

2 July 2019

International Auditing and Assurance Standards Board

By electronic submission

**IAASB EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND ENGAGEMENT LEVEL,  
INCLUDING ENGAGEMENT QUALITY REVIEWS**

Thank you for the opportunity to comment on the proposed standards on quality management which we think will contribute to the delivery of higher quality audits in the public interest.

In addition to our responses to the questions for respondents, we would like to draw your attention to the following matters:

***Public Sector Considerations***

We note the Application and Other Explanatory Material in the proposed standards includes some public sector considerations. However, it does not contemplate the business model we use for performing public sector audits.

We consider ED- ISQM 1 has sufficient flexibility to enable us to customise the design, implementation and operation of our system of quality management based on the nature and circumstances of our institution. However, the IAASB may wish to consider including public sector considerations with respect to the definition used in ISQM 1 for a “firm”.

***How we appoint public sector auditors in New Zealand***

By law, the Auditor-General is the auditor of all public entities. However, the Act allows the Auditor-General to appoint people to carry out audits on his behalf. We call the people who carry out audits on the Auditor-General’s behalf “appointed auditors”. They can be appointed from the Auditor-General’s own business unit, Audit New Zealand, or from within a chartered accounting firm. We refer to chartered accounting firms and Audit New Zealand as audit service providers (ASPs).

The audit report is signed by the appointed auditor and includes the name of the audit service provider (the appointed auditor’s firm).

### *How this is currently addressed in ISQC1*

In New Zealand we currently comply with *Professional and Ethical Standard 3 (Amended)* (PES 3). This standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board. This standard conforms to the current ISQC1 standard issued by the IAASB.

Included in the definition section of PES 3, under the definition of “firm” is a section covering specific considerations for the public sector that addresses how the definition of “firm” applies to the public sector. This is:

*Where a statutory officer (such as the Auditor-General) appointed an employee or other suitably qualified person (appointed auditor) to perform audits or other assurance services on that officer’s behalf, for the purposes of the Professional and Ethical Standard the term “firm” refers to the combination of statutory officer, the appointed auditor, and if applicable, the firm of which the appointed auditor is a partner, member or employee.*

### ***Resources requirements necessary for firms to implement ED-ISQM 1***

The ASPs that we use to perform the audits on behalf of the Auditor-General include large, medium and very small firms. Because of this, there will be challenges in all of the firms we use being ready and able to comply with the requirements of ED-ISQM 1.

We accept that the requirements of ED- ISQM 1 are likely to be scalable but consider the up-front time and resources required for smaller firms will be significant. However, we consider for many small firms they are likely to approach compliance in a similar way. Due to this, we suggest the IAASB develop tools and guidance for smaller firms to assist them with compliance.

### ***Identifying and assessing quality risks***

We consider the guidance information about the risk assessment process may result in uncertainty about what is expected and could have negative consequences. This is particularly so for small and medium practices (SMPs). Without some certainty for SMPs around minimum risk assessments (such as an agreed framework) practitioners are left to interpret regulator expectations without guidance from the IAASB.

### ***Proposed implementation date***

We are concerned about the implementation period of 18 months (application date is 1 January 2022) will not provide sufficient time for firms to design and implement the necessary changes. Firms will be transitioning to ISQM 1 in advance of the approval of this standard but due to the

different circumstances of each firm, we consider the proposed implementation date will be challenging.

***Key Public Interest Issues***

We note the proposed revisions to ED-ISQM 1, ED-ISQM 2 and ED-220 have been made with the public interest at the forefront. We note the revisions were to address the most relevant public interest issues related to quality control. They include:

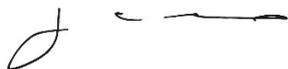
- (a) Fostering an appropriately independent and challenging sceptical mind-set of the auditor;
- (b) Encouraging proactive quality management at the firm and engagement level;
- (c) Exploring transparency and its role in audit quality;
- (d) Focusing more on firms' (including networks') structures and communication processes and their internal and external monitoring and remediation and remediation activities; and
- (e) Reinforcing the need for robust communication and interactions during the audit engagement.

With respect to transparency and its role in audit quality, we do not consider the revisions go far enough. ED ISQM 1 does not require a transparency report. At a local level we intend to encourage our standard setter to require firms to prepare and publicly release a transparency report.

We have included our responses to the questions asked by the IAASB in the attachment to this letter.

If you have any questions about our submission, please contact Todd Beardsworth at [todd.beardsworth@oag.govt.nz](mailto:todd.beardsworth@oag.govt.nz).

Yours sincerely



Greg Schollum

Deputy Controller and Auditor-General

# Quality Management Covering Explanatory Memorandum

## Questions for Respondents

### Overall Questions

- 1) *Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?***

We believe that the proposed 18 month implementation period will be challenging, especially for small and medium sized firms. A significant investment of time will be required up-front to complete the initial risk assessment and then develop appropriate policies and procedures to address the risks identified. We also consider that there will be challenges in respect of monitoring and concluding on all aspects of the system of quality management in the first year. A longer implementation timeframe for this (a minimum of 24 months) would be beneficial, or the IAASB could consider a staged implementation – for example with an implementation date for the risk assessment and a later date from the related policies and procedures and monitoring.

An alternative option, is to consider having a later implementation date for parts of the monitoring component to allow firms to revisit the design of their system of quality management after performing some preliminary monitoring. We consider this would also better support the reasonable assurance requirements, as we expect the first round of monitoring may result in a firm not being able to conclude.

- 2) *In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?***

We believe there is a need for implementation tools and guidance material for small and medium firms that will assist them to design, implement, and operate a system of quality management. We have found the time to read and understand the proposed standard to be significant without performing any assessment of the extent of changes to comply compared with ISQC 1.

We strongly encourage the IAASB and national standard setters to prioritise the development of these so that they can be released at the same time as the revised standards.

## General Questions

- (a) *Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.***

We do not have any comments on this question.

- (b) *Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.***

As set out in the covering letter and in our response to question 1 of the overall questions on ED-ISQM 1 (see page 7 of this submission), the standard does not address the business model we use for performing public sector audits. We suggest an approach to make it applicable. In question 2 (see page 8 of this submission) we set out our assessment of the customisation to the components of the System of Quality Management that would be necessary to make it applicable to our “firm”.

We have not identified any specific impacts on assurance engagements.

- (c) *Translations—Recognising that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.***

We do not have any comments on this question.

# IAASB Exposure Draft - ISQM 1

## Questions for Respondents

### Overall Questions

- 1) ***Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:***
  - a) ***Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?***
  - b) ***In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?***
  - c) ***Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?***

We support the new quality management approach which allows a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and engagements it performs. However, the proposed standard does not address how it should be applied by supreme audit institutions, which engage firms to complete audits on their behalf using the resources of that firm. We think this is a major gap in the public sector guidance included within the ED.

It is our view that the proposed standard is only one mechanism which supports the appropriate exercise of professional scepticism by practitioners.

We consider that some thought should be given to how to document the exercise of professional scepticism. While the investigation of root causes may assist with assessing if professional scepticism has been adequately exercised, there is a dependence on the level of sophistication of the root cause analysis.

Although, the requirements in the proposed standard appear to be scalable, there will be a considerable amount of work and cost involved in tailoring the system of quality management

to the nature and circumstances of the firm. This may not result in any net gain in the short-term. We strongly suggest there is a need for more support for small and medium practices to implement the requirements of ED-ISQM 1. We have not discussed with the SMPs we use to perform audits on our behalf to obtain their views as we are aware the New Zealand Auditing and Assurance Standards Board has sought input from a wide range of members and so the views of the SMPs will be included in their submission.

As outlined below in response to the specific questions about the objective of the proposed standard, we think the proposed standard could be enhanced so that it more effectively contributes to improving the quality of engagements by providing a clearer explanation about what is meant by the “public interest” in an audit and assurance context.

We also find the reasonable assurance threshold to be not sufficiently articulated for a system of quality management framework. The use of the term reasonable assurance in the proposed standard is the same as is used for assurance engagements. We recommend the definition used in the proposed standard be enhanced so that it uses some of the content of paragraph 18 in the Explanatory Memorandum, which notes reasonable assurance is obtained through the operation of the system as a whole and is tied back to the objectives of the system of quality management.

We are also concerned that the current wording in the standard may imply that the firm exists for the purpose of designing, implementing and operating a quality management system, which is not necessarily the case.

- 2) ***Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard of support materials that would assist in addressing these challenges?***

While there will be significant up-front challenges in preparing the required documentation (due to the volume of work involved), the real challenge will be in making it real for the people in the field. The implementation challenge will be in getting the firm and its people to buy into it beyond a compliance exercise. This will take time.

Public sector aspects that we will need to consider in the applying the standard

With respect to the 8 components of ED-ISQM 1 we note the following will require some customisation:

(a) Governance and leadership

For the Office of the Auditor-General, the Auditor-General has ultimate responsibility and accountability for the system of quality management for the office a whole (incorporating all those firms that conduct audits on behalf of the Auditor-General). As the Auditor-General is a statutory appointment and reports to Parliament the requirement for periodic performance evaluations per ED-ISQM paragraph 24 (b) is not applicable. Paragraph 21 of ED-ISQM permits requirements to be not applied when they are not relevant to the circumstances of the firm. We would therefore not apply 24(b).

(b) The Firm's Risk Assessment Processes

The OAG does not perform any annual audits without using the resources of an ASP, and is not likely to have involvement in the risk assessments for each ASP unless we identify additional quality objectives, quality risks from the performance of the risk assessments at the OAG level. We will need to consider the adequacy of each ASP process and the monitoring of each response. We anticipate challenges in concluding to a reasonable assurance level across all the ASPs we use.

(c) Relevant ethical requirements

No additional requirements necessary.

(d) The Acceptance and Continuance of Client Relationships and Specific Engagements

Like many public sector auditors the Auditor-General is not able to decline performing an audit. We plan to customise the requirements when an appointed auditor should refer their assessment to us when the acceptance and continuance procedures indicate there are significant risks in carrying out the annual audit that ordinarily may have led the ASP to decline the audit engagement. We also apply the guidance in ISSAI 40.

(e) Engagement performance

No additional requirements necessary.

(f) Resources

No additional requirements necessary.

(g) Information and communication

No additional requirements necessary.

(h) Monitoring and Remediation process

Our current approach is to monitor the results of the firm's monitoring and a declaration of compliance with PES 3. We perform inspections of a sample of audit engagements of each appointed auditor on a cyclical basis.

In addition to our overall comments above, which refer to two specific implementation issues, we think it would be useful to consider what parts of a system of quality management could be monitored less frequently (per ED ISQM1 paragraph 56 the requirement is at least annually) when significant quality risks have not been identified. See question 3 below for a request for clarification about this.

**3) *Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?***

For the most part the application material in the proposed standard is helpful in understanding the requirements but could be shortened as a lot of the material does not add any additional information to assist with the application, and is repetitive in nature.

We consider the application material in respect of identifying quality risks could be improved so that it provides more context about how the firm should go about establishing quality risks.

ED ISQM -1 does not prescribe the frequency of revisiting the appropriateness of risk assessments. We note this is subject to monitoring as part of ED ISQM 1 (para 44 (b)) but there is no further information about the scope and nature of this. The review of the output of the risk assessment process is likely to be reviewed as part of governance and leadership function but this is not explicit in the proposed standard.

In respect of the frequency of monitoring, we think paragraph 44 provides the firm the scope to determine the nature, timing and extent of monitoring activities, including the appropriate combination of ongoing and periodic monitoring activities. However, it is not clear if this requirement provides scope for monitoring of responses to be done on a cyclical basis of more than a year. Currently paragraph 56 specifies that the evaluation of the system of quality management is required to be undertaken at least annually. Therefore, it is not clear if this requires monitoring of all quality objectives or on a cyclical basis.

We think paragraph 50 (evaluation of remedial actions) should be clarified to explain the evaluation of the effectiveness of remedial actions implemented to address previously identified deficiencies are effective and the requirement to assess the design and implementation of each deficiency. The guidance paragraph (A163) does not provide any further help.

It is our view that the application material in respect of the frequency of evaluating the system of quality management could be improved so that it is clear which aspects of the system of quality management could be evaluated more or less often than annually. We support the scope provided in paragraph 44 to apply professional judgement and perform these on a cyclical/reduced testing where appropriate.

The proposed standard should also clarify the nature of the reliance that the firm can place on the quality reviews performed by regulators or professional bodies, which could be especially important for smaller firms in meeting the requirements for engagement inspections set out in paragraph 44.

## **General Questions**

**4) *Do you support the eight components and the structure of ED-ISQM 1?***

Yes.

**5) *Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's***

***role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?***

We support the objective of the standard. The term "public interest" is widely used, and may mean different things to different people, therefore it may be helpful if the standard was accompanied by guidance material which clearly defines and explains what is meant by the use of the term "public interest" in an audit and assurance context. In our view this would help ensure the standard remains applicable in the longer-term, by making it clear how practitioners are to exercise judgements at every stage of an engagement. We recommend that the objective be more explicit in setting out or linking how the objective of the firm and the system of quality management relates to serving the public interest.

We consider the preparation of transparency reports are in the public interest. As a result, we recommend the proposed standard establish minimum transparency reporting requirements.

- 6) *Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:***
- a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?***
  - b) Do you support the approach for establishing quality objectives? In particular are the required quality objectives appropriate?***
  - c) Do you support the process for the identification and assessment of quality risks?***
  - d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:***
    - i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?***
    - ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?***

We expect that the application of a risk assessment process will drive firms to establish quality objectives, risks and responses. Whether these are appropriate and achieve the objectives of the standard will depend on how well each firm applies the process and how much effort and attention are devoted to it.

ED-ISQM-1 does not clearly set out that this should be applied to the other components of the system of quality management.

It is our view that without some additional guidance the intended benefits from the risk assessment process might not be achieved. This is particularly so for small firms who may not have the time and resource to calibrate their responses to a sensible and pragmatic level as intended. We also consider regulators may adversely impact the intended benefits and could result in risk settings not being sensible or too onerous to achieve.

We consider ED-ISQM-1 is not helpful as it includes required responses with no identified risks. While the quality risks they are addressing are obvious it does not reflect the intended process of the standard. We understand the reason for doing so was to provide flexibility and assist with the scalability. However, we consider this may also result in the benefits of the risk assessment process not being achieved as ED-ISQM 1 requires certain responses. In doing so, there is a risk firms will focus on these and retrofit the risk assessment process.

It is our view that small firms need more certainty around minimum expectations, which does not appear to be addressed in the standard. We also question the value of requiring each SMP to perform this process for essentially the same risks. We consider the IAASB should consider developing a set of common “default risks” based on the responses identified that could be included in the standard.

In respect of the process for the identification and assessment of quality risks, it is our view that the application material does not acknowledge that some quality risks will be the same each year.

Without more clarity around the identification and assessment of quality risks, the result could be that the responses the firm is required to develop become onerous and distract the firm from addressing the key risks.

We also consider for SMPs there is a need for more guidance about the minimum documentation requirements of the firm’s quality objectives and assessed quality risks, to avoid this being onerous and viewed as a compliance exercise.

We believe that the 29 quality objectives in the proposed standard are appropriate. We note there are no quality objectives relating to the appropriateness of the firm's training to staff and the evaluation of the effectiveness of this. However, we note the resources component assumes they are sufficiently trained per paragraph 38 (a) of ISQM1.

It is our view that the proposed standard could be enhanced to require the firm to set policies and procedures that will apply when quality deficiencies are identified from monitoring activities, which are attributable to the engagement partner's performance.

**7) *Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?***

We believe the proposed standard appropriately addresses firm governance and the responsibilities of firm leadership. However, it is not clear what is sufficient and appropriate evidence to support the firm's governance to attest that it has reasonable assurance on compliance with the proposed standard. As a result, we suggest improvements being made to explain what reasonable assurance means for a system of quality management.

For the Office of the Auditor-General in New Zealand, the Auditor-General has ultimate responsibility and accountability for the system of quality management (ED-ISQM-1 paragraph 24). As the Auditor-General is a statutory appointment and reports to Parliament the requirement for periodic performance evaluations per ED-ISQM paragraph 24 (b) is not applicable. Paragraph 21 of ED-ISQM permits requirements to be not applied when they are not relevant to the circumstances of the firm. We would therefore not apply 24(b).

**8) *With respect to matters regarding relevant ethical requirements:***

- a) *Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?***
- b) *Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?***

We have no comments to make in respect of this question other than to state that the application of responsibilities for ethical requirements can be difficult for more complex firm structures. It would seem logical for a firm to assign operational responsibility for both relevant ethical requirements to an individual within the firm.

**9) *Has ED-ISQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management?***

We have no comments to make in respect of this question.

**10) *Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?***

We support transparency and we support the concept of transparency disclosures. As a result, it is our view that the proposed standard does not change the existing requirements to communicate information about a firm's system of quality management. Therefore, we recommend the IAASB consider setting minimum transparency disclosure requirements within the standard.

**11) *Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?***

We agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review. However, we note that the term "significant public interest" is not defined in the standard and how this differs from the concept of a public interest entity. We recommend that the IAASB clarify in the standards how the application of these terms is expected to differ in practice, to ensure they are appropriately and consistently applied.

While there is some guidance in paragraphs A102 and A106, a few of the factors do not seem that relevant, and others appear vague, such as the reference to "may include entities such as

financial institutions". We think it would be helpful if there was guidance on what characterises an entity that is "of significant public interest".

**12) In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:**

**a) Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?**

Yes

**b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?**

Yes. We consider the enhancements provide sufficient flexibility. However, we consider there is a need for additional implementation material to help SMPs comply with this requirement. We note paragraph A167 does not allow external inspections to be a substitute for a firm's internal monitoring activities but may inform those activities. We understand that small firms experience challenges in finding a suitable person to perform these reviews.

**c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?**

No. The definition does not explicitly refer to deficiencies assessed through engagement inspections. We consider it might be useful to include a definition for "finding(s)" so that it is clear it relates to the results of all types of monitoring and includes negative and positive findings before any assessment of significance/severity.

**d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:**

- i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?*
- ii. Is the matter in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?*

Yes. However, it would not be practical to investigate the root cause of every deficiency identified in monitoring activities at engagement level. In our view there needs to be flexibility to set criteria for investigating the root causes of significant deficiencies, or recurring or common deficiencies. We believe that the requirement to establish policies or procedures addressing the investigation of root causes is sufficiently flexible to allow for this. As we referred to in our response to the question about the framework for evaluating findings and identifying deficiencies, we believe it would be helpful to have a clear definition of the differences between a finding and a deficiency at a firm level. In this sense we agree that it would be helpful to identify why things went well, as this also contributes to improving quality.

- e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?*

Please refer to our comments about clarifying the frequency of the monitoring to support the reasonable assurance assessment.

As noted earlier, we think there needs to be clarity on what is sufficient and appropriate evidence to support a conclusion that the system of quality management provides reasonable assurance.

The IAASB could usefully consider the order of the proposed standard in respect of the individual assigned ultimate responsibility and accountability, as paragraphs 20, 24 and 25 do not appear to be in order. Logically, paragraph 20 should be after paragraph 25 not before. Paragraph 20 discusses the individuals' assigned ultimate responsibility and accountability, and the individuals assigned operational responsibility. However, the

requirement to assign responsibility to such individuals does not appear until paragraphs 24 and 25 and do not appear to be in the logical order.

In paragraph 38(d) it is not clear how you hold someone accountable through promotion. It seems that this should be a broader point about evaluations, compensation, promotion and other incentives encouraging and rewarding actions, behaviours, and competence that support quality, and discouraging those that do not.

**13) *Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?***

We support the proposal that the firm is responsible for its own system of quality management and that the firm shall not allow compliance with network requirements or use network services to contravene the requirements of standard.

In saying this, we agree with the requirement in paragraph 59 for the firm to evaluate the effect of network requirements or network services on the firm's system of quality management including whether they need to be adapted or supplemented.

We also agree with the requirement in paragraph 62 that requires the firm to communicate relevant information about identified deficiencies in network requirements or network services. This will indicate to the network where improvement to the network requirements or network services are required.

**14) *Do you support the proposals addressing service providers?***

We support the proposals addressing service providers.

**15) *With respect to national standard setters and regulators, will the change in title to "ISQM" create significant difficulties in adopting the standard at a jurisdictional level?***

We are not aware of any difficulties that will arise because of the change in the title of the proposed standard.

### **Editorial Comments on Proposed ISQM 1**

Paragraph 18 states that “the objective of the firm is to design, implement and operate a system of quality management...” The current wording implies that the firm exists for the purpose of designing, implementing and operating a quality management system. This paragraph should be reworded to reflect that the objective relates to the firm’s quality management, not to its *raison d’être*. Adding “in the context of this standard” as used in paragraph 16 of the Explanatory Memorandum to ED-ISQM 1 would resolve this.

## Proposed ISQM2

### 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 support a separate standard for engagement quality reviews and the split in requirements between the proposed standards. However, we are concerned that the objectives in the proposed standard are solely focused on the firm and do not provide sufficient linkage to the requirements which deal with both the firm and the engagement quality reviewer.

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

Yes

- 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 support the change in terminology.

- 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?***

Yes, we agree with the requirements for eligibility, subject to the proposed standard providing guidance on the “cooling-off” period before being able to act as the engagement quality reviewer.

We believe the primary location for this “cooling-off” guidance should be in the IESBA code. However, we believe that the proposed standard should make specific reference to the IESBA code requirements over and above the references to compliance with “relevant ethical requirements”.

Apart from the need to keep the proposed standard up-to-date if the IESBA code changes, we do not see any reason why the relevant IESBA code requirements could not be replicated in the proposed standard, or why the proposed standard could not set out a minimum cooling off period for individuals who served as the previous engagement partner becoming the engagement quality reviewer.

In this sense, we think paragraph A5 in the proposed standard should be enhanced so that it is more precise in this regard.

**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)?***

We agree with the requirements relating to the engagement quality reviewer’s procedures.

However, we believe that the proposed standard would work better if it included guidance on what constitutes a significant matter, which could be based on the application material in paragraph A8 in ISA 230.

It would also be helpful if the proposed standard was to make reference to acceptance and continuance and independence assessments in paragraph 22(c).

The IAASB may also want to consider whether the engagement quality reviewer has to evaluate the appropriateness of the auditor’s report based on the engagement team’s

evaluation of uncorrected misstatements, or has to report significant deficiencies in internal control to Management or Those Charged with Governance.

It is our view that the IAASB should consider whether the requirement in paragraph 14 is appropriate, given it requires the auditor to take actions to achieve the objective, if the application of the requirements of the standards do not achieve the objective. From our perspective this makes the proposed standard appear to be incomplete because international standards are typically drafted to achieve the objective of each standard.

- 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 scepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?**

We agree that the engagement quality reviewer's consideration should also include evaluating the engagement team's exercise of professional scepticism. We would like to see the proposed standard enhanced so that it is clear how this should occur. In saying this we do agree that the engagement quality reviewer's considerations should be limited to the significant matters and judgements. We note the considerations set out in ED-220 paragraph A29 are useful to consider with respect to enhanced guidance material.

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

We agree with the enhanced disclosure 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?**

Generally, we do not envisage any issues in respect of the scalability of the requirements. However, we have noted locally that smaller firms have difficulty obtaining the services of external individuals to perform the engagement quality reviews because other firms consider the risks are too high.

## **Editorial Comments on Proposed ISQM 2**

The objective of the firm is not to “perform an engagement quality review for the engagement” as currently stated in paragraph 10. This needs to be reworded to reflect the objective of the standard or the objective of the engagement quality reviewer. Adding “in the context of this standard” would improve this. The objective would also benefit from a quality element, such as performing an effective engagement quality review.

## Proposed ISA 220 (Revised)

### Questions

- 1) ***Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11 – 13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?***

We support the focus in the proposed standard on the involvement and the responsibility of the engagement partner for quality on the engagement.

- 2) ***Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?***

We consider ED-220 would be better if it made it clear that the engagement partner should be able to rely on the firm’s system of quality management, unless information provided by the firm or other parties suggest otherwise.

While paragraph 4(b) in the proposed standard provides the necessary scope at the engagement level to respond to quality risks at the engagement level, the current scoping of paragraph A10 could be confusing and seems to be about tailoring the audit approach to the audit risks rather than a quality risk at the system of quality management level.

In addition, while the proposed standard addresses the responsibility of the engagement partner to determine whether the audit engagement has sufficient resources, the focus seems to be on obtaining more, or changing the reporting time, rather than requiring consideration about whether the audit fee may be insufficient to perform the required audit work. We note that these are separate considerations but we consider it would be useful to consider this.

- 3) ***Do you support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level? (See paragraph 7 and A27 – A29 of ED-220).***

We support the material on the appropriate exercise of professional scepticism, however, we note that because this material is only contained in the introduction to the proposed standard, and not the requirements, there is a risk that the material may not be implemented.

**4) *Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?***

We believe that the proposed standard deals adequately with a modern audit environment in the application and other explanatory material.

**5) *Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27-31 and A68-A80 of ED-220).***

We support the requirements and guidance on direction, supervision and review. However, we note that in paragraph 27(c) there is an implicit assumption that a more experienced team member is more capable than a less experienced team member. While this may be broadly true, experience alone is not the sole determinant of a person's knowledge and capability.

**6) *Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?***

We believe that the proposed standard and the overarching documentation requirements in ISA (NZ) 230 are sufficient.

**7) *Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?***

We do not have any comments to make on this question.