

## Response Template: Proposed ISQM 2

Colin Semotiuk CPA, CA

Office of the Auditor General of Alberta

Edmonton, Alberta Canada

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### General Comments on Proposed ISQM 2

*[Please include here comments of a general nature and matters not covered by the questions below.]*

### 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 support a separate standard for engagement quality reviews (EQR) and we agree with the current split of EQRs between ED-ISQM 1 and ED-ISQM 2.

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

Response: Yes, the linkages between ED-ISQM 1 and ED-ISQM 2 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 do not have a strong position with either “engagement quality control review/reviewer” or “engagement quality review/reviewer.” However, we note that ED-ISQM 2 clearly indicates that the role of the EQR is not solely a control process. Under ED-ISQM 2, the EQR is required to agree with “the significant judgements made by the engagement team and the conclusions reached thereon” (ISQM 2.11(a)). The board should be aware that requiring the EQR to agree with the significant judgements is indirectly questioning the professional judgement of the engagement team. Under the current ISQM, some firms used the EQCR as a control to ensure an engagement team followed standards and firm methodology. Under ED-ISQM 2, the EQR must also agree with the significant judgements. Due to their nature, “significant judgements” include a high level of professional judgement and most likely include the matters of considerable debate within the profession. For example, consider accounting for Endowments in the public sector. There has been little consensus on how to treat endowments. Is the debit an “asset,” “non-asset,” or “trust funds under administration?” The credit can also be debated, is it a “liability” or “revenue?” When an engagement team concludes how to record an endowment contribution, the EQR would be required to agree with this judgement. Or consider fund raising revenues for not for profit entities? Some firms classify these as a scope limitation as firm policy.

Would both the engagement team and EQR be required to agree with this firm position? We raise these examples to illustrate that ED-ISQM 2 should provide the EQR the ability to complete their review when differences in professional judgement exist (ISQM 2.23 & A35) and the engagement team has sufficiently followed standards and office processes.

- 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:

- (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: Given the fact that “significant judgements” consistently impact multiple years of financial reporting, we support the requirement of a “cooling-off” period. We would further support that the standard include a minimum three year “cooling-off” period for entities with significant public interest, including listed entities. The purpose for a three-year “cooling-off” period is it permits the engagement team sufficient time to assess prior significant judgements independently. Furthermore, three years is a common review period, for example the significant assumptions for pension liabilities are typically reviewed and adjusted on a three year basis. Using the same period, allows for the new engagement leader to review these estimates independently from the prior engagement leader.

- (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: Yes, we support the guidance in paragraphs 16-17 and agree that it should be included within ISQM 2. Including the guidance with ISQM 2 keeps the guidance centrally located and eliminates the need to expose draft ISQM 2 if the IESBA Code changes.

- 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: As noted in our response to ED-ISQM 1, definition of engagement quality review (EQR) states the EQR can be “completed on or before the dated of the engagement report.” EQR should be performed throughout the engagement. The standard should not permit an EQR to be completed or performed on the date of the engagement report. The definition of EQR should clearly communicate the requirement to perform the EQR throughout the engagement in order to provide the team with sufficient time and resources to incorporate the EQR’s feedback. In addition, see response to question three above.

- 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: See response to question three above.

7) Do you agree with the enhanced documentation requirements?

Response: Yes, we agree with the enhanced documentation requirements.

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: The requirements for EQR in ED-ISQM 2 are scalable for our firm of 150 people.

**Editorial Comments on Proposed ISQM 2**

*[Please include here comments of an editorial nature.]*