



Proposed International Standard on Quality Management 2

Engagement Quality Reviews



Your technical all weather partner

1 July 2019

The Technical Director
IAASB Technical Director

Dear Sir/Madam

Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission – Consultation Paper “Proposed International Standard on Quality Management 2-Engagement Quality Reviews.”

In response to your request for comments for **Exposure Draft, Proposed International Standard on Quality Management 2, Engagement Quality Reviews**, attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS specialists and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

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Response Template: Proposed ISQM 2

Note to respondents:

- The questions below are from the exposure draft of proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, which is available at www.iaasb.org/quality-management.
- Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

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, this is due to the fact that the risks encountered by firms in audit and review engagements differ to those faced by firms in non-assurance engagements. Also, we feel that Engagement Quality Review has been given inadequate attention in the past. Having a separate standard for it will ensure that it is given the attention it warrants. Also, giving it a standard separate from ISQM 1 shows that quality management is still vital, and Engagement Quality Review is there to enhance the quality of engagements performed.

Engagement quality review is a specific response to quality risks and thus should be determined at firm level and not at engagement level and thus to reduce inconsistencies having separate standards is necessary to allow firms to determine the criteria for having an engagement quality review.

- 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 the requirements for engagement quality reviews in ED-ISQM1 and ED-ISQM2 are clear. ISQM1 is at a firm level in response to an assessed quality risk for assurance engagements while ISQM 2 addresses specific quality risk at an engagement level. Addressed in ED-ISQM 1 are why an engagement quality review should be undertaken and when it should be undertaken then ED-ISQM deals with how an engagement quality review should be conducted and who should conduct it. The objectives of both ED-ISQM 1 and ED-ISQM 2 is to seek to address the same fundamental problem which is the risk of quality and addressing that risk at different levels.

- 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:

Yes

We support the change from engagement quality control review/reviewer to engagement quality review/reviewer as the change in wording gives the reviewer the obligation of not only ensuring that the engagement meets pre-set quality controls, be it firm level or engagement level quality controls, but looks at the work performed and simply judges whether the work is of good quality. This is beneficial since at times work that meets pre-set quality controls may not necessarily be good quality as the review may overlook some issues that are not addressed by a firm’s quality control QMS. Quality control reviewer gave the impression that the reviewer was only assessing the quality control process, the new terminology places emphasis on the need to review the quality of the whole engagement. There will be no adverse consequences in Zimbabwe as a result of 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?

Response:

Yes

- (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:

A cooling off period is necessary for an individual before being able to act as the engagement quality reviewer as this ensures that the reviewer is objective and mitigates self-review and self-interest threats to objectivity. We also support the notion that, for listed entities, there may be no such safeguards in place. We also believe that two years is too short a period and a consideration should be made to lengthen the time to say at least 3 years. Before prescribing an actual length of time consideration should be made to align with all other standards and regulations for example the CPC prescribes the following;

- i. 290.155 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.
- ii. 290.156 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- iii. 290.157 If the individual has acted in any other capacity as a key audit partner for seven

Consideration should also be made that different jurisdictions may prescribe a cooling off period through their legislation for example the ZSE prescribes rotation of auditors after five years. Thus, we suggest that the ED consider setting a minimum number of years, e.g. 3 years, and allow entities to consider more stringent measures if legislation in their jurisdictions allow.

- (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:

Granted, the guidance relates to Objectivity which is a principle within the Code. However, it relates, specifically to Engagement Quality Reviews and as such would be better placed in ISQM 2 which is specifically for Engagement Quality Reviews. There should however be consistency between the Code and ED-ISQM 2 in prescribing the cooling off period as noted above.

- 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:

Yes

We agree with the requirements relating to the nature, time & extent of the engagement quality reviewer's procedures and that the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner proposed in ISA220. This is due to the fact the engagement will serve as a fresh set of objective eyes ensuring that the engagements partners leadership and project management was appropriate. Also, we agree that the engagement review should be done in time but also should be given enough time to allow for the reviewer to do a thorough review.

However, we feel there is a gap with regard the criteria used to determine the nature, timing and extent of the engagement quality review as neither ED-ISQM 1 or ED_ISQM 2 address this. We suggest that the criteria to determine the nature, timing and extent of the EQR be set in ED_ISQM 1 and that ED-ISQM 2 allow the EQ reviewer to change the scope based on the specific circumstances of the particular engagement

- 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

- a. We do agree that the quality reviewer's evaluation of the engagement team's significant judgements should include evaluating the engagement team's exercise of professional scepticism. The audit team would have exercised professional skepticism and in line with ISA 230, would have needed to document such considerations. The engagement reviewer will be able to serve as a 'reasonable man' to assess the reasonability of conclusions reached.
- b. Due to the susceptibility of judgements to misstatements professional skepticism is essential in assessing the quality of such judgements.
- c. We suggest that, since this is an area that is not easily apparent to reviewers, examples of areas where engagement teams would have exercised professional skepticism which the reviewer needs to assess should be added to ISQM 2 as an appendix. These examples would serve the purpose of highlighting the principle of using professional skepticism to assess the use of professional skepticism by the audit team.

7) Do you agree with the enhanced documentation requirements?

Response:

Yes

We agree with the enhanced documentation requirements as this ensures that the steps taken by the quality reviewer have been documented and are accounted for. By filling the documents together with the engagement documentation, it ensures that they can be readily accessed to verify whether the quality reviewer performed his/her duty. There is a common phrase, 'who polices the police?' the enhanced documentation allows for a process of reviewing the reviewer periodically to ensure enhanced quality and so we support the 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:

Yes

The engagement quality reviewers in ED-ISQM 2 are scalable for varying firms. The fact that the standard is more focused on the principle, which is engagement quality and not serving as an executive summary allows for firms to determine the best way to address the principle. Also, allowing SMPs to outsource will help them to ensure quality. The scalability also comes through in that the requirements for eligibility and documentation also apply to the external reviewer. As the ED-ISQM 2 allows the EOR to be considered based on the specific circumstances of the engagement this further buttresses the scalability of the standard.

Editorial Comments on Proposed ISQM 2

[Please include here comments of an editorial nature.]