

 IAASB Exposure Draft

Proposed International
Standard on Quality
Management 2, *Engagement
Quality Reviews*

Request for public comment

28 June 2019



1.1.1 Questions

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

Response:

Yes, we agree. The main barrier to understanding the standards is their overall length and complexity (as noted in our response to ED-ISQM 1), and we do not believe that splitting the standards in a different way will help with this.

We hope that the recently introduced electronic version of the IAASB Handbook will make navigating the standards easier.

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

Response:

Yes, we believe that the linkages are 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?

Response:

We believe that what the process is called is less important than clarity of the objective. Some firms already use different terminology in referring to EQCRs anyway.

We do not foresee any adverse consequences of the change in the UK.

- 4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

Response:

Yes, we support these requirements (though we would note that, in practice, authority within a firm is still often achieved through having a particular title or position).

We believe that paragraph 17, or the application guidance thereto, should clarify where the boundary of “assisting the engagement quality reviewer” lies. For example, it is common for a member of the engagement team to take minutes of discussions between the engagement partner and the engagement quality reviewer. We do not consider that this compromises the independence of the engagement quality review process. If this were to be prohibited it would cause unnecessary resourcing complications.

- (a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Response:

We agree with the need for such guidance. However, in our view the language in paragraph A5 is quite weak. It says that “it is not likely” that threats to the individual’s objectivity can be reduced to an acceptable level, but we struggle to see circumstances in which it would be permissible for the engagement partner to become the engagement quality reviewer immediately.

Even though the two-year period is mentioned in the application guidance rather than the mandatory requirements, it is possible that regulators will treat this as a requirement. In these circumstances, it would be helpful if the IAASB’s rationale for

choosing two years was explained. However, if the IAASB wants “consistent application in practice” (as noted in paragraph 27 of the explanatory memorandum), we believe that this can only be achieved by making the period a mandatory requirement.

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

Response:

We consider that, as this is ethical guidance, it should be located in the IESBA code with a cross-reference from ISQM 2.

- 5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Response:

In our view, the objective in paragraph 10 does not sit well with the objective of the firm as set out in paragraph 4. One aspect of achieving the latter objective is for EQRs to be performed by appropriate individuals. We therefore believe that the objective of ISQM 2 should be couched in terms of the reviewer rather than the firm (though there could be an explicit link back to the objective of the firm as expressed in paragraph 4).

- 6) Do you agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments includes evaluating the engagement team’s exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

Response:

Yes, we agree that the engagement quality reviewer’s evaluation of the engagement team’s significant judgments should include evaluating their exercise of professional scepticism.

We believe that the attributes of professional scepticism already outlined in ISA 200 are equally applicable to the engagement quality reviewer and there would be no merit in repeating them in ED-ISQM 2. A cross-reference to this material would suffice.

- 7) Do you agree with the enhanced documentation requirements?

Response:

Yes, we agree with these.

- 8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

Response:

Yes, we believe that the requirements are scalable.

However, we note that the appendix to the explanatory memorandum summarises how the proposed standards address scalability. We do not understand how “Consideration of the reasons for the assessments given to the quality risks in determining competence and capabilities required for an engagement” and “Impact of firm culture on authority of the engagement quality reviewer” contribute to scalability per se.

1.1.2 Editorial Comments on Proposed ISQM 2

We find it difficult to understand the point that paragraph A7 is trying to make. It would be more helpful if it used plain English rather than the theoretical model - selection of a reviewer is partly dependent on the reasons why some things have been identified as high risk.

As with our comments on ED-ISQM 1, we believe that there are some inappropriate uses of “may”. For example, paragraph A9 says that “A lack of appropriate competence or capabilities may affect the ability of the engagement quality reviewer to exercise appropriate professional judgement”. In our view, it is hard to envisage any circumstances where this would not be the case.