



For the attention of Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

1 July 2019

Dear Mr. Botha,

IAASB Exposure Draft: Proposed International Standard on Quality Management 2, Engagement Quality Reviews

We¹ appreciate the opportunity to comment on the IAASB's Exposure Draft (ED).

We are supportive of a separate standard for Engagement Quality Reviews (EQRs). EQRs are an important response by a firm in managing and achieving quality and it is useful to bring together the requirements for the firm and the reviewer into a single standard.

We support the majority of the proposed revised requirements, with the following exceptions:

- **Objective** - We believe the omission of an objective aimed at the engagement quality reviewer is a flaw. We suggest a two-part objective be developed, which reflects that:
 - The objective of the firm is grounded in establishing policies and procedures that support the consistent performance of EQRs in accordance with the standard.
 - The objective of the engagement quality reviewer is closely aligned to the definition of an EQR. In essence, the reviewer needs to be satisfied that, through complying with the requirements of the standard, they have sufficiently and objectively evaluated the significant judgements made by the engagement team and the conclusions reached thereon.
- **Cooling off period** - We support the criteria for eligibility to be appointed as an engagement quality reviewer and for individuals who may assist the reviewer. We also support the concept of a "cooling off period". However, we believe the matter of a cooling-off period should be addressed by the IESBA within the Code of Ethics. We recommend the IESBA establishes a principle that ordinarily, in the case of an audit of financial statements, an engagement partner would not be able to act as the engagement quality reviewer until two subsequent audits have been conducted. That principle should apply to all audits for which an EQR is required in accordance with ISQM 1 and not be limited only to audits of listed entities.
- **Performance of the Engagement Quality Review** - We support bringing clarity to the nature

¹ This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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and extent of work expected of an engagement quality reviewer. However, we are concerned that the proposed requirement in paragraph 22(f) for the engagement quality 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 audit engagement lacks sufficient context. The evaluation needs to be anchored to the engagement partner's involvement, and evidence thereof, in the significant judgements that are within the scope of the engagement quality review. We recommend the requirement should be amended to make the basis for the evaluation clear, with application material providing additional guidance on factors the engagement quality reviewer may take into account in making the evaluation. We also support bringing further clarity to the significant judgements that the engagement quality reviewer may be expected to evaluate.

We provide further context to the above points in our responses to the detailed questions posed in the explanatory memorandum in appendix 1 to this letter.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at james.chalmers@pwc.com.

Yours sincerely,

A handwritten signature in black ink that reads 'James Chalmers'. The signature is written in a cursive, flowing style.

James Chalmers
Global Assurance Leader

Appendix 1 - Responses to specific 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?**

We are supportive of a separate standard for Engagement Quality Reviews (EQRs). We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard. At the same time, we understand and support the logic of locating the requirement to determine engagements to be subject to an EQR within ISQM 1. An EQR is one “response” that a firm can utilise to address risks to achieving the firm’s quality objectives identified through the firm’s risk assessment process established in accordance with ISQM 1, and therefore discussing that response in ISQM 1 is appropriate.

Objective

We believe the omission of an objective aimed at the engagement quality reviewer is a flaw. While we acknowledge that ISQM 2 is described as a “firm-level” standard, the proposals include a mix of requirements targeted at the firm (to develop specific policies and procedures) and at the engagement quality reviewer (in performing the review). In addition, the objective of the standard, as described in paragraph 10, is not articulated in a manner that sounds like an objective - it reads like a requirement or process that does not adequately reflect the nature of the underlying requirements and overall objective in performing an EQR.

We suggest a two-part objective be developed, which reflects that:

- The objective of the firm is grounded in establishing policies and procedures that support the consistent performance of EQRs in accordance with the standard.
- The objective of the engagement quality reviewer is closely aligned to the definition of an EQR. In essence, the reviewer needs to be satisfied that, through complying with the requirements of the standard, they have sufficiently and objectively evaluated the significant judgements made by the engagement team and the conclusions reached thereon.

Navigability

We recommend that additional signposting within the requirements could more clearly distinguish those requirements that apply to the firm and those that apply to the engagement quality reviewer by, for example, use of italicised sub-headings.

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

Yes, we believe that the linkages between ISQM 1 and ISQM 2 are sufficiently clear.

- 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?**

Yes, we support this change in terminology. We do not foresee any particular adverse consequences.

National standard setters will need to assess any potential impact at a jurisdictional level, based on local law or regulation.

- 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?**

We support the criteria for eligibility to be appointed as an engagement quality reviewer and for individuals who may assist the reviewer.

We also support the concept of a “cooling off period”, and agree that threats to objectivity may arise where such a period is not adopted. However, we believe the matter should be addressed by the IESBA within the Code of Ethics.

In addressing the matter, we suggest the IESBA should establish a principle that ordinarily, in the case of an audit of financial statements, an engagement partner would not be able to act as the engagement quality reviewer until two subsequent audits have been conducted. In that respect, we do not agree with the limitation to audits of listed entities in paragraph A5. If a firm has determined that an EQR is required or is an appropriate response to an identified quality risk for an engagement in accordance with ISQM 1, the principle should apply. A threat to objectivity is not determined by, or restricted to, entities of a specific type.

In addressing the matter in the Code of Ethics, we do, however, support the position adopted in proposed ISQM 2 that this principle be addressed through the firm establishing policies and procedures that address eligibility. In addressing the matter, we consider it important that the IESBA reflect on whether there are circumstances, in particular in the context of smaller practitioners, where there may be potential risks to quality from mandating a minimum specific period. Whilst we anticipate this situation to be rare, it would not seem to be in the public interest that there may be circumstances when a compliant audit could not be performed because it is not possible to identify an engagement quality reviewer who could meet this criterion. We suggest that the IESBA be asked to consider whether there are additional safeguards that can be put in place in these rare circumstances.

With respect to paragraph A4, we are not convinced of the relevance of paragraphs 59-60 of ISQM 1. If a firm obtains an engagement quality reviewer from another network firm, the firm still has to be satisfied that the individual meets the criteria specified in paragraph 16. That should be a clear determination point. It is unclear what additional risks to quality may arise that would require to be assessed as part of the firm’s overall system of quality management by applying paragraphs 59 and 60 of ISQM 1. Specifically, the relevance of paragraph 60 is not clear.

- 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)?

Nature, timing and extent of procedures

We support the emphasis on the engagement quality reviewer's involvement at all key stages of the engagement.

We also support bringing clarity to the nature and extent of work expected of an engagement quality reviewer. In doing so, it is important to recognise the respective roles of the engagement partner and engagement quality reviewer. The engagement quality reviewer is not a second engagement partner, repeating all of the same responsibilities as the engagement partner to act as a "check" on all of the judgements made.

The engagement quality reviewer supports quality on the engagement by bringing an objective perspective to the *significant* judgments made by the engagement team in the engagement. However, the engagement quality reviewer is not able to make an independent assessment as to whether the significant judgments identified by the engagement team represents a complete population, as this would effectively mean reviewing all areas of the engagement and related audit documentation. That is not to say that if the engagement quality reviewer becomes aware of a matter that they believe the team has not addressed, the reviewer should not raise this. We believe that application material is needed to clarify these points to help facilitate consistent application of the standard. In practice, a firm's policies and procedures will also likely give direction to engagement quality reviewers as to a baseline of significant judgements that need to be reviewed by the engagement partner and evaluated by the engagement quality reviewer. We also propose an amendment to paragraph 22(c) in appendix 2.

We understand the desire to align the content describing significant judgements with that in proposed ISA 220 (Revised). However, we believe a cross-reference is not helpful and suggest that, as with proposed ISA 220 (Revised), specific examples are needed in the application material. The simplest option may be to replicate paragraph A79 of proposed ISA 220 (Revised), amending the context to refer to the engagement quality reviewer's role. To the extent that there are significant judgements that the Board believes should always be evaluated by the engagement quality reviewer, we support including those as direct requirements, for example, materiality, risk assessment and disposition of corrected and uncorrected misstatements, to name a few.

Evaluating the engagement partner's conclusion that they have taken overall responsibility

We have a specific concern that the proposed requirement in paragraph 22(f) for the engagement quality 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 audit engagement lacks sufficient context. This needs to be clearly anchored to the observations the engagement quality reviewer is able to make in the course of performing their responsibilities under the standard. Otherwise, this is an open-ended and subjective requirement, and could be interpreted as requiring the engagement quality reviewer to replicate the audit performed in order to "second guess" whether the engagement partner has an appropriate basis for taking overall responsibility for managing and achieving quality on the audit engagement. Therefore, the evaluation needs to be grounded in the context of the engagement partner's involvement, and evidence thereof, in the significant judgements that are within the scope of the EQR (note, we have a related concern in relation to proposed ISA 220 (Revised) about how the involvement of the engagement partner may be sufficiently evidenced).

Absent those clear boundaries, the engagement quality reviewer would not have a sufficient basis for making such an evaluation - as we note above they are not acting as a second “engagement partner” and are not evaluating the sufficiency and appropriateness of the involvement of the engagement partner across the entirety of the engagement. We recommend the requirement should be amended to make the basis for the evaluation clear, with application material providing additional guidance on factors the engagement quality reviewer may take into account in making the evaluation.

Completion of the EQR

We support the requirement in paragraph 24 regarding the notification to be provided by the engagement quality reviewer to the engagement partner and agree that the engagement partner cannot sign the auditor’s report until receiving this notification. However, we believe guidance is needed to clarify that the nature of such notifications and the way they are documented may differ depending on the firm’s established policies and procedures (e.g., there is no requirement for a written communication that needs to be provided by the engagement quality reviewer).

- 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?**

We support the requirements and application guidance provided in this area and do not believe that additional guidance is necessary. However, it would likely be helpful to provide additional references to ISA 200 application material addressing how professional scepticism may be applied.

- 7. Do you agree with the enhanced documentation requirements?**

We support the enhanced documentation requirements and principle that the engagement quality reviewer takes responsibility for documentation of the engagement quality review and that this may be documented in a number of ways.

- 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?**

In principle, the requirements should be sufficiently scalable as the extent of the engagement quality reviewer’s work effort should be commensurate with the nature and circumstances of the engagement subject to review.

Some smaller firms may find challenges in complying with the requirements addressing criteria for the eligibility of engagement quality reviewers when there is a particularly small population of individuals who could fulfil that role, in particular when taking into account the cooling-off provisions, as noted in our response to question 4. This may require more firms than at present to have to seek the services of external parties (other network firms or “service providers”).

Appendix 2 - Detailed comments

Section 1 presents a summary of our substantive comments, while Section 2 includes comments of an editorial nature.

Section 1 – Substantive comments

Paragraph 10 Objective (refer to our response to question 1):

- We recommend a revised two-part objective, targeted at both the firm and engagement quality reviewer.

Paragraph 16 Cooling off period (refer to our response to question 4):

- We recommend extending the cooling off period to cover all engagements requiring an EQR, not merely listed engagements. However, we believe the matter should be addressed by the IESBA through the Code rather than through the IAASB's standards.

Paragraphs 22(c) Performance of the EQR (refer to our response to question 5):

- We recommend the following change to make clear that the engagement quality reviewer is not making an independent judgement (second-guessing) as to the significant judgements made on the engagement. The reviewer evaluates the significant judgements that were identified as such by the engagement team:

“Based on the information obtained in (a) and (b), identify obtain an understanding of the areas involving significant judgments made by the engagement team, including those related to:
.....”

- We recommend application material replicate the content from proposed ISA 220 (Revised) describing significant judgements and that consideration be given as to whether certain significant judgements, for which it is always expected that they be evaluated, should be addressed in the requirements.

Paragraph 22(f) Evaluating the engagement partner's conclusion that they have taken overall responsibility (refer to our response to question 5):

- We recommend redrafting the requirement to anchor the evaluation to consideration of the engagement partner's involvement in the significant judgements that are within the scope of the EQR.

Paragraph 24 Completion of the EQR (refer to our response to question 5):

- We recommend including application material to clarify that notification methods may vary based on a firm's policies, procedures, and information and communication systems.

Section 2 - Other editorial comments

Paragraph 1 - We propose the following amendment to be consistent with the intent of paragraphs 27 and A38 : “*The engagement quality reviewer’s responsibilities relating to the performance and documentation of performing and documenting an engagement quality review”.*

Paragraph 11(b) - We suggest a comma is needed after the second reference to the “firm”.

Paragraph 22(a)(ii) - We propose the following amendment: “*Provided by the firm about the results of its monitoring and remediation of engagements, in particular....”.*

Paragraph 27(d) - We propose the following amendment to recognise that paragraph 23 is conditional: “*the notifications required in accordance with paragraphs 23, when applicable, and 24; and”.*

Paragraphs A22-A23 - Footnote 10 should only reference paragraph 36(a) of ISAE 3000 (Revised). Paragraph A23 is unnecessary and duplicative of footnote 10 and can be deleted (or vice versa).

Paragraph A27 Bullet 2 - We propose the following amendment to recognise that the list addresses factors and should not imply the potential outcome: “*The findings arising from the firm’s monitoring activities, ~~which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.~~”*

Paragraph A27 Bullet 6 - We propose the following amendment: “*The firm’s acceptance and continuance of the client relationships and ~~specific engagements~~, which may indicate ~~new~~ risks to achieving quality for ~~an~~ the engagement.”*