

International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY
10017

01 July 2019

Dear Sirs

Request for Comments - Exposure Draft February 2019: Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews

PKF International Limited (“PKFI”), administers the PKF network of legally independent member firms. The PKF International network consists of member firms operating in over 100 countries providing assurance, taxation and business advisory services. PKF International Limited is a member of the Forum of Firms and is dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We are grateful for the opportunity to comment on the International Auditing and Assurance Standards Board’s (IAASB’s) Exposure Draft on the Proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews. We believe the introduction of a separate standard for Engagement Quality Reviews (EQR), will help emphasize the importance of the ECR process as a part of a firm’s system of quality management. We welcome the enhancements brought into ED-ISQM 2, which build on the requirements and guidance on the Engagement Quality Control Review process, as set out in ISQC 1.

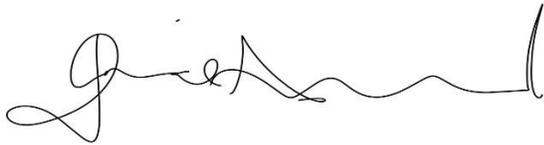
Our responses to the request for comments include various recommendations on clarity of wording in certain sections of the proposed standard. The significant areas that we have commented on in this regard include the “cooling-off period” between acting as an engagement leader and being eligible to perform the EQR role on an audit engagement, as well as a recommendation for the IAASB to reassess the term “EQR” and to consider whether there may be a better term which would more appropriately reflect the nature and requirements of the role.

Within our responses we have also taken the opportunity to suggest enhancements that would ensure that firms include the EQR process in their risk assessments, as well a recommendation that further clarity be brought into the proposed standard on the guidance over the timing of the EQR’s involvement in an engagement.

Our detailed responses to the request for comments are set out in [Appendix 1](#) of this submission.

We would like to thank the IAASB for the efforts and consultations that went into producing the exposure draft, which we believe will result in a standard that will support firms in meeting the objectives of their systems of quality management.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Jamie Drummond', with a stylized flourish at the end.

Jamie Drummond

Director of Assurance
PKF International Limited

Appendix 1

Request for comments

Question 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

We support a separate standard for engagement quality reviews ("EQR").

Generally, we believe it is appropriate for ED-ISQM 1 to deal with the engagements for which an EQR is to be performed. However, in order that a complete set of all of the relevant requirements and guidance on EQRs are contained within a single standard, we believe ED-ISQM 2 should also include the same guidance and requirements, as set out in ED-ISQM 1, on the circumstances in which an EQR is to be performed.

Question 2

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

Response

We have a concern regarding the split between ED-ISQM 1 and ED-ISQM 2 on the requirements for the EQR. We believe this is an important area where the links between ED-ISQM 1 and ED-ISQM 2 are not sufficiently clear. Specifically, we are concerned that there is a lack of appropriate emphasis across both ED-ISQMs that a risk assessment should be performed over a firm's EQR process.

We believe it is important that a firm performs a risk assessment over its EQR process in order that it can identify relevant quality risks. These would include risks affecting:

- the suitability of staff to be eligible for the engagement quality reviewer role,
- availability of eligible reviewers,
- achieving the right culture at an engagement level that is supportive of the EQR process, and
- documentation of the performance of the EQR.

In this regard, we believe that there is insufficient emphasis in the proposed standards because the EQR process has been brought into ED-ISQM 1 as a "response", (see paragraph 37 (e) of ED-ISQM 1) and not as an "objective". The prescribed responses that are already provided in ED-ISQM 1 (which includes the EQR response) should, in theory at least, have been designed by the IAASB to address assumed quality risks. We have a concern that there is a possibility of firms presuming a risk assessment is not necessary for a prescribed response on the basis that the IAASB have already performed the relevant risk assessment.

Consistent with this concern, we note that ED-ISQM 2 does not include the same, or similar, requirements to ED-ISQM 1 for a risk assessment process. As the majority of requirements that

relate to the EQR process are set out in ED-ISQM 2, we consider this will heighten the risk that a firm does not cover its EQR process as part of its ED-ISQM 1 risk assessment process.

Accordingly, we recommend the following amendments to ED-ISQM 1:

- In order for the standard to require a risk assessment over the EQR process, the objective in paragraph 38 (b) of ED-ISQM 1, “Resources” should be expanded to include explicit reference to the EQR. We suggest the following wording may be appropriate:

“The firm assigns an engagement partner, an engagement quality reviewer (where required by paragraph 37 (e) of ED-ISQM 1), and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.”

- Explicit reference should be made to the EQR process either within the objectives of the Governance and Leadership section of ED-ISQM 1, or within the Application Guidance which directly corresponds with the objectives of the Governance and Leadership section of ED-ISQM 1.

In addition, please see our point above regarding our suggestion that the requirements in ED-ISQM 1 for engagements for which an EQR is required, be repeated within ED-ISQM 2.

Question 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

In our view, the introduction of ED-ISQM 2 provides an opportunity for a more fundamental change to the terminology than has been proposed.

The use of “engagement quality” within the terminology, is not entirely appropriate, since it implies that the “engagement quality” reviewer has the responsibility for reviewing all aspects of quality on the engagement.

Further, the objectives of an EQR, as set out in ED-ISQM 2 are focused predominately on a review of the significant judgements exercised by the engagement team, and of their application of professional skepticism. Therefore, the engagement quality reviewer’s responsibilities, by definition, is narrower in scope than a responsibility for engagement quality.

Another problem with the current terminology of an “engagement quality control review” process under extant ISQC 1, is that it is frequently confused with the engagement monitoring process as required by ISQC 1. ED-ISQM 1 retains requirements for firms to establish an engagement monitoring process, and the engagement monitoring process is conducted as a review focusing on engagement quality, all of which could be mistaken for an engagement quality review process. This increases the chance of continued confusion over the terminologies in the respective proposals of ED-ISQM 2 for the EQR process, and ED-ISQM 1 for the engagement monitoring process.

In order to avoid confusing the two, we suggest that the IAASB considers an alternative, and more apt, term for use within ED-ISQM 2 to describe the EQR process.

Question 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?*

Response

We generally 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. We recommend that the IAASB reconsiders its use of the word “unlikely” in paragraph A5 of ED-ISQM 2, which states:

“it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted.”

We believe that the use of the word “unlikely” effectively makes this application guidance a de facto requirement. A cooling off period of two subsequent audits before the previous engagement partner can act as the engagement quality reviewer, would not be practicable for many smaller firms to implement. In order to support the scalability of ED-ISQM 2 the firm should be given more flexibility for determining the duration of the cooling off period. Accordingly, we recommend that the IAASB amends the wording in paragraph A5 of ED-ISQM 2 and avoids stipulating a specific timeframe in the proposed standard.

Additionally, we also believe it would be helpful for proposed ED-ISQM 2 to further enhance the guidance on the eligibility of an “other individual within the firm” to be an engagement quality reviewer. This would be beneficial for smaller firms with restricted partner resource and which would be more likely to need to utilize an “other individual within the firm” to perform an engagement quality review.

- b. While we recognize the merits of both locations, our preference is that such guidance should be included in ISQM 2 as opposed to the IESBA Code. This is principally because we believe the guidance will more likely be written in terms which are consistent with the objective of scalability, if located in ISQM 2.

However, of greater importance than location of the guidance, is its clarity. In its current form we believe that the guidance is ambiguous and contains inherent inconsistencies. For example, Para 28 of the Explanatory Memo to ISQM 2 states:

“The IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm’s policies or procedures may specify a different cooling-off period. The IAASB is of the view that ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue.

The wording above from para 28 is helpful, particularly to SMPs, in optimizing the scalability of the proposed standard. However, Para 26 of the Explanatory Memo to ISQM 2 appears to provide contradictory guidance to para 28:

“The IAASB is of the view that when an individual is appointed as the engagement quality reviewer immediately after serving as the engagement partner, there are no safeguards or other actions that would eliminate the threats to the individual’s objectivity or reduce them to an acceptable level.”

Comparing the two, para 26 suggests that there are no acceptable circumstances in which an EQR could be appointed immediate after serving as the engagement partner, whereas para 28 indicates that a firm may determine that no cooling-off period is necessary for certain types of engagements.

Para 28 also appears to be inconsistent with para A5 of the Application Guidance, which states:

“An individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality 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.”

From these three excerpts, it is unclear whether or not the IAASB does recognize that a firm may establish a policy for no cooling-off period on engagements other than audits of listed entities, in certain circumstances. This is unfortunate, not simply because of the risk of varying interpretations but, by contradicting para 28, the wording of para 26 and AG 5 appears to erode an important aspect of scalability which para 28 appeared to offer.

Our comments on this matter, including our response to 4 a) above, collectively demonstrate that the proposed standard would benefit from clearer wording in context of the EQR cooling-off period, to help reduce ambiguity and to better promote scalability.

Question 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 response to the first question, we generally agree with the requirements relating to the nature, timing and extent of the engagement quality review procedures.

However, we have a concern about the use of the word “timing” within the second sentence of paragraph A24 of ED-ISQM 2. As an unintended consequence, the word “timing” in this context could be misinterpreted by firms and wrongly applied to restrict and limit the involvement of the engagement quality reviewer by delaying the timing of their initial involvement in the engagement until closer to the completion phase. Such an interpretation may arise as part of a firm’s efforts to safeguard the objectivity of the engagement quality reviewer, but to the detriment of involving them to an appropriate extent during all phases of the audit from planning through to completion. Consequently, we suggest that deleting the word “timing” from that sentence would avoid such an interpretation and would help in encouraging engagement quality reviewers to be appropriately involved throughout all phases of an engagement.

In response to the second question, in our view the responsibilities of the engagement quality reviewer are generally appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). However, we have explained in the paragraph above that there is a risk that the wording in paragraph A24 of ED-ISQM 2 could be misinterpreted by firms, leading to the potential consequences we noted.

We encourage the IAASB to amend the wording of paragraph A24 of ED-ISQM 2 to address this concern.

Question 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

We 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.

We believe that ED-ISQM 2 appropriately addresses the exercise of professional skepticism by the engagement quality reviewer.

Question 7

Do you agree with the enhanced documentation requirements?

Response

We agree with the enhanced document requirements.

Question 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 the engagement quality reviews in ED-ISQM 2 are suitably scalable for firms of varying size and complexity.
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Glossary of terms

ED-ISQM 1	Exposure draft February 2019: International Standards on Quality Management 1
ED-ISQM 2	Exposure draft February 2019: International Standards on Quality Management 2
ISQC 1	International Standards on Quality Control 1
IAASB	International Audit and Assurance Standards Board
EQR	Engagement Quality Review
ISA	International Standards on Auditing