirement also in the IESBA Code, but it may be difficult to align updates to the Code with the timing of implementation of the requirements in ISQM2.

- 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:** Overall the timing and extent of the EQR’s procedures are reasonable and appropriate. However, we note the discussion in the explanatory memorandum regarding the distinction between “significant matters” and “significant judgments”. In this context we wonder whether it is necessary to complicate the EQR process by using these two different terms and whether the requirement of ED-ISQM2.22a(ii) should simply refer to discussing significant judgments with the engagement partner to simplify requirements.

The requirement in ED-ISQM2.23 for the EQR to notify an appropriate person in the firm of disputes may be very difficult to achieve in a small firm. For example, in a single partner firm where an external EQR is appointed, to whom should the EQR refer their concerns. Guidance and illustrative examples will be required to assist firms and engagement quality reviewers in complying with this requirement.

- 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 believe that it will be very difficult for the EQR to effectively evaluate the exercise of professional skepticism by the engagement team in all circumstances. In some instances, this may be a relatively easy task (e.g. whether the team has effectively challenged management's assumptions) but will not always be possible.

We believe that ED-ISQM2 should align with the IESBA project on "role and mindset" and require the EQR to apply an appropriate "role and mindset" (however that ends up being defined) in fulfilling their own responsibilities, rather than skepticism *per se*, which is typically applied when obtaining and assessing audit evidence.

7) Do you agree with the enhanced documentation requirements?

**Response:** We support the documentation requirements as proposed in ED-ISQM2.

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:** We believe that the requirements are sufficiently scalable in this instance.

Yours faithfully,



**Dr Paul Winrow**

**Director of Professional Standards**