



July 1, 2019

Mr. Willie Botha
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017

Dear Mr. Botha:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with over 24,000 professionals, dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the US. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the "Committee" or "we") is pleased to comment on the proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

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, a more defined and robust international standard is warranted in further response to the audit quality movement. However, for those registered accounting firms auditing issuers, they are already accustomed to the PCAOB requirements for the EQR. We believe the two standards should be separate. One dealing with engagements that need an EQR, and the other with the remaining aspects of EQR.
- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?
Response: Yes.

- 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 do not see where the slight terminology change would be met with adverse consequences. Changing the term from “engagement quality control review” to “engagement quality review” better reflects a quality management approach, as an ongoing system, rather than as a point in time, and in line with terminology used in PCAOB AS 1220 *Engagement Quality Review*.

- 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?

Response: Yes.

- (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 this is necessary for the engagement quality reviewer to remain objective. The engagement quality reviewer needs to maintain total objectivity from the engagement, which would preclude a former engagement partner from being the EQR without the appropriate 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?

Response: No opinion

- 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: The proposed standard requirements for review throughout the engagement seems to have the potential to negate the objectivity of the EQR. The EQR would seem to become part of the engagement team rather than being an unbiased reviewer. With the amount of seeming interaction the proposed standard requires of the EQR (for example during audit planning and at various stages during the audit) it could create some challenges in remaining objective. More guidance is warranted.

- 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 should include evaluating the engagement team’s exercise of professional skepticism. Evaluating professional skepticism is an important part in evaluating significant judgements in a given engagement. We believe that no additional assessment of professional skepticism by the EQR is warranted. The EQR’s review of the skepticism exercised by the audit team, in and of itself, will prompt any needed exercise of skepticism in the review.

7) Do you agree with the enhanced documentation requirements?

Response: No. We do agree that certain documentation related to the EQRs review should be included in the audit file. However, the excess time required for additional documentation suggested could drain engagement and firm profitability. In addition, maintaining additional documentation with the respective engagement file would seem to go against the desired objectivity of the EQR, as this documentation could be construed as becoming part of the engagement documentation.

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: Although the proposed standard indicates scalability to firms of different sizes, the proposed requirements could be burdensome and costly for smaller firms.

The up-front requirements to design a system of quality management, and the initial implementation and operation of the system, as well as the performance of the EQR itself, could be costly for a small firm due to a lack of resources. Perhaps some sort of two-tier system could be a better solution for small firms, as some smaller firms would potentially have to hire an outside party for the design and implementation of an enhanced quality management system.

Key issues as to why these exposure drafts are issued:

Primarily, the intention is to move from a standardized quality control approach to a more flexible quality management approach designed to address firms' individual circumstances that could be a risk to delivering high quality services. In essence this would be taking a risk-based approach by identifying and responding to risks to quality firm wide. In addition to the new risk-based approach, other key issues to improve firms' systems of Quality Management would include enhanced requirements and focus on governance and leadership, monitoring and remediation, circumstances when a firm belongs to a network and greater emphasis on technology and methodology. What hasn't changed is that the firm is still responsible for establishing its own system of Quality Management, which provides the foundation for managing quality at the engagement level and that the engagement partner is responsible for managing and achieving this quality.

The proposed standard reinforces the need for robust communication and interactions during the audit between the engagement team and the engagement quality reviewers. Overall it seems to add a whole new layer of required compliance. The process may impinge on objectivity with the engagement team. For smaller firms, these standards could produce a costly burden – not only in the initial implementation stages, but in subsequent years as well.

Scott Cosentine, CPA

Chair, Audit and Assurance Services Committee

Genevra D. Knight, CPA

Vice Chair, Audit and Assurance Services Committee



ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2019 – 2020

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Jennifer E. Deloy, CPA	Marcum LLP
James J. Gerace, CPA	BDO USA, LLP
Michael R. Hartley, CPA	Crowe LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Huong Nguyen, CPA	PricewaterhouseCoopers LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
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Richard D. Spiegel, CPA	Wipfli LLP
Timothy Van Cott, CPA	Sikich LLP
Daniel Voogt, CPA	Grant Thornton LLP

Regional:

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Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

Local:

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Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
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