



International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

July 1, 2019

Subject: Nordic Federation of Public Accountants' Response to the IAASB's Exposure Draft for International Standard on Quality Management – Engagement Quality Reviews (ISQM 2)

The Nordic Federation of Public Accountants (NRF) is pleased to provide you with its comments on the *Proposed International Standard on Quality Management 2, Engagement Quality Reviews*.

General comments

Regarding our general views and comments on the Exposed Quality Management Standards, we refer to the general comments in NRF's comment letter related to ISQM 1.

With regard to the firm's responsibility for the quality management process, we believe it is important to stress that the role of the engagement quality reviewer is limited. By having a separate standard for the engagement quality reviewer, it is important to ensure that the role and value of having an engagement quality reviewer will not be overemphasized as opposed to the role of the engagement partner.

Since appointing a quality engagement reviewer is one, but not the only, response to quality risks, we believe that this should be clarified within the standard.

A general concern, from an SMP point of view, regards the extended requirements in para. 37 (e) (iii) (b) in ISQM 1, which also affect the application of ISQM 2. Compared to the current requirements for appointing an engagement quality reviewer, we are concerned that

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these expanded requirements – combined with the examples listed in para. A104 – are the ones that might affect SMPs the most in that they would have to involve engagement quality reviewers to a greater extent than today. In our view it is not sufficiently certain that this increase in costs will correspond to the intended increase in quality, compared to using internal or external consultants.

Yours sincerely,

A handwritten signature in black ink that reads "Helene Agélii". The signature is written in a cursive style with a prominent flourish at the end of the name.

Helene Agélii
Secretary General and CEO
Nordic Federation of Public Accountants

About NRF

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of the recognized audit and accounting institutes in the Nordic region (DnR in Norway, FAR in Sweden, FLE in Iceland, FSR – danske revisorer in Denmark and Suomen Tilintarkastajat ry in Finland).

APPENDIX 1 – NRF comments to IAASB’s specific questions on whether:

- 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?**

The NRF believes there are both pros and cons in having a separate standard dealing with engagement quality reviews. Since appointing an engagement quality reviewer is one, but not the only, option when addressing quality risks, we are concerned that having a separate standard might stress the value of this option, making this “best practice”, at the expense of the role and value of the engagement partner in ensuring engagement quality.

However, including regulations about engagement quality reviews in ISQM 1 would increase the volume of an already very voluminous standard. With this in mind we support a separate standard.

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

The NRF believes that the linkage between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 are rather clear. However, the explanatory memorandum to ED-ISQM 2 states that an engagement quality review is a response, *among others*, that is designed and implemented by a firm to address its assessed quality risks. We would appreciate if this statement could be included in the standard itself.

- 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?**

We understand the rationale behind the proposed changes. But, in order to achieve consistent terminology throughout the Quality Management Standards, there will be inconsistencies in relation to different legislations and regulations, where “engagement quality control review/reviewer” are being used. Those terms are, for example, used in the EU Audit regulation.

If the IAASB decides to proceed with this change in terminology, we encourage the Board to take this matter into consideration when determining the length of implementation time. Having said that, there are no certainties that consequential amendments will be made in different legislations in the short term.

- 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?**

As a general point, we believe that having a strict cooling-off period, without any exemptions, will lead to practical issues and extra costs that most likely will be challenging for SMPs.

Bearing in mind the collaboration between the IAASB and the IESBA and the frequent references in the ISQM standards to the IESBA Code of Ethics, we do not support having stricter rules for cooling off-periods in the ISQM 2 compared to the IESBA Code of Ethics. Since the cooling-off period is intended to address threats to objectivity, this should be dealt with within the Code of Ethics and not within the ISQM 2.

We also suggest that para. A9 should be removed. The content, or perhaps the way of drafting, is confusing, since such an individual should not have been appointed as an engagement quality reviewer in the first place, cf. para. 16 a) and para A6.

- (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 refer to the above.

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

We refer to the above.

- 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)?**

Overall, we support this. However, the way the requirements in ISQM 2 relating to the nature, timing and extent of the engagement quality reviewer’s procedures are drafted, implies that there is no room for scalability or tailoring the performance based on the specific quality risk that it is supposed to respond to.

The requirements for having an engagement quality reviewer that are listed in para. 37 (e) in ISQM 1, relate to either certain kinds of entities or certain circumstances within the entities where an engagement quality reviewer may be the appropriate response to the assessed quality risk. In situations where an engagement quality reviewer is engaged based on the latter situation, the individual necessarily may not have to review all areas of the engagement but should rather focus on the aspects that initiated the assessment to have a quality engagement reviewer.

- 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?**

Yes, we believe that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism.

Regarding the engagement quality reviewer's own exercise of professional skepticism, this is rather implied than obvious in the drafting. However, we do not believe that this matter needs to be further expanded in this standard.

7) Do you agree with the enhanced documentation requirements?

We agree with this.

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?

With regard to the expanded scope of situations where an engagement quality reviewer is or may be required, combined with stricter rules on cooling-off periods that should be general applicable, we believe that the biggest challenge for SMPs will be to find a reviewer.

The cooling off period, appointment and eligibility of the engagement quality reviewer is overly prescriptive with little recognition of how smaller firms will manage this process.

Also, an important element with having an engagement quality reviewer is that this individual, as stated in para. 23, shall notify an appropriate individual in the firm when the engagement quality review cannot be completed due to the concerns of the engagement quality reviewer that the significant judgments made by the engagement team, or the conclusions thereon, are not appropriate. This requirement, and the objective it is aiming to achieve, will most likely have the intended affect in big firms, but it is not applicable in situations involving a sole practitioner and might be a challenge even within small firms.