

Appendix 2: EYG Response to ED-ISQM 2

Our responses to the specific questions on which the IAASB is seeking feedback from Proposed International Standard on Quality Management 2 *Engagement Quality Reviews* are set out below. We have also added an 'Editorial and typographical suggestions' section, which includes drafting and editorial suggestions.

Proposed International Standard on Quality Management 2 *Engagement Quality Reviews*

Q1. *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?*

Yes, we support a separate standard for engagement quality reviews. We agree that, because an engagement quality review is a response to an assessed quality risk, 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 agree, as stated in paragraph 11 of the explanatory memorandum, that a separate standard emphasizes the importance of an engagement quality review. When an engagement is identified as requiring an engagement quality review, a separate standard also facilitates having all requirements related to the firm's performance of that review in one location. Consequently, like the changes in ED-220, we propose that conforming amendments be considered to other assurance standards, such as ISAE 3000, to limit their focus to the engagement team's procedures and for ISQM 2 to exclusively address the engagement quality reviewer's procedures. Further, the extent of content covered in ED-ISQM 2 as well as the fact that requirements apply to the engagement quality reviewer, albeit on behalf of the firm, could become confusing if included in ISQM 1 as opposed to a separate standard.

Q2. *Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?*

Yes, we believe the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 are clear.

Q3. *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?*

Yes, we support the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer" because it is consistent with the revised name of ED-ISQM 1 and places explicit emphasis on engagement quality. It also is consistent with the term we have used for these reviews internally for many years.

Q4. 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?

We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. Competence, capability including sufficient time, appropriate authority and objectivity are essential for an effective review. However, we believe that the guidance related to limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner could be clarified. Refer to our response to Q4 (a) for further comments.

(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?

We support inclusion of guidance regarding a “cooling-off” period before certain individuals can act as the engagement quality reviewer because such guidance is appropriate to support objectivity; however, we believe that the guidance should be further clarified.

We recognize that paragraph A5 may be intentionally vague to accommodate different types of engagements but believe that it may be open to misinterpretation and result in inconsistent application. If the statement “it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted” is intended to be interpreted in a manner that results in a firm setting a policy requiring a minimum two-year cooling off period for audits of listed entities, then we believe this guidance should be elevated to a requirement. In fact, we believe this should be a requirement in the IESBA Code and not ISQM 2 (see our response to Q4 (b)). However, if it is determined that the cooling-off period is to be dealt with in ISQM 2, then we believe that the period needs to be further clarified. Specifically, because the cooling-off period required by the IESBA Code for an engagement partner depends on how long the individual served as the lead audit engagement partner, the cooling off period could exceed two years. Accordingly, we suggest that any requirement or guidance in ISQM 2 be worded such that it is not contradictory to the IESBA Code. We would support a mandatory cooling-off period of two years, or such longer period required under the auditor rotation guidance in the IESBA Code, before an individual that previously served as the engagement partner could be appointed as the engagement quality reviewer for an audit of a listed entity. However, it may be better to reference the requirement to adhere to the partner rotation requirements under the IESBA code (see our response to Q4 (b)).

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

No, we believe that this guidance should be located in the IESBA Code because the cooling-off period is relevant to the engagement quality reviewer’s compliance with the IESBA Code’s fundamental principle of objectivity. Because we see the objectivity of the EQR as an ethical matter, we believe it should be remanded to IESBA to revise the Code as

appropriate. However, we believe that it is important that close coordination occur between IAASB and IESBA such that this topic is addressed in a manner that is consistent with the objectives of ISQM 2 and the Code. Also, we believe it is important to align the effective dates of the relevant revisions to the Code with that of ISQM 2 to the extent possible.

It is also appropriate to relocate this guidance to the IESBA Code because we believe that the long association provisions for the engagement partner in the IESBA Code may otherwise be interpreted to allow for the appointment of an engagement quality reviewer that served as the engagement partner in the prior period. The requirement for a cooling-off period before an engagement partner can be appointed as an engagement quality reviewer would be an important caveat for firms to take into account when applying the long association provisions that address changes in the roles of key audit partners on audit engagements. Relocating the guidance to the IESBA Code would also avoid establishing requirements that are contradictory to the cooling-off provisions established by IESBA, which could exceed two years depending on how long the individual served as lead audit engagement partner.

Q5. *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 believe that the enhanced requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures are helpful to improve the robustness of the engagement quality review as well as consistency in the depth of the review. We also support the added emphasis of the engagement quality reviewer's involvement at appropriate times throughout the engagement.

Paragraphs 34-36 of the explanatory memorandum are helpful in clarifying confusion between significant judgments and significant matters. Because these concepts are fundamental to an engagement quality review and its consistent application, we believe that the guidance should be enhanced as follows:

- ▶ For audit engagements, the guidance should be more explicit that the significant judgments required to be evaluated by the engagement quality reviewer are the same significant judgments that are in scope of the engagement partner's review requirement in paragraph 29 (a) and (b) of ED-ISA 220.
- ▶ For engagements other than audits, specific guidance about significant judgments and significant matters in the context of other assurance engagements is needed to aid consistent application (i.e., the suggestion that the ISA 220 guidance may be helpful in this regard is not sufficient on its own). We recommend that guidance related to these concepts either be included directly in ED-ISQM 2 or consideration be given to consequential amendments to the IAASB standards that address assurance engagements.

In addition, we are unclear of what is expected by the engagement quality reviewer in paragraph 22(f) to "evaluate the basis for the engagement partner's conclusion that the engagement partner has taken

overall responsibility for managing and achieving quality on the audit engagement". We recommend that the IAASB consider adding guidance on how the engagement quality reviewer might perform this evaluation. The guidance should be explicit as to whether the engagement quality reviewer is making this evaluation through interactions with the engagement partner and review of workpapers as part of the engagement quality review or whether the engagement quality reviewer is expected to perform procedures beyond what is inherently part of the engagement quality review.

We also suggest making it clear that the firm should establish policies or procedures to address instances when the engagement quality reviewer's concerns are not satisfactorily resolved as described in paragraph 23. In addition, we believe that paragraph 24 could be enhanced by rewriting it as follows: "The engagement quality reviewer shall determine whether the requirements in this ISQM with respect to the performance of the engagement quality review have been fulfilled, and whether the engagement quality review is complete. If the engagement quality reviewer's concerns described in paragraph 23 are not resolved, the engagement quality review is not complete. If so Upon completion of the engagement quality review, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete." Updating paragraphs 23 and 24 as suggested, would avoid an interpretation that an incomplete engagement quality review is a possible outcome.

As it relates to the balance of responsibilities, we believe that the responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised).

Q6. *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?*

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. The engagement quality reviewer evaluates whether professional skepticism was appropriately exercised and documented by the engagement team in the areas reviewed, including whether the team's exercise of professional skepticism is evident from the engagement documentation, when appropriate.

Because the current definition of professional skepticism involves a critical assessment of evidence, we do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. Assessing evidence is not the role of the engagement quality reviewer; it is to evaluate the significant judgments made by the engagement team. In context of the current definitions of the professional judgment and professional skepticism, we believe that the current role of the engagement quality reviewer is to exercise professional judgment as opposed to professional skepticism in performing their review. However, if it is determined that ED-ISQM 2 should address the exercise of professional skepticism by the engagement quality reviewer, then we believe that a separate definition for professional skepticism that is specifically relevant to the engagement quality reviewer needs to be created along with supporting guidance on how the engagement quality reviewer would appropriately exercise professional skepticism in carrying out their role.

Q7. Do you agree with the enhanced documentation requirements?

Yes, we agree with the enhanced documentation requirements; however, we feel that the reference in paragraph A36 to paragraphs 67 and 68 of ISQM 1 can be confusing. We suggest that paragraph A36 be more clearly written to indicate that these references are documentation requirements for the firm as opposed to the engagement quality reviewer. Further, we suggest removing the word 'also' from the last sentence of paragraph 27 as follows: "The engagement quality reviewer ~~also~~ shall determine that the documentation of the engagement quality review includes:"

Q8. 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?

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity as summarized in the Appendix to the explanatory memorandum. It may be helpful for the IAASB to consider providing examples to illustrate how scalability might be applied in different circumstances such as when applying the standard to a complex listed entity as opposed to a small listed entity.

Editorial and typographical suggestions

Paragraph 3

- ▶ Consider moving paragraph 3 to after paragraph 5 to align with the title of this section (i.e., first discuss ISQM 1, then introduce engagement quality reviews).

Paragraph 7

- ▶ We agree that "the engagement team may obtain further evidence through its responses to matters raised in the engagement quality review". However, the wording earlier in this paragraph "nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team" seems to be contradictory and we suggest it be modified because responding to matters raised in the engagement quality review would likely result in obtaining further evidence.

Paragraph 9(b)

- ▶ We recommend revising references to other assurance engagements so that they are consistent throughout the standard. For example, this paragraph refers to "Other engagements" while paragraph 4 refers to "or other assurance or related services engagements performed by the firm, ...". Further, ISQM 1 paragraph 37(e)(iii) refers to "Audits or other engagements for which:".

Paragraph 19

- ▶ Consider whether it would be helpful to include application and other explanatory material related to the handover of responsibilities and transfer of information from the current

engagement quality reviewer to the replacement reviewer as well as the documentation of the handover.

Paragraph 22(g)

- ▶ Consider adding “and conclude on” to the requirement lead-in (i.e., “Review and conclude on: ...”).

Paragraph 27

- ▶ Consider explicitly including documentation of the engagement quality reviewer’s evaluation of the conclusion in the auditor’s or engagement report in accordance with paragraph 22(g).

Paragraph A4

- ▶ Consider moving this paragraph to later in the application and other explanatory material, for example, after paragraph A16. This might improve the flow of the guidance by discussing what the eligibility characteristics are in advance of indicating that those characteristics may not exist within the firm.

Paragraph A7

- ▶ The second sentence of this paragraph makes a leap from the firm’s quality risks to a specific engagement. We suggest this paragraph be clarified to avoid misinterpretation that quality risks are assessed for an individual engagement.

Paragraph A32

- ▶ We recommend removing the second sentence of this paragraph as paragraph 22(e) relates to the engagement quality reviewer’s evaluation of the team’s requirements to consult in accordance with the firm’s policies or procedures.

Paragraph A34

- ▶ Since paragraph 22(f) relates to the audit of financial statements, we recommend deleting paragraph A34 which refers to other assurance engagements to avoid confusion.