

Financial Audit and Accounting Subcommittee - Analysis
**Exposure Draft – Proposed International Standard on Quality Management 2 :
Engagement Quality Reviews**

This Exposure draft (ED) is issued by the International Auditing and Assurance Standards Board (IAASB).

Deadline:

Comments are requested by [July 1, 2019](#). See the link to the document for comment below.

[Proposed International Standard on Quality Management 2 : Engagement Quality Reviews](#)

Background and scope of the ED:

This exposure draft represents the proposals from the Board formed following its initial Invitation to Comment. Proposals include a new ISQC 1 (to be named ISQM 1 with a change in name to quality management versus quality control), the introduction of a stand-alone standard for Engagement Quality Reviews (ISQM 2) and revisions to ISA 220 which is the engagement quality standard for financial audits. No revisions to standards applicable to direct engagements are proposed. The Explanatory Memorandum accompanying each document for comment presents a comprehensive and informative overview of the project proposals.

Specific questions posed by IAASB:

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?

FAAS analysis and position:

We support a separate standard for EQR, although we think that the split is somehow artificial, which makes that questions are being asked as to which standard should cover which aspects of the process.

For instance, selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in the current ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.

Question 2

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

FAAS analysis and position:

The linkages between ISQM 2 and 1 are summarized in the explanatory memorandum. However, on reading both standards as such (which will be the case once they are adopted), it will not be that clear, so auditors will not intuitively know where to turn to when looking for information.

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?

FAAS position:

Yes

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?

- (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?

FAAS position:

Yes

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)?

FAAS analysis and position:

As noted in our analysis of ED-220, there appears to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters and their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader’s involvement including the extent to which they believe significant judgments are present in the engagement.

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?

FAAS analysis and position:

Evaluating the engagement team's exercise of professional scepticism maybe based on qualitative information that can be a major source of conflict between the two parties. We think the concepts of professional judgement and professional scepticism are largely intertwined - see our more detailed comments on the other documents. Evaluation of significant judgments may not necessarily lead to a conclusion on the professional scepticism.

Question 7

Do you agree with the enhanced documentation requirements?

FAAS position:

Yes

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?

FAAS analysis and position:

The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include similar level of explanation in the application material.
Having said that, in practice, very small firms are unlikely to be auditing PLCs or similar SPI clients...

Editorial Comments on Proposed ISQM 2

Page 27, before A29: Suggest to rephrase the heading: "Significant Matters and **Significant** Judgments"

Question	Cameroon	Canada	Namibia	ECA	FAAS Consolidated
<p>General Comments on Proposed ISQM 2</p>					
<p>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?</p>	<p>Yes</p>	<p>Paragraph 11 of the Explanatory Memorandum to ED-ISQM 2 outlines the basis for developing a separate standard for Engagement Quality Reviews, including:</p> <ul style="list-style-type: none"> (a) Placing emphasis on the importance of the engagement quality review. (b) Facilitating the enhancement of the robustness of the requirements for the eligibility of engagement quality reviewers and the performance and documentation of the review. (c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the engagement quality reviewer. (d) Increasing the scalability of ED-ISQM 1 because there may be circumstances when a firm determines that there are no engagements for which an engagement quality review should be performed (e.g., a firm that performs only compilation engagements). <p>Given the increased volume of requirements and guidance, providing a separate standard for engagement quality review is appropriate. Selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in existant ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.</p>	<p>Yes, in agreement. The process of Engagement Quality Review is crucial towards enhancing of the final output, thus due focus through a separate standard is needed.</p>	<p>While we understand the reasoning behind the split, as explained in paragraph 11 of the explanatory memorandum, we still think this split is somehow artificial and the engagement quality reviews could have been dealt with within the revised ISQM1. The fact that the question on how the division between the two standards is to be made in that which aspects are being dealt with by which, is an illustration of that.</p>	<p>We support a separate standard for EQR, although we think that the split is somehow artificial, which makes that questions are being asked as to which standard should cover which aspects of the process.</p> <p>For instance, selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in the current ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.</p>
<p>2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?</p>	<p>Yes</p>	<p>Paragraph 11 of the Explanatory Memorandum to ED-ISQM outlines the linkages between ISQM 2 and 1. Given the previous linkages between ISA 220 and ISQC1, the concept of linkages and integration of the standards and their requirements is understandable and sufficiently clear.</p>	<p>Yes, in agreement</p>	<p>The linkages between ISQM 2 and 1 are summarized in the explanatory memorandum. However, on reading both standards as such (which will be the case once they are adopted), it will not be that clear, so auditors will not intuitively know where to turn to when looking for information.</p>	<p>The linkages between ISQM 2 and 1 are summarized in the explanatory memorandum. However, on reading both standards as such (which will be the case once they are adopted), it will not be that clear, so auditors will not intuitively know where to turn to when looking for information.</p>

<p>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?</p>	<p>No great impact</p>	<p>We have no concerns with this terminology change.</p>	<p>Yes, in agreement. Though the control element is removed from the title, the standard still aims to ensure that the principle of control is ensured and is applicable to the final quality test- prior to publication of the audit reports.</p>	<p>We do not foresee any adverse consequences due to this change.</p>	<p>Yes.</p>
<p>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?</p>		<p>The requirements in ED-ISQM 2 for the appointment and eligibility of the engagement quality reviewer (whether internal to the firm or external) and those that assist them are more robust than those in extant ISQC 1.</p> <p>Eligibility criteria set out in paragraph 16 and 17 of ED-ISQM 2 include:</p> <p>16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)</p> <p>(a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)</p> <p>(b) Comply with relevant ethical requirements, including that threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team are eliminated or reduced to an acceptable level; and (Ref: Para. A13–A16)</p> <p>(c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)</p> <p>17. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those</p>	<p>Yes, in agreement. The competence and capabilities needs to be clearly pronounced so as to ensure quality reviews that are suitable to meet public expectations.</p>	<p>Yes, in particular when read in conjunction with A1-A20.</p>	<p>Yes.</p>

		<p>policies or procedures shall require that such individuals not be members of the engagement team, and:</p> <p>(a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and (b) Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation. (Ref: Para. A18-A19)</p> <p>These requirements include a limitation on serving as reviewer for an engagement on which the individual previously served as engagement partner and guidance that the firm establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. No cooling off period is prescribed, although the cooling off period for listed entities is proposed in guidance to be 2 years.</p>			
<p>(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?</p> <p>(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?</p>	<p>In the public sector a reviewer maybe designated following appointment to a certain position. In this case a cooling off period may not be necessary. However, from a private firm’s perspective, I fully agree It should be.</p>	<p>OAG guidance already provides that if a person considered for the quality reviewer position on an engagement has previously been the engagement leader, at least two years must have elapsed before the person may be appointed as the quality reviewer, regardless of the length of time the individual served as the engagement leader. As a result, we already have a cooling off period in our methodology. We do not feel a need for additional guidance in this area beyond that already provided in the proposal.</p>	<p>a) Yes, in agreement.</p> <p>Prefer ISQM 2 as IESBA constitute a “delink” from the standard whilst non-compliance could occur.</p>	<p>a) Yes, should be b) Yes</p>	<p>a) Yes b) Yes</p>
<p>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</p>	<p>yes</p>	<p>As noted in our analysis of ED-220, there appear to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters <u>and</u> their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer</p>	<p>No comment.</p>	<p>We agree with Canada’s comment</p>	<p>As noted in our analysis of ED-220, there appears to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters <u>and</u> their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their</p>

engagement partner in proposed ISA 220 (Revised)?		from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader's involvement including the extent to which they believe significant judgments are present in the engagement.			own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader's involvement including the extent to which they believe significant judgments are present in the engagement.
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?	Yes although evaluating the engagement team's exercise of professional skepticism maybe based on qualitative information that can be a major source of conflict between the two parties	<p>ISQM 2 paragraph 22 (d) requires the quality reviewer to review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and evaluate:</p> <p>(i) The engagement team's basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;</p> <p>This requirement is an appropriate reflection of how the quality reviewer may contribute to the exercise of professional skepticism depending on the nature of the judgments and documentation reviewed. We feel this approach strikes the right balance for this issue.</p>	No comment.	We think the concepts of professional judgement and professional scepticism are largely intertwined - see our more detailed comments on the other documents. Evaluation of significant judgments may not necessarily lead to a conclusion on the professional scepticism.	Evaluating the engagement team's exercise of professional scepticism maybe based on qualitative information that can be a major source of conflict between the two parties. We think the concepts of professional judgement and professional scepticism are largely intertwined - see our more detailed comments on the other documents. Evaluation of significant judgments may not necessarily lead to a conclusion on the professional scepticism.
7) Do you agree with the enhanced documentation requirements?	Yes.	<p>Explanatory Memorandum paragraph 38 explains that ED-ISQM 2 includes a specific requirement for the engagement quality reviewer to take responsibility for documentation of the engagement quality review, and also adds a requirement that the documentation be filed with the engagement documentation. The IAASB also added an overarching requirement in ED-ISQM 2 for the documentation to be sufficient to 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.</p> <p>Documentation requirements presented are reasonable and not overly onerous.</p>	Yes, in agreement.	Yes	Yes
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 although there maybe some difficulties in applying to a sole practitioner	As noted in our analysis of ISQM 1, scalability is an area of current focus for the IAASB and the international board has provided information on how this concept has been addressed in its current proposal in explanatory information and in the proposed standards – refer to the Appendix of the explanatory material in the Exposure Draft preceding the proposed ISQM 2. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.	Yes, in agreement.	Yes Having said that, in practice, very small firms are unlikely to be auditing PLCs or similar SPI clients. So it doesn't really arise....?	The scalability of the standard is explained in the explanatory memorandum. It would be helpful to include similar level of explanation in the application material. Having said that, in practice, very small firms are unlikely to be auditing PLCs or similar SPI clients...

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