

## 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](http://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**

None

### **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:

We support separate standard for Engagement Quality Review. The separation provides deeper guidance into Engagement Quality Review process. Where a firm assesses that it does not require to perform Engagement Quality Review it would not need to consider ED-ISQM 2. This is an easier process to follow from the regulatory perspective as well given that these would be two different standards.

A separate standard for engagement quality review signifies the importance of the engagement quality review. Locally we have had instances where practitioners confused engagement review with engagement quality control review. It will now be easier for practitioners to fully comprehend and internalize the concept of engagement quality review with a full standard on it.

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

Response:

ED-ISQM 1 provides detailed guidance to instances where Engagement Quality Reviews are required. The standard links well to ED-ISQM 2 in that it gives criteria for performing Engagement Quality Review and refers the reader to ED-ISQM 2 wherein criteria as provided in ED-ISQM 1 is also mentioned. The two standards therefore flow well together and 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:

Currently there is confusion in the local practice in terms of engagement performance review by engagement partner and engagement quality reviewer. Practitioners tend to believe these are one and the same thing due to terminology.

We propose to add “**Independent**” to the new name for it to read “Independent Engagement Quality Review/Reviewer”. This addition will synchronize well with emphasis provided by ED-ISQM 2 regarding ethical and independence requirements of the Engagement Quality Reviewer and send a clear message of the independence of the review/reviewer.

- 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:

Requirement for eligibility to be appointed as an engagement quality reviewer or an assistant are supported with few comments.

Paragraph 16 and 17 and the relating explanatory paragraphs give no requirement that the Engagement Quality Reviewer must be at partner level. Use of the phrase “partner or other individual within the firm” gives an option to appoint non-partner individuals. This gives room to appointment of audit managers as Engagement Quality Reviewers. However, even at senior manager level, these individuals have no authority over the partners. Their reviews are therefore highly likely to be overridden by engagement partners due to lack of authority. The process then would become a box ticking exercise.

Paragraph A11 gives clear indication that appointment of Engagement Quality Reviewer below partner level would practically bear no desirable results.

Furthermore, sufficient time referred to in paragraph 16(a) would be difficult to prove or refute from the point of view of a regulator. Given that the standard allows for use of an

assistant by the Engagement Quality Reviewer, it is proposed that “sufficient time” be replaced with “sufficient resources”. Use of “Sufficient Resources” would allow for other factors to be considered including time and availability of an assistant.

- (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:

Proposal for “cooling-off” period from appointment as engagement quality reviewer is important for former engagement partners.

Paragraph A5, last but one sentence, however, gives “cooling-off” period as an example rather than a requirement. This makes it more as an option than a requirement. From regulatory perspective it will be difficult to hold firms accountable as “cooling off” period is just given as an example.

We are not able to identify any other way for the former engagement partner to be appointed as Engagement Quality Review subsequent to their period as engagement partner without self-review and self-interest threat being increased apart from allowing “cooling-off” period. The words “for example” should therefore be deleted to make “cooling-off” mandatory.

Paragraph A5 further suggest “cooling off” period of two years post audit of a listed entity. That notwithstanding, the period does not come out as a minimum requirement but only as statement (or observation). This is probably so because “cooling off” period is only given as an example in the same paragraph. In our opinion the period should be given as a minimum requirement for listed entities.

In addition, the two year is considered at low given that judgements performed by the engagement partners can span to two years. An example is where there has been restatement of prior year financial statements, in which case the impact could be in prior year and current year. We suggest that a minimum of three year be made a mandatory requirement.

The element of independence is best enforced where there is clear guidance with minimal ambiguity and making it crystal clear that “cooling off” period is a requirement for listed and public interest entities together with setting minimum timeframe.

- (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:

IESBA Code provides general ethical requirements guidance to professional accountants in all circumstances. It falls upon the accountant to apply the code appropriately as circumstances change. Standards established wishing to make reference to ethical compliance should do so but establish specific criteria and

guidance on their own accord. Guidance for “cooling off” period is therefore best placed in ED-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:

Nature, timing and extent of the Engagement Quality Reviewer’s procedures and their responsibility are agreed to.

- 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:

While we don’t dispute evaluation of engagement team’s exercise of professional skepticism, our thought is on the practicality to do so separately. It would be practical to evaluate significant judgements of the engagement team and by doing so, professional skepticism of the engagement team is indirectly if not directly evaluated.

However, if guidance points out evaluation of professional skepticism separately, it appears as though these ought to be done isolated from the other. In concluding about significant judgements of the engagement, the Engagement Quality Review would still mention the extent of professional skepticism applied by the engagement team without having to state its evaluation in the standard.

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

Response:

Enhanced documentation requirements are agreed to.

It is proposed for qualities of the appointer of the Engagement Quality Reviewer to be documented on file. Assessment of the Engagement Quality Reviewer’s qualities as guided by ED-ISQM 2 should be documented on file.

- 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:

Given that criteria for performance of Engagement Quality Review has been made clear in ED-ISQM 1 firms of different sizes and complexity should be able to apply the standard.

Furthermore, ED-ISQM 2 provides guidance for appointment of Engagement Quality Control outside the firm for smaller firms or sole practices.

**Editorial Comments on Proposed ISQM 2**

- a) Paragraph 16(c) should include “local” before laws and regulations
- b) Paragraph 19 second line should include “during the review” after the word “impaired” to signify that the impairment would have occurred during the review.
- c) Paragraph 20(b) should end with “with immediate effect”. This will make it clear in terms of timing for which the Engagement Quality Reviewer should discontinue their role.
- d) Paragraph A1 should include knowledge about the “The type of engagement and client”. This is a key aspect to ensure that the Engagement Quality Reviewer is the appropriate person based on knowledge of the assignment.
- e) Paragraph A3 should include a last sentence or continuation to the existing sentence to read “In this case, the engagement partner may be the appointing individual”. The addition will make the paragraph conclusive as it is currently hanging.