

Professor Arnold Schilder
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Dear Professor Schilder,

IAASB Proposed International Standards on Quality Management (ED- ISQM1 and ED-ISQM 2) and ED-ISA 220 Quality Management for an Audit of Financial Statements ('ED- ISA 220')

RSM International Limited, a worldwide network of independent audit, tax and consulting firms, appreciates the opportunity to comment on the IAASB's Proposed Standards on Quality Management.

We welcome the proposals in ED-ISQM1, ED-ISQM 2 and ED-ISA 220 and believe they provide the basis to achieve a step change in audit quality. We see this combined suite of standards as essential for continued improvement in audit quality. We have a number of comments on the Exposure Drafts and our responses to the specific questions posed in ED-ISQM 2 are attached.

Due to the comprehensive nature of the changes, significant practical implementation guidance and training will be required. Assistance with implementation through a comprehensive example or guidance will be particularly critical for smaller firms and will assist in setting a framework for regulators when they inspect firms for compliance.

We would be pleased to discuss our views further with you or your staff. If you have any questions regarding our comments, please contact Steve Whitcher (steve.whitcher@rsm.global) or me at (marion.hannon@rsm.global).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Marion Hannon'.

Marion Hannon
Global Leader, Quality & Risk

Response Template: Proposed ISQM 2

General Comments on Proposed ISQM 2

We support the principles in ED ISQM 2 and believe it supports increased and improved focus on audit quality.

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 having two separate standards and we agree with the way in which the requirements are split between ED- ISQM 1 and ED-ISQM 2. However we recommend that it is made clearer that the engagement quality review is just one aspect of quality management and represents just one particular response to quality risks.

- 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. However, we believe that it should be made clearer that ED-ISQM 1 includes the requirement for an EQR based on the assessment of risk by the individual firm. As currently drafted, this could potentially be overlooked by an engagement partner.

- 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 this change and do not see any adverse consequences.

- 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 agree with the principles set out in paragraphs 16 and 17. For an engagement quality review to be effective, the reviewer must be independent, objective and competent to perform the role.

- (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 that a “cooling-off” period is essential to independence and objectivity. For an engagement partner to move directly into the role of engagement quality reviewer is a threat to those principles because they may be influenced by decisions made when they were responsible for the audit.

- (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 support having all requirements in 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: Yes although we suggest using “communicated” rather than “provided” in paragraph 22a(ii) to be consistent with the terminology used in ED ISQM 1 paragraphs 52-54.

- 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 judgments includes evaluating the engagement team’s exercise of professional skepticism. Additional references to professional skepticism could be added to paragraphs 21 and 23 to help clarify and reinforce this point. Also, specific reference to reviewing work on significant risks, not just significant matters, could be included for clarity.

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

Response: Yes, we agree with the documentation requirements. However, the guidance in A39 is confusing. If the final assembly of the engagement file is completed ordinarily no later than 60 days from the date of the engagement report (in accordance with ISA 230), it should be further clarified what documentary evidence is required to demonstrate that the engagement quality review was actually completed before the date of the engagement report.

- 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.

Editorial Comments on Proposed ISQM 2

Paragraph 19 sets out situations in which an engagement quality reviewer might need to be replaced. Guidance on procedures that firm should undertake in this situation would be useful, e.g. in respect of reviewing the work already carried out by the former engagement quality reviewer and documentation requirements in respect of the change.

