



**INTERNATIONAL AUDITING AND  
ASSURANCE STANDARDS BOARD (IAASB)  
EXPOSURE DRAFT**

**‘PROPOSED INTERNATIONAL STANDARD  
ON QUALITY MANAGEMENT 2  
ENGAGEMENT QUALITY REVIEWS’**

**RESPONSE FROM ICAS TO THE IAASB**

**1 JULY 2019**

## Background

ICAS is a professional body for more than 22,000 world class businessmen and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest. ICAS was created by Royal Charter in 1854.

## Key Comments

ICAS welcomes the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB) Exposure Draft *Proposed International Standard on Quality Management 2 Engagement Quality Reviews*.

We support the introduction of a separate standard to deal with engagements for which an external quality review should be performed. Although we believe that the linkages between the requirements for an engagement quality review in ED-ISQM 1 and ED-ISQM 2 are generally clear, more emphasis could be placed on the fact that an engagement quality review is only one aspect of quality management and that depending on the circumstances there are other measures included in ED-ISQM 1 that could be equally effective.

We would also welcome greater emphasis in paragraph 21 that the engagement quality review is a continuous process and should not be initiated too late in the process, particularly in relation to audit engagements.

Although we acknowledge that ED-ISQM 2 is primarily targeted towards the audits of larger entities, we are concerned about its scalability as there may be instances where very small public interest entities, or small listed entities would fall within its scope. In these cases, scalability could be an issue, as well as the availability of, and access to, a suitably skilled and experienced reviewer.

We are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more principles-based standards where the requirements focus on the objectives of the standard, with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating the proportionate application of the standards.

We also believe that a scalable approach could be better facilitated by the inclusion of greater clarification within ED-ISQM 2 that the work of the engagement quality reviewer should be tailored to the identified quality risks and their potential impact based on the circumstances of the individual engagement.

Our responses to the specific questions are included below.

## Comments on Specific questions

### 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 1

We support the introduction of a separate standard for engagement quality reviews and the proposed approach. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals.

Nevertheless, we would favour a clearer separation of what the engagement quality reviewer should do from what is required of the audit firm.

We note that ED-ISQM 2 applies to audits and reviews of financial statements and other engagements. In relation to the audits and reviews of financial statements, is it the intention that the work of the engagement quality reviewer would be restricted only to the financial statements or might it be extended to other matters that the auditor is required to consider (depending on jurisdictional requirements) in the front-half of the annual report?

### Question 2

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

### Response 2

We believe that the linkages between the requirements for an engagement quality review in ED-ISQM 1 and ED-ISQM 2 are generally clear. However, we would draw your attention to the following:

1. More emphasis could be placed on the fact that an engagement quality review is only one aspect of quality management and that, depending on the circumstances, there are other measures included in ED-ISQM 1 that could be equally effective.
2. We believe the linkage between the objective of an engagement quality review and the actions taken by the firm post its completion could be better signposted. The ED states that 'The objective of the firm is to perform an engagement quality review for the engagement'. It also defines an EQR as 'an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report'. We would welcome the inclusion of some content to highlight the interaction with the application material in ED-ISQM1 which deals specifically with differences of opinion etc. and how such matters should be dealt with.

### 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 3

We do not envisage that there will be any adverse consequences of changing the terminology from "engagement quality control review/reviewer" to "engagement quality review/reviewer" in the UK.

### 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 4**

We are supportive of the inclusion of a new requirement for the firm to establish policies or procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as the engagement partner. However, we believe that guidance on the determination of this “cooling off” period, would be better located in the IESBA Code of Ethics. As the scope of IESBA’s mandate encompasses independence, we do not believe that there is any need for duplication in the IAASB’s suite of standards.

**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 5**

We are concerned that the ED does not propose a scalable approach to the work required of the engagement quality reviewer. For that reason, we believe that ED-ISQM 2 could clarify that the work of the engagement quality reviewer should be tailored to the identified quality risks and their potential impact based on the circumstances of the individual engagement. Therefore, in areas where high audit risks have been identified, an engagement quality reviewer would be expected to focus on the quality risks affecting these aspects and may not need to look at all areas of the engagement.

However, we are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more principles-based standards where the requirements focus on the objectives of the standard, with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating the proportionate application of the standards.

We believe that the IAASB should provide greater clarity around the interconnection between the concepts of significant matters and significant judgements. Both concepts are used throughout ED-ISQM 2 without sufficient detail on how they relate to, and impact, each other.

We also support that ED-ISQM 2 includes a new requirement addressing the engagement quality reviewer’s responsibility to perform the procedures at appropriate points in time during the engagement. In terms of the timing of the engagement quality reviewer’s procedures, we believe that paragraph 21 could emphasise more strongly that the engagement quality review is a continuous process to emphasise that the work of the reviewer should not be initiated too late in the process, thereby risking a delay in the completion of the audit.

As far as the extent of the engagement quality review is concerned, ED-ISQM 2 is silent on whether the engagement quality review should also encompass the work of component auditors. We would welcome the inclusion of additional guidance in ED-ISQM2 in this respect.

**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 6**

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.

We do not consider that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer and that the current requirements are sufficient in this regard.

**Question 7**

Do you agree with the enhanced documentation requirements?

**Response 7**

We welcome the enhanced documentation requirements as these acknowledge that the documentation of engagement quality reviews might take different forms depending on the nature of the engagement and the entity.

**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 8**

Scalability is less of an issue for ED-ISQM 2 as it is intended to be applied in engagements involving listed entities or entities that are of significant public interest. Nevertheless, there may be instances where very small public interest entities, or listed entities would fall within the scope of ED-ISQM 2. In these cases, scalability could be an issue. A further consideration for small and medium-sized firms is the availability of, and access to, a suitably skilled and experienced reviewer, especially in some specialised sectors. Therefore, in relation to audit engagements, the need for this to be considered at an early stage of the tender process could be strengthened.