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Professor Arnold Schilder  
International Auditing and Assurance  
Standards Board  
International Federation of Accountants  
529 Fifth Avenue  
New York, NY 10017  
USA

Our ref

SRA/288

1 July 2019

Dear Professor Schilder

**Re: Proposed International Standard on Quality Management (ISQM) 2,  
*Engagement Quality Reviews***

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB ('the Board'). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments, which provide our views on key aspects of the proposed standard, are set out below. The Appendix to this letter provides our responses to the specific questions posed in the ED.

We are supportive of the overall direction of the changes proposed in the ED and the objectives of the IAASB regarding this project. We believe that, in general, these proposals, together with those set out in proposed ISQM 1, *Quality management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, and in proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, represent considerable enhancements to the equivalent requirements set out in extant ISA 220 and also in ISQC 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*.

In particular, we welcome the inclusion of requirements in respect of Engagement Quality (EQ) reviews within a quality management standard, which we believe gives significantly greater prominence to this important role. It also better recognises the purpose of the role as part of a firm's system of quality management, and the need for consistency in applying robust policies and procedures in matters such as appointment to the position.

We consider that the specific requirements themselves are also enhanced, for example, by increased focus on the attributes of those performing EQ reviews, their responsibilities and the matters which they address.

Notwithstanding the above, we note the following concerns regarding certain proposed amendments, including suggestions for further consideration and clarification.

### **Nature and Purpose of EQ Reviewer Role**

We highlight that certain proposed amendments may result in a lack of clarity as to the fundamental nature and purpose of an EQ review, which may lead to different interpretation and give rise to inconsistent application in practice. This is because the revised material has introduced/exacerbated certain inconsistencies within the standard, as follows:

- Certain requirements/guidance suggest that the EQ review is performed as a separate review process to the audit engagement itself, with relatively limited interaction between the Engagement Partner and the EQ Reviewer, such that the EQ review is more similar in nature to a “second opinion”, or an internal or external quality performance review;
- Other requirements/guidance suggest that although the EQ review is part of the firm’s quality management processes, it is performed at the engagement level and may, as a result, change the course of the audit.

Please see our response to Question 5 for more detail regarding the above.

We consider that the second view above, i.e. that the EQ review is performed at the engagement level and may change the course of the audit, albeit that it is part of the firm’s quality management process and is performed objectively by an individual who is not part of the engagement team, is more appropriate. We consider that EQ reviews performed in accordance with this principle would better drive increased audit quality, primarily because through robust discussions between experienced partners (the Engagement Partner and the EQ Reviewer) the EQ Reviewer may shape the direction of the audit as a particular course of action may be agreed on that is different to that which the Engagement Partner would have taken in the absence of the EQ review. We also highlight that we believe that this view is aligned with the intention underlying extant ISA 220.

Accordingly, we recommend that the Board consider clarification of this important aspect of the standard. In particular, we note that it is critical that the standard does not preclude interaction and robust discussions between the Engagement Partner and the EQ Reviewer, because we believe, as we note above, that this may be an important aspect of audit quality on engagements that are subject to an EQ review.

## Documentation

In connection with the above, we note that ED ISQM 2 establishes certain enhanced documentation requirements, including that the EQ Reviewer take responsibility for the documentation of the EQ review; that such documentation is sufficiently extensive to meet the “experienced practitioner test”<sup>1</sup>, including documentation of the EQ Reviewer’s conclusions, and that the EQ Reviewer specifically determine that the EQ review is “complete”.

We recognise that the application guidance in the proposed standard offers flexibility as to how the documentation requirements may be satisfied, however, we also suggest that the proposed standard explicitly clarify that one way to satisfy the documentation requirements is for the engagement team to include commentary on discussions with the EQ Reviewer as part of the engagement documentation, with the EQ Reviewer indicating “concurrence”. Alternatively, the EQ Reviewer may prepare documentation summarising the performance of the EQ review, including discussions held with the engagement team, and the outcome of such discussions, which would be retained as part of the engagement documentation. We believe clarity regarding the possible approaches would be helpful as this would enable the EQ Reviewer to determine the most appropriate approach in the engagement circumstances and, in the event that the EQ Reviewer concurs with the information set out in the engagement documentation itself, we believe this would avoid unnecessary duplication of documentation, and instead would better enable the EQ Reviewer to focus on the primary purpose of their role, i.e. the critical and objective evaluation of the significant judgements made by the engagement team.

Additionally, we are concerned that the proposed enhancements appear to suggest that there is a presumption that the more extensive the EQ Reviewer documentation is, the more robust the EQ review has been. We believe the extent of documentation related to the EQ review will depend on the facts and circumstances of the engagement. For example, in a scenario in which the EQ Reviewer concurs with the engagement team’s risk assessment, work performed, judgements and conclusions reached and is satisfied that these are appropriately reflected in the audit documentation, the documentation of the performance of the EQ review may be less extensive than on an audit engagement where the EQ Reviewer identifies areas that result in changes to the work performed and/or the audit documentation. Both examples may demonstrate that a robust EQ review has been performed. We suggest that this aspect is further clarified by the IAASB.

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<sup>1</sup> i.e. to “enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the EQR and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review”. (Source: ISA 230.8)

As a related point, we also note that the documentation requirements in extant ISA 220 align to and build on those set out in ISA 230, *Audit Documentation*. Since the requirements in respect of EQ reviews are now included in a Quality Management Standard, as opposed to an ISA, it is unclear whether and how the requirements of ISA 230 continue to apply. We note that the ED states that the documentation of the EQ review should “be included *with* [emphasis added] the engagement documentation” but it is no longer explicit that this is actually *part of* the engagement documentation. We therefore recommend that the IAASB clarify the applicability of ISA 230 to documentation of EQ reviews. Our initial understanding would be that ISA 230 also applies to documentation in respect of an EQ review.

### **Responsibility to Identify Significant Matters**

We are concerned that the proposed requirements may change the overall balance of responsibility, in terms of identifying significant matters, between the Engagement Partner and EQ Reviewer, i.e. the extent to which the EQ Reviewer needs to actively identify significant matters and judgements versus the extent to which the Engagement Partner and team would bring these issues to his/her attention. It appears that this balance has shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer’s responsibility would ultimately stop.

Such lack of clarity may result in inconsistencies in practice as procedures performed by the EQ Reviewer in order to identify “significant matters” become more extensive in order to fulfil the revised requirements. As a result, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel process may even be necessary, as we note above.

As we set out in our comment letter on ED ISA 220 (Revised), the description of responsibilities of the Engagement Partner at ED ISA 220.33 includes language that appears relatively “soft” in that it refers to “cooperation” with the EQ Reviewer and requirements to “discuss significant matters arising”.

We suggest, therefore, that ED ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer’s attention to areas of significant judgement and to go beyond simply “cooperation” with the EQ Reviewer to take a more “active” role in this process. We do not believe that this would diminish the EQ Reviewer’s responsibility in any way, for example, this would not detract from the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other significant matters, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including expertise regarding the particular industry, would expect the engagement team to have identified. Instead, we believe that drawing the EQ Reviewer’s attention to such matters would assist them in properly executing their role.

We also suggest that ISQM 2 be amended to clarify that the EQ Reviewer is required to understand the engagement team's basis for determining which areas involve significant judgements, but is not required to identify such areas him/herself.

### **Clarity of interaction with ISQM 1**

As we highlight above, we support the IAASB's decision to include requirements and guidance relating to EQ reviews in a separate quality management standard with appropriate linkage to the requirements in ISQM 1.

However, we note that ED ISQM 2 paragraph 22(a)(ii), in describing interaction between the firm and the EQ Reviewer, requires the EQ Reviewer to read and understand information provided by the firm about the results of its monitoring and remediation, in particular about "*identified deficiencies that may relate to, or affect, the areas involving significant judgements by the engagement team*". We are concerned that it is unclear as to how, and to what degree, the EQ Reviewer should consider and act on such information about the firm's deficiencies in quality processes. ED ISQM 1 does not categorise deficiencies in the firm's system of quality control, or provide definitions such as "significant deficiency". We presume this requirement relates, conceptually, to less than significant deficiencies since the three parts of the quality framework (firm, Engagement Partner and EQ Reviewer roles/responsibilities) all need to function as required for engagement quality to be achieved overall. We also note that a significant deficiency in one aspect cannot be compensated for by enhancement in another.

We acknowledge the IAASB's possible intention in introducing this requirement because of the clearer delineation of responsibilities between an Engagement Partner and his/her firm. However, we note that this requirement is rather ambiguous and may be challenging to apply in practice and that there would be benefit in the standard including further clarification or application guidance to drive consistency in the interpretation and application of this requirement.

Please contact Sheri Anderson if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

## Appendix: Responses to Specific Questions Posed by IAASB

### **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 support the IAASB's decision to include requirements and guidance relating to EQ reviews within a quality management standard as we believe this gives significantly greater prominence to this important role. It also better recognises the purpose of the role as part of a firm's system of quality management, and the need for consistency in applying robust policies and procedures in matters such as appointment to the position.

We consider that the specific requirements themselves are also enhanced, for example, by increased focus on the attributes of those performing EQ reviews and their responsibilities.

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

We believe that, generally, appropriate linkage between the standards is provided, in particular, in ED ISQM 2 paragraphs 3-7, in the section entitled "The Firm's System of Quality Management and Role of EQ Reviews", as it is critical that ISQM 1 and ISQM 2 are clearly linked in order to operate together as the firm's system of quality management.

We recommend that certain paragraphs, such as ED ISQM 2 paragraph 15, which requires "*the firm to establish policies and 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*"; and 16-19, which also impose requirements on the firm regarding establishing policies and procedures regarding the criteria for eligibility for appointment as an EQ Reviewer and any individuals who assist him/her; policies and procedures that address the EQ Reviewer's responsibility in the specific role, and address circumstances in which the EQ reviewer's eligibility may be impaired, be more clearly cross-referenced to ED ISQM 1 paragraph 38, from which they build.

We recognise that the requirements in respect of the EQ review set out in ED ISQM 2 are more granular/specific than those set out at ED ISQM 1 paragraph 38 and we also note that the requirement at ED ISQM 2 paragraph 20 regarding the EQ Reviewer becoming aware of impairment to his/her eligibility to perform the review, and the requirements addressing performance of the review are specific to the individual (and their designees) who performs the EQ review role on behalf of the firm. Accordingly, as we note above, we support the IAASB's rationale to specifically address these various aspects of the role in one standard, building on the base requirements in ISQM 1.

However, as a result of this approach, we highlight that there are certain imbalances/mismatches between the two quality management standards, e.g.:

- ED ISQM 1.38(b) refers to the Engagement Partner (and staff) “being given sufficient time” to perform the engagement, i.e. recognising that the firm bears this responsibility, at least in part, and therefore would need to establish procedures such as engagement portfolio review in order to enable this to be determined. In respect of the EQ review, ED ISQM 2.16(a) refers to whether the firm’s policies and procedures require the EQ Reviewer to “have... sufficient time”, i.e. the firm’s role/responsibility to ensure that this is possible is not explicitly acknowledged. This is important because “sufficient time” is a prerequisite for competence and capabilities to perform the role, as described at ED ISQM 2.16(a);
- ED ISQM 1.38(d) requires that quality objectives be established that require personnel to “*demonstrate a commitment to quality through their actions and behaviours, develop and maintain the appropriate competence to perform their roles, and are held accountable through timely evaluations, compensation, promotion and other incentives*”. However, ED ISQM 2.18 requires the firm to establish policies and procedures that require “*the EQ reviewer to take responsibility for the performance of the review...*” but does not go as far as to link this performance specifically to accountability, evaluation and reward, which would be a very important aspect of giving appropriate recognition to this role.

Accordingly, we recommend that the above requirements in ED ISQM 2 be at least as stringent/detailed as those in ED ISQM 1, which may be achieved by more specifically building on the requirements set out in ED ISQM 1 in respect of EQ reviews, and introducing clearer linkage between these requirements and ED ISQM 1.38, rather than the current presentation in which these requirements in ISQM 2 appear to replace ED ISQM 1.38, and as a result may not be complete.

Please also refer to our comments in Question 5, in the section entitled “Responsibility in Respect of Quality Deficiencies”.

**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?**

We are generally supportive of the change in terminology and we do not foresee any significant concerns with the revised terminology, in particular, because we consider that the description of the role in the definition, together with the material set out at paragraph 6, is clear and appropriate, and therefore we believe would support consistent application in practice.

We believe the removal of the term “control” may be helpful as that terminology may inappropriately imply a more general compliance-based evaluation, rather than a role which focuses on “higher-level” matters, i.e. significant judgements.

This proposed change aligns with the inclusion of the statement at paragraph 6 that “*an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm’s policies or procedures*”.

We believe this change in terminology and the clarification at paragraph 6 are helpful, in particular, because the requirements are no longer in ISA 220 and instead are placed in a quality management standard, which would usually be considered to address firm-level policies and procedures more broadly.

We also refer to our comments in Question 5, in the section entitled *Responsibility in Respect of Quality Deficiencies*.

**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?**

We support these proposed changes, which provide increased focus on the attributes of competence and capabilities, including time, as well as compliance with ethical requirements, in particular, objectivity. We consider that as a result of these, firms will have a better foundation regarding the establishment of policies and procedures in relation to the appointment of EQ Reviewers, enabling greater emphasis on the consistent application of more formalised criteria in respect of determining their eligibility.

We also believe the revisions will help make these criteria themselves more robust, especially emphasising the alignment of an individual’s competence and capabilities to the specific engagement and its circumstances, as well as providing greater recognition of the critical factor of “authority” and linking this to the firm’s policies/culture in this area.

We suggest that the ED clarify that considerations as to eligibility need to be made in detail at the time of initial appointment to the role, but for subsequent periods may be made at a higher level, focused on determination as to whether circumstances have changed, both in respect of the individual, and the wider engagement circumstances, or whether a change in the EQ Reviewer is necessitated by ethical requirements, laws or regulations, but need not involve a complete re-assessment.

We note that paragraph 20, which addresses the EQ Reviewer becoming aware of circumstances that may impair his/her eligibility to perform the role, provides that the EQ Reviewer decline the appointment, if the review has not commenced, or discontinue

the performance otherwise. We highlight that whilst these steps may be the appropriate outcome, for example, in a scenario in which the matter that may impair eligibility relates to objectivity of the EQ Reviewer, it may also be appropriate for the IAASB to introduce alternative courses of action, for example, in a scenario in which the matter relates to a specific aspect of expertise that is not considered to be pervasive to the engagement as a whole, the individual responsible for appointing EQ Reviewers may determine that a more appropriate solution would be to appoint an individual with relevant expertise in respect of the particular matter to assist the EQ Reviewer, as envisaged at paragraph A18.

We also recommend that the IAASB consider including a preceding requirement, that the EQ Reviewer, once appointed, “remain alert” to matters that may affect his/her eligibility and, in the event that such matters are identified, that the EQ Reviewer consider their effect, if any, on their ability to perform the role, and, when necessary, notify the appropriate individual(s) within the firm, including the individual responsible for appointment of EQ Reviewers. Such individual may then consider the effect of the matter that may affect eligibility of the EQ Reviewer and determine the most appropriate course of action.

**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?**

We support the IAASB’s rationale for inclusion, at paragraph 16, of a requirement for the firm’s policies and procedures that set forth the criteria for eligibility to be appointed as an EQ Reviewer to include limitations on the eligibility of an individual to be appointed as EQ Reviewer for an engagement on which the individual previously served as Engagement Partner. We agree with the IAASB’s view, as set out in the related application material at paragraph A5, that *“when an individual has served as an engagement partner, he/she is not likely to be able to perform the role of the EQ Reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual’s objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level. In recurring engagements, the matters on which significant judgements are made and the facts and circumstances around those significant judgements are not likely to vary to a degree such that an objective evaluation of those judgements can be made by the individual who served as the engagement partner in the immediate previous period”*.

We consider the related guidance is clear and helpful, and believe the example of a cooling-off period, accompanied by guidance that such a period would be determined based on the facts and circumstances of the engagement and applicable provisions of laws/regulations or relevant ethical requirements, but that the period would likely need to be for at least two subsequent audit cycles, to be helpful and appropriate.

We do not believe that this should cause practical difficulties for smaller practices since the proposed standard allows, for example, such reviewers to be appointed from other member firms within a network, or outside the network when necessary.

In addition, we note that other “key audit partners” may be involved in an engagement and we suggest the IAASB explore expansion of the proposed requirement to also address such key audit partners, as similar concerns regarding objectivity may also apply if such a key audit partner were to be appointed as an EQ Reviewer. We recognise that judgement would need to be exercised, considering the specific role of the key audit partner and the extent to which he/she has been involved in significant judgements. We suggest that the IAASB consider developing guidance to recognise this situation and to help a firm to determine whether and when such key audit partners may also need to be subject to a 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?**

We welcome the fact that the IAASB has worked with the IESBA in developing this material. We note that the considerations regarding threats to objectivity of an EQ Reviewer who was previously an Engagement Partner are not specifically addressed in the Code. Instead the Code, at section 540, addresses partner rotation and cooling-off periods in the context principally of long association with an audit client, in relation to independence (not specifically objectivity) and related to this, the effects of service in a combination of key audit partner roles on respective cooling-off periods.

We also highlight that section 540 of the Code currently recognises that a partner may serve in a combination of Engagement Partner and Engagement Quality [Control] review roles, which therefore may no longer be aligned with the proposals in ED ISQM 2.

Accordingly, we suggest that amendments are made to the Code to better recognise the self-review threats in this scenario, especially if an Engagement Partner were to be appointed to the role of EQ Reviewer, and we recommend that this section be updated to give greater emphasis to the nature of the role(s) performed and the potential risks when moving from one role to another, in addition to the focus on overall length of service.

We consider that, in general, the Code would be the appropriate place to address these considerations. However, we also highlight that the Code is describing independence considerations, and ED ISQM 2 is describing objectivity. We therefore recommend that IAASB align these further, e.g. ED ISQM 2 could note that consideration of objectivity includes consideration of independence of the EQ Reviewer, both from the engagement team, and from the engagement itself, to supplement the material in the Code in relation to these circumstances.

We suggest that the requirement at ED ISQM 2 paragraph 15 is also cross-referenced to an overarching requirement in ED ISQM 1 regarding policies and procedures of the firm in relation to independence/objectivity and rotation, on which this specific requirement in ED ISQM 2 may build. We note that the current requirements in this regard in ED ISQM 1 are at a higher level, referring more generally to ethical requirements and independence, and we therefore suggest that such a requirement be developed in that standard.

**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)?**

In general, we support the requirements set out in the proposed standard regarding the nature, timing and extent of the EQ Reviewer’s procedures as we believe the additional requirements add clarity and will help to drive a more robust EQ review process. We note the following concerns below.

**Nature of procedures**

We believe the nature of an EQ review is not intended to be changed as a result of the amendments proposed to these standards, in particular, because, as noted at ED ISQM 2 paragraph 6, this is not “*intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, as well as with the firm’s policies or procedures*”.

However, as we set out in our overarching comments, we highlight that certain proposed amendments may result in a lack of clarity as to the fundamental nature and purpose of an EQ review, which may lead to differing interpretation and give rise to inconsistent application in practice. This is because the revised material has introduced/ exacerbated certain inconsistencies within the standard, as follows:

- Certain requirements/guidance suggest that the EQ review is performed as a separate review process to the audit engagement itself, with relatively limited interaction between the Engagement Partner and the EQ Reviewer, such that the EQ review is more similar in nature to a “second opinion”, or an internal or external quality performance review. For example:
  - The revised structure of the standards themselves, i.e. the placement of all EQ review requirements, including those performed at the engagement level, in a separate quality management standard rather than within ED ISA 220 (Revised), where other quality management requirements relating specifically to an audit engagement reside;

- The overall balance of responsibility in terms of identifying significant matters and forming conclusions over these appears to have shifted towards the EQ Reviewer, with the Engagement Partner being required only to “cooperate” with the review process;
  - The increased emphasis on objectivity of the EQ Reviewer, including commentary at paragraph 21 and A24 that frequent interactions and discussions may impair objectivity;
  - The recognition that the EQ Reviewer may involve other individuals, e.g. specialists, in performing the review, may suggest that there is a “parallel audit process”;
  - The requirements for more extensive documentation, in particular, the requirement for the EQ Reviewer to “document their own conclusions”.
- Other requirements/guidance suggest that, although the EQ review is part of the firm’s quality management processes, it is performed at the engagement level and may, as a result, change the course of the audit. For example:
- The requirement for the EQ Reviewer to be involved on a timely basis, and the recognition that they may exercise professional skepticism, together suggest that the EQ Reviewer may be more involved in the audit engagement itself, and potentially “change its course”. This is notwithstanding the fact that they are not part of the engagement team, and are required to remain objective, and that it is the Engagement Partner who is responsible for the direction of the audit and the audit opinion;
  - The acknowledgement that, although the EQ Reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, the engagement team may obtain further evidence through its responses to matters raised in the EQ review;
  - The recognition in the IESBA Code that the EQ Reviewer is a “key partner” on an audit engagement, and as such is captured in the requirements relating to rotation in the context of long association.

As we note in our overarching comments, we consider that the second view above, i.e. that the EQ review is performed at the engagement level and may change the course of the audit, albeit that it is part of the firm’s quality management process and is performed objectively by an individual who is not part of the engagement team, is more appropriate. We consider that EQ reviews performed in accordance with this principle would better drive increased audit quality, primarily because through robust discussions between experienced partners (the Engagement Partner and the EQ Reviewer) the EQ Reviewer may shape the direction of the audit as a particular course of action may be

taken by the Engagement Partner and engagement team that is different to that which the Engagement Partner would have taken in the absence of the EQ review. We also highlight that we believe that this view is aligned with the intention underlying extant ISA 220.

Accordingly, we recommend that the Board consider clarification of this important aspect of the standard. In particular, we note that it is critical that the standard does not preclude interaction and robust discussions between the Engagement Partner and the EQ Reviewer, because we believe, as we note above, that this may be an important aspect of audit quality on engagements that are subject to an EQ review.

Please also refer to our response to Question 7.

### ***Responsibility in Respect of Quality Deficiencies***

As we state in our overarching comments, we support the IAASB's decision to include requirements and guidance relating to EQ reviews in a separate quality management standard with appropriate linkage to the requirements in ISQM 1.

As we note in our response to Question 3, we also welcome the material that clarifies the nature of the role, i.e. that although it forms part of the firm's system of quality management, it is not intended in any way to involve a "compliance check" as to whether the firm's policies and procedures have been applied across the engagement. Rather, the proposed standard explains that the role is performed on behalf of the firm by an individual who is not part of the engagement team, and constitutes an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon.

However, we note that ED ISQM 2 paragraph 22(a)(ii), in describing interaction between the firm and the EQ Reviewer, requires the EQ Reviewer to read and understand information provided by the firm about the results of its monitoring and remediation, in particular about "*identified deficiencies that may relate to, or affect, the areas involving significant judgements by the engagement team*". We are concerned that it is unclear as to how, and to what degree, the EQ Reviewer should consider and act on such information about the firm's deficiencies in quality processes. ED ISQM 1 does not categorise deficiencies in the firm's system of quality control, or provide definitions such as "significant deficiency". We presume this requirement relates, conceptually, to less than significant deficiencies since the three parts of the quality framework (firm, Engagement Partner and EQ Reviewer roles/responsibilities) all need to function as required for engagement quality to be achieved overall. We also note that a significant deficiency in one aspect cannot be compensated for by enhancement in another.

A potential example may be a less than significant deficiency in the firm's process for engaging specialists when an audit under EQ review has used the work of a specialist,

in which case the EQ Reviewer should understand that weakness, and consider whether and how it may affect the audit.

We acknowledge the IAASB's possible intention in introducing this requirement because of the clearer delineation of responsibilities between an Engagement Partner and his/her firm. However, we note that this requirement is rather ambiguous and may be challenging to apply in practice.

We are concerned that absent further clarification or specific application guidance as to what this requirement is intended to accomplish, it may be subject to differing interpretations and diversity in practice.

### **Extent of procedures – responsibility to identify significant matters**

We are concerned that the proposed requirements may change the overall balance of responsibility, in terms of identifying significant matters, between the Engagement Partner and EQ Reviewer, i.e. the extent to which the EQ Reviewer needs to actively identify significant matters and judgements versus the extent to which the Engagement Partner and team would bring these issues to his/her attention. It appears that this balance has potentially shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer's responsibility would ultimately stop.

Such lack of clarity may result in inconsistencies in practice as procedures performed by the EQ Reviewer in order to identify "significant matters" become more extensive in order to fulfil the revised requirements. As a result, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel review process may even be necessary.

As we set out in our comment letter on ED ISA 220 (Revised), the description of responsibilities of the Engagement Partner at ED ISA 220.33 includes language that appears relatively "soft" in that it refers to "cooperation" with the EQ Reviewer and requirements to "discuss significant matters arising".

We suggest, therefore, that ED ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer's attention to areas of significant judgement and to go beyond simply "cooperation" with the EQ Reviewer to take a more "active" role in this process. We do not believe that this would diminish the EQ Reviewer's responsibility in any way, for example, this would not detract from the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other significant matters, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including expertise regarding the particular industry, would expect the engagement team to have identified. Instead, we believe that drawing the

EQ Reviewer's attention to such matters would assist them in properly executing their role.

We also suggest that ED ISQM 2 be amended to clarify that the EQ Reviewer is required to understand the engagement team's basis for determining which areas involve significant judgements, but is not required to identify such areas him/herself.

Please also refer to our response to Question 6 regarding interaction between the Engagement Partner and EQ Reviewer and the appropriate balance between achieving an open and transparent dialogue between the two whilst not impairing the independence/objectivity of the EQ Reviewer.

### **Timing of procedures**

We are supportive of the increased emphasis on the timeliness of the EQ review, in particular, the new requirement for the review to be performed at "appropriate points" during the engagement. We agree with the statement in the Explanatory Memorandum that *"an effective review is achieved when the Engagement Quality Reviewer is involved at appropriate points in the engagement, consistent with when significant judgements are being made by the team. This will also facilitate the resolution of issues in a timely manner"*, although we highlight that we do not believe the changes are intended to mean that there should be a continuous dialogue between the EQ Reviewer and the engagement team.

**6. Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgements 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 agree that evaluating the engagement team's exercise of professional skepticism is an integral part of the EQ Reviewer's assessment as to how they have addressed significant judgements. We note that the requirement at paragraph 22(d)(i) requires this "when applicable", allowing the EQ Reviewer to use professional judgement and we are supportive of this acknowledgement.

We agree with the IAASB that the standard should not *require* the exercise of professional skepticism by the EQ Reviewer specifically, since professional skepticism is understood primarily in the context of obtaining and evaluating audit evidence, which is not the responsibility of the EQ Reviewer.

However, we also agree that the EQ Reviewer, in evaluating the significant judgements made by the engagement team and reviewing related engagement documentation, may exercise professional skepticism, at least indirectly. We therefore suggest that the

application material provide further guidance/examples as to when this may be applicable.

In connection with evaluating significant judgements, and the acknowledgement that the EQ Reviewer may exercise professional skepticism in doing so, we recognise that very frequent or significantly extensive interaction between the EQ Reviewer and Engagement Partner may, in certain cases (although likely rare), affect the objectivity of the EQ Reviewer. Whilst we understand the potential concern of the IAASB regarding this, we note that it is also important not to detract from collaborative discussions between the Engagement Partner and EQ Reviewer such that the Engagement Partner is less open/transparent or even hesitant to discuss issues with the EQ Reviewer. Whilst there are other avenues for the Engagement Partner to discuss issues e.g. with other partners with industry expertise, or to consult more formally with others within the firm (e.g. DPP), we would be concerned that the proposed changes may undermine or lose the benefits of open communication and discussions between the Engagement Partner and the EQ Reviewer.

The above may be compounded by the relatively “soft” nature of requirements of the Engagement Partner in ED ISA 220 (Revised), which refer to “cooperation” but which, as we note above, may need to be more “active” in terms of highlighting significant judgements to the Engagement Partner, and maintaining an open and transparent dialogue. Please see our comments in the overarching section as to the nature of the EQ Reviewer role, and also comments as to whether the balance of responsibility in this area has potentially shifted more towards the EQ Reviewer.

We recommend that the IAASB provide more detail in the application material, and consider inclusion of examples, as to the nature/ extent of interaction that would be appropriate, and when this may impair the EQ Reviewer’s objectivity. We also suggest that it would be helpful to link these considerations also to paragraph 20 regarding considerations in respect of potential impairment of eligibility to perform the role.

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

As we state above, we are supportive of the intention to clearly document the involvement of the EQ Reviewer, including the timing of this.

However, we note that ED ISQM 2 establishes certain enhanced documentation requirements, including that the EQ Reviewer take responsibility for the documentation of the EQ review; that such documentation is sufficiently extensive to meet the “experienced practitioner test”<sup>2</sup>, including documentation of the EQ Reviewer’s

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<sup>2</sup> i.e. to “enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the EQR and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review”. [Source: ISA 230.8]

conclusions, and that the EQ Reviewer specifically determines that the EQ review is “complete”.

We recognise that the application guidance in the proposed standard offers flexibility as to how the documentation requirements may be satisfied, however, we also suggest that the proposed standard explicitly clarify that one way to satisfy the documentation requirements is for the engagement team to include commentary on discussions with the EQ Reviewer as part of the engagement documentation, with the EQ Reviewer indicating “concurrence”. Alternatively, the EQ Reviewer may prepare documentation summarising the performance of the EQ review, including discussions held with the engagement team, and the outcome of such discussions, which would be retained as part of the engagement documentation. We believe clarity regarding the possible approaches would be helpful as this would enable the EQ Reviewer to determine the most appropriate approach in the engagement circumstances and, in the event that the EQ Reviewer concurs with the information set out in the engagement documentation itself, we believe this would avoid unnecessary duplication of documentation, and instead would better enable the EQ Reviewer to focus on the primary purpose of their role, i.e. the critical and objective evaluation of the significant judgements made by the engagement team.

Additionally, we are concerned that the proposed enhancements appear to suggest that there is a presumption that the more extensive the EQ Reviewer documentation is, the more robust the EQ review has been. We believe the extent of documentation related to the EQ review will depend on the facts and circumstances of the engagement. For example, in a scenario in which the EQ Reviewer concurs with the engagement team’s risk assessment, work performed, judgements and conclusions reached and is satisfied that these are appropriately reflected in the audit documentation, the documentation of the performance of the EQ review may be less extensive than on an audit engagement where the EQ review identifies areas that result in changes to the work performed and/or the audit documentation. Both examples may demonstrate that a robust EQ review has been performed. We suggest that this aspect is further clarified by the IAASB.

As a related point, we also note that the documentation requirements in extant ISA 220 align to and build on those set out in ISA 230, *Audit Documentation*. Since the requirements in respect of EQ reviews are now included in a Quality Management Standard, as opposed to an ISA, it is unclear whether and how the requirements of ISA 230 continue to apply. We note that the ED states that the documentation of the EQ review should “be included *with* [emphasis added] the engagement documentation” but it is no longer explicit that this is actually *part of* the engagement documentation. We therefore recommend that the IAASB clarify the applicability of ISA 230 to documentation of EQ reviews. Our initial understanding would be that ISA 230 also applies to documentation in respect of an EQ review.

**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?**

We believe that these requirements are sufficiently scalable, in terms of when they are applicable, the clarifications regarding what an EQ review involves and does not involve, as well as the fact that several requirements may not be relevant to particular firm/engagement circumstances. We believe the requirements provide the ability for smaller firms to appoint eligible EQ Reviewers, for example, such reviewers may be external to the firm, and we believe the application material is helpful in providing additional context regarding these considerations.