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Subject: IAASB invitation to comment on proposed International Standard on Quality Management 2 (ISQM 2)

Referent: Mag. Gerhard Prachner

Dear Sir or Madam,

KSW¹ is pleased to provide you with its comments on the IAASB invitation to comment on ISQM 2.

We support a separate standard for engagement quality reviews. We also welcome the increased authority being given to the engagement quality reviewer in the new proposals. In addition, we support the introduction of a 'cooling off' period.

We therefore recommend that the IAASB emphasizes more that an engagement quality review is just one aspect of quality management control and one particular response to quality risks. Developing a separate standard dealing with quality review should not overshadow other measures included in ISQM 1 that could be as effective.

For further information on this KSW letter, please contact.

Yours sincerely,

Mag. Philipp Rath e.h.
(stv. Vorsitzender des Fachsenats für
Unternehmensrecht und Revision)


Mag. Gregor Benesch
(stv. Kammerdirektor)

¹ Kammer der Steuerberater und Wirtschaftsprüfer

Appendix

Comments on the clarity, understandability and practicality of application of the requirements and related application material in ED-ISQM 2.

- 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?**

Answer: We support the intention of IAASB for a separate standard for engagement quality reviews. It supports the clarity and scalability.

By creating a separate standard for the EQR, the IAASB should be cautious not to overemphasize the role of the EQR, as opposed to the role of the firm in quality management (as in proposed ISQM 1) and to the role of the engagement partner (as in ED-220). An EQR is only one possible response to quality risks for engagements and not in all circumstances the most effective one.

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

Answer: As far as the linkages between ISQM 1 and ISQM 2 are concerned, we urge the IAASB for emphasizing more the fact that an engagement quality review is one aspect of quality management control and one particular response to quality risks. The fact that there is a proposal for a separate standard dealing with quality review should not overshadow other measures included in ISQM 1 that could be as effective.

- 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?**

Answer: In our perspective, there will not be any adverse consequences of changing the terminology in Austrian jurisdictions.

- 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?**

Answer: Generally speaking, we support the eligibility requirements, but would note that this might be challenging from a smaller firm’s perspective. We also support the criteria for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. This supports the clarity on the requirements for being an engagement quality reviewer.

- 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?*

Answer: We are supportive of the concept of a “cooling off” period. However we appreciate more guidance which facts and circumstances should be taken into account when determining a suitable cooling-off period.

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

Answer: We agree that such guidance is located in ISQM 2, as it is more efficient to have all guidance included in one standard. Nevertheless the concept of “cooling-off” period should also be addressed by the IESBA Code of Ethics above all in order to avoid any misinterpretations because of not clear alignment.

- 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)?**

Answer: We believe that more clarity should be given to ensure an appropriate balance between the responsibilities of the engagement partner and the engagement quality reviewer.

In particular, further clarity could be given as to the specific expectations of certain significant judgments that the EQ reviewer is required to evaluate.

- 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?**

Answer: We agree. In evaluating the basis for the engagement team’s conclusions with respect to a significant judgment, this would involve considering whether the team had appropriately exercised professional skepticism in reaching their conclusion.

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

Answer: The documentation aspect is not straightforward, and this is the case for ED-ISQM 1, but also ED-ISQM 2. We are concerned that the standard deals with the quality of documentation and the quality of evidence in the same manner. Emphasis should be on the latter, otherwise it will not be possible to document a good quality review.

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?

Answer: Smaller firms may find it challenging in complying with the requirements addressing criteria for the eligibility of engagement quality reviewer when there is a small population of individuals who could fulfil that role.

Scalability is only given for the extent of the engagement quality reviewer's work effort as this depends on the facts and circumstances of the engagement subject to a quality review.