



International Auditing and Assurance Standards Board  
International Federation of Accountants  
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Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Quality Management suite of Exposure Drafts.

Overall, we are supportive of the development of a suite of quality management standards. We see this as a positive step towards improving the quality of firms' systems of quality management leading to higher quality engagements performed by firms. We are cognizant that the proposed requirements for a system of quality management are a large step change for most firms but are of the view that this will solidify changes that some firms have been progressing over the past few years. For example, many firms have already implemented policies and procedures including those related to performing root cause analysis, developing an appropriate firm culture and developing mechanisms to handle complaints and allegations. The development of the proposed standards will expand such best practices into other firms that have not commenced this process and will provide a mechanism by which firms can more proactively manage quality rather than reactively control quality.

We do however have several concerns, highlighted below, on which we elaborate further in our detailed responses.

*Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews*

We are significantly concerned that the proposed effective date of the suite of quality management standards of 18 months from approval will not allow sufficient time for the standards to be properly implemented and will lead to firms not being able to take the time to properly address the new requirements. Such a short implementation period may lead to policies and procedures being implemented that do not fully address the proposed new requirements and may be detrimental to quality in the short term.

#### *ED-ISQM 1*

We are supportive of the introduction of a quality management approach for firms in developing their processes, policies and procedures. Overall, we are of the view that the proposed standard has been developed in a scalable manner, however, there are a few areas that we believe warrant further consideration from a scalability perspective. Specifically, we believe that the requirements may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements and have recommended further consideration of this area; including whether the proposed standard should apply at all to these firms, or whether consideration should be given to identifying a subset of requirements with which these firms are required to comply. We are also of the view that the requirements in relation to service providers and to firms that are part of a network could prove to be burdensome absent more defined boundaries to these requirements.

We have highlighted a number of areas in our detailed response where we are of the view that further application material is warranted. In particular, we would highlight the requirement for firms to identify and assess risk. Specifically, how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a "significant effect" should be measured or determined would be helpful. Absent this additional application material, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting their risk assessments should they be subject to challenge by regulators or through other inspection mechanisms.

We would also like to highlight the requirement for an annual evaluation of the system of quality management. As explained in our response to question 12, we are of the view that such an evaluation is redundant in a properly developed system of quality management, as such a system should promote continuous improvement.

#### *ED-ISQM 2*

We are of the view that the ED-ISQM 2 should not include a requirement for firms to develop a 'cooling off' period between an individual acting as an engagement partner and subsequently an engagement quality reviewer on the same engagement. We are of the view that this is in the purview of the International Ethics Standards Board for Accountants (IESBA) not the IAASB and accordingly should be addressed by IESBA.

In respect of the scalability of the proposed new standard, we have highlighted concerns in relation to the practical operation for smaller firms of the requirement for the person appointing the engagement quality reviewer to always be independent of the engagement team and in relation to the extent of the procedures listed as required to be performed by the engagement quality reviewer.

#### *ED-220*

We have significant concerns regarding the extent of the engagement partners responsibilities proposed by the amendments, specifically in their application to large single entity engagements and to multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Absent further guidance on how to practically apply these responsibilities in such engagements, we are of the view that these proposed amendments could be detrimental to quality. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

We are also concerned with the proposed definition of an engagement team. We have heard conflicting views on whether the definition of engagement team includes the component auditor and secondly, we are unclear about what constitutes an 'audit procedure' in this definition. An incorrect interpretation of this could result in individuals based at off-shore centres or those engaged in data mining activities being incorrectly included or excluded. Absent further clarity of these issues, we are of the view that this may have unintended consequences on who is considered a member of the engagement team and for the procedures that become required in relation to those individuals.

We respectfully submit our detailed responses to the Quality Management Exposure Drafts, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +1 646 825 8468.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

Antony Nettleton  
Global Leader – Quality and Risk Management  
Grant Thornton International Ltd

Enc: Appendix C: Response to Exposure Draft – Proposed International Standard on Quality Management 2

## Responses to IAASB's Exposure Draft – Proposed International Standard on Quality Management 2

The following provides our detailed response to the IAASB's request for comments to Exposure Draft – Proposed International Standard on Quality Management 2, *Engagement Quality Reviews*.

### QUESTIONS

- Q1. Do you support a separate standard for engagement quality reviews? In particular, do you agree the ED-ISQM 1 should deal with the engagement for which an engagement quality review is to be performed, and ISQM 2 should deal with the remaining aspects of engagement quality reviews?**

We are supportive of the creation of a separate standard for engagement quality (EQ) reviews and of ED-ISQM 1 retaining the requirement for the firm to develop policies or procedures in respect of the engagements for which an EQ review is to be performed. We believe that this promotes the scalability of the standards, such that where a firm determines that no engagement meets the criteria to require an EQ review, it is not required to address the requirements in ED-ISQM 2.

We further support ED-ISQM 2 dealing with the remaining aspects of the EQ reviews. By locating all the requirements relating to EQ reviews in a single and separate location, there is less opportunity for a requirement to be overlooked. Further sufficient explanation and guidance can be provided without affecting the length and complexity of ED-ISQM 1 or distorting the balance of EQ reviews relative to the other aspects of ED-ISQM 1. The development of a separate standard also addresses some of the perceived overlap of requirements in extant ISQC 1<sup>1</sup> and ISA 220.<sup>2</sup>

- Q2. Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED ISQM 2 clear?**

We are of the view that the linkages between ED-ISQM 1 and ED-ISQM 2 are sufficiently clear.

- Q3. 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 are indifferent to the change in terminology. We are of the view that it reflects better the substance of the role of the EQ reviewer but appreciate that the change in terminology may have consequences on translation, or in jurisdictions where the term “engagement quality control review(er)” has been incorporated into local legislation. We have not identified any jurisdictions where the change in terminology would be an issue.

- Q4. 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 are generally supportive of the proposed requirements regarding the eligibility of individuals to be appointed as an EQ reviewer or an assistant to an EQ reviewer. Whilst we appreciate that the standard deals with the authority, or perceived authority, of the EQ reviewer through the requirement in paragraph 16(a) and the related application material, experience indicates

<sup>1</sup> ISQC 1, *Quality Control For Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements*

<sup>2</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

difficulties can still arise where the EQ reviewer is of a grade lower than that of the engagement leader.

We would therefore recommend that the application material more strongly encourage a firm to implement robust policies or procedures that ensure the individual appointed EQ reviewer has sufficient authority to fulfil the role of EQ reviewer and the objectives of the proposed standard.

We also note that the application material, specifically paragraph A11, indicates that the authority of the EQ reviewer becomes diminished where the EQ reviewer has a reporting line to the engagement leader. Whilst acknowledging for some firms, it may not be possible for an EQ reviewer to be appointed where there is no reporting line to the engagement leader, we would recommend that the proposed standard include guidance that where practical the EQ reviewer does not have a reporting line to the engagement leader and provide examples of the safeguards a firm could put in place where it is not practical.

We note that paragraph 17 of ED-ISQM 2 allows for individuals to assist the EQ reviewer in the performance of the review. The related application material, through the provision of an example, could be interpreted that using assistants in the performance of an EQ review would only be appropriate in circumstances where specialist expertise is needed in the execution of the review. We do not believe that this was the intention of the requirement and recommend that the guidance is revisited in this regard.

We also note that one of the factors to consider in the appointment of an EQ reviewer is whether that EQ reviewer will have sufficient time to fulfil the role. The appointment of assistants to help the EQ reviewer in the performance of the review in general, may be helpful in circumstances where there is a limited pool of available EQ reviewers from which to draw. For example, a firm that only performs a small number of listed engagements will likely only have a small number of individuals with the sufficient knowledge to perform the review, i.e., engagement partners that perform audits of listed engagements. Appointing others to assist the EQ reviewer in these circumstances, such as senior managers on listed engagements or senior personnel on non-listed engagements for common EQ review tasks, may make the eligibility requirements more scalable.

**(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 control reviewer?**

See our response in (b) below.

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

We are supportive of preserving the objectivity of the EQ reviewer and of a requirement for firms to establish policies or procedures that put in place threats to safeguard the objectivity of the EQ reviewer. However, we do not support the guidance included in paragraph A5 of ED-ISQM 2 in relation to the establishment of a cooling off period. In our view such matters should be dealt with by the IESBA not by the IAASB.

**Q5. 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)?**

We support the proposed requirement for the EQ reviewer to perform EQ review procedures at appropriate points in time during the audit. This will allow for a more fulsome review by the EQ reviewer and will afford the engagement team the time to respond appropriately to the EQ reviewer's questions and comments.

Whilst we agree that the procedures listed in paragraph 22 of ED-ISQM 2 are those procedures that are likely to be performed by the EQ reviewer in the execution of an EQ review, we are concerned that the requirement as currently drafted will facilitate a checklist approach rather than a risk based approach to the performance of the review, which would be neither scalable nor result in an enhancement to quality. In fact, it may result in EQ reviewers completing a checklist, rather than taking the opportunity to think more holistically and determine which review procedure may be necessary.

More specifically, we have concerns with the following specific parts of paragraph 22:

- 22(d) requires that the EQ reviewer review selected engagement documentation that supports significant judgments made by the engagement team. Firstly, it is not clear whether this pertains to judgments that the engagement team itself has determined to be significant or those judgments that are significant in the view of the EQ reviewer. Secondly, ED-220, paragraph A79 includes an extensive list of judgments that are considered to be significant. This would appear to be an onerous responsibility for an EQ reviewer, given that this forms only one step of the review procedures that are required to be performed. We would recommend that consideration is given to scaling the requirement by specifying that the nature and extent of the review performed by the EQ reviewer is a matter of the EQ reviewer's professional judgment.
- 22(f) requires the EQ reviewer to "evaluate the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the engagement. The related application material to this requirement largely references the new requirement proposed in ED-220. Our issue with this requirement is two-fold, ED-220 does not provide any guidance on how the engagement partner provides evidence that supports this conclusion and ED-ISQM 2 does not provide any guidance as to how the EQ reviewer should operationalise and evidence the required evaluation. We would recommend that ED-220 clarifies how the engagement partner evidence the conclusion that overall responsibility for managing and achieving quality on the engagement has been taken; and that the EQ reviewer's responsibility is to confirm that the engagement partner has made this evaluation.

**Q6. 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?**

In principle, we agree that the EQ reviewer's evaluation of significant judgments includes evaluating the engagement team's exercise of professional skepticism. Our concern lies with how this is actually demonstrated in practice. Engagement teams already find it difficult to evidence how they have exercised professional skepticism in making judgments pertaining to the engagement which in turn will make it difficult for the EQ reviewer to evaluate and to demonstrate the evaluation performed as part of the EQ review. We are of the view that further guidance in the standards in this area would be helpful, both on how engagement teams evidence their exercise of professional skepticism (likely in proposed ED-220) and how the EQ reviewer evidences the evaluation of the engagement team's exercise of professional skepticism.

In respect to the exercise of professional skepticism by the EQ reviewer in performing the review; the inherent nature of the role, i.e. an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, requires the EQ reviewer to exercise professional skepticism in performing that objective evaluation. As such, although not an explicit requirement, it is implicit in the role performed. Similar to the issues experienced by the engagement team, the difficulty is in evidencing that appropriate professional skepticism

has been exercised in the performance of the review. We are therefore of the view that guidance in ED-ISQM 2 in this regard would be helpful. It may also be helpful if the proposed standard includes a definition or a description of an objective evaluation.

**Q7. Do you agree with the enhanced documentation requirements?**

We agree with the enhanced documentation requirements and are of the view that these enhanced requirements reflect what many firms currently require to be included in the engagement file as evidence of the EQ review.

**Q8. 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?**

Overall, we are of the view that the requirements in ED-ISQM 2 are scalable for firms of varying sizes and complexity. We do, however, have concerns in a number of areas:

- Appointment of the EQ reviewer – paragraph 15 requires that the firm “establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfil the responsibility...” Paragraph A3 acknowledges that “in certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.” This creates the expectation that the default position will be that the individual appointing the EQ reviewer will be independent of the engagement team. We are of the view that this requirement may be too onerous for a number of firms to comply with. We are also of the view that further guidance is needed on what the circumstances referred to in paragraph A5 are. We are also concerned, that absent further guidance in this area, firms may be open to criticism where an EQ reviewer is appointed by a member of the engagement team or another individual that is deemed not to be independent of the engagement team.
- Procedures required to be performed by the EQ reviewer – paragraph 22 of ED-ISQM 2 creates a list of procedures to be performed by the EQ reviewer. By including a list of specific procedures, this is a move away from a principles-based requirement and creates the danger of this becoming a “checklist” for firms to provide to the EQ reviewer when performing an EQ review. We are of the view that checklists are inherently not scalable and would therefore recommend reconsideration of the drafting of paragraph 22 to a more principles-based requirement.
- The establishment of a cooling off period – for smaller firms, this may result in firms needing to obtain the services of external individuals to perform the EQ review. This may result in such a burden on the firm that it is either no longer able to perform audits of entities that require an EQ review, or where the firm has the option to designate engagements, elects to not designate an engagement as requiring the EQ review. This has the potential to adversely impact quality.