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Mr. Willie Botha

Technical Director

International Auditing and Assurance Standards Board (IAASB)

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Submitted electronically at www.iaasb.org and to WillieBotha@iaasb.org

Dear Sir

COMMENT LETTER ON THE IAASB'S EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND ENGAGEMENT LEVEL, INCLUDING ENGAGEMENT QUALITY REVIEWS

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have over 44,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 49\%$), in the public sector ($\pm 4\%$), education ($\pm 2.0\%$) and other members ($\pm 15\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We welcome the opportunity to comment on the IAASB'S Exposure Drafts for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews (QM-EDs). We wish to express our appreciation for the work of the IAASB's Quality Control Task Forces (IAASB Task Force) in addressing the fundamental topic of quality management.

Accompanying this cover letter, please find the comments prepared by SAICA on the QM-EDs-Quality.

Please do not hesitate to contact Hayley Barker Hoogwerf (hayleyb@saica.co.za) should you wish to discuss any of our comments.

Yours sincerely

Signed electronically

Hayley Barker Hoogwerf
Acting Senior Executive, Assurance and Practice

SAICA'S Approach to Respond

1. With the pervasive effect that the IAASB's project on Quality Management will have on all practices utilising these standards, SAICA engaged with our members to encourage firms and practitioners to closely monitor the progress made and, in line with change management, be proactive in providing feedback to SAICA on any comments that they may have; even before the exposure drafts were officially issued for comment. To this end, SAICA established the SAICA Quality Control Reference Group (SAICA Reference Group) that met continuously throughout 2018 to study the IAASB's Issues Papers relating to Quality Management.
2. An internal Working Group studied and debated the QM-EDs and prepared initial thoughts and inputs pertaining to the questions posed.
3. SAICA participated in the IRBA Quality Control Task Group (IRBA Task Group) meeting where interested parties were invited to provide their views and comments in finalising the IRBA and SAICA comment letters. The IRBA Task Group comprised representatives from the IRBA, SAICA, academia and audit firms.
4. Included in this comment letter are the details of the discussions held by the SAICA Reference Group as well as the IRBA Task Group. The purpose of including such detail is not necessarily to provide a definitive conclusion on the matters noted but rather to point out areas of concern for further consideration by the IAASB Task Force.

Contents

5. The SAICA comment letter is structured in the following sections:
 - A. General comments on Proposed ISQM 1
 - B. Overall questions

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:

6. In line with the objective of enhancing scalability and ED-ISQM 2 only being applicable once the entity finds itself practicing in the space of the entities listed in paragraph 37(e) of ED-ISQM 1, as well as emphasising the importance of the (engagement quality review) EQR as a response to identified quality risks, SAICA is in support of a separate standard for EQRs.
7. The inclusion of paragraph 24, which requires the EQR to determine whether the requirements of ED-ISQM 2 with respect to the performance of the EQR have been fulfilled is seen as a positive addition in emphasising the responsibility of the EQR and may favorably impact the behavior of the engagement quality reviewer in fulfilling the related responsibilities.
8. The stand back provision included in paragraph 27 is also welcomed as a positive addition in ensuring that the scope of the EQR performed received specific attention and is clearly documented.
9. During our outreach activities, it was noted that a separate standard for EQRs significantly emphasises this as a response to quality risks; so much so that it may create the impression that this is the only response to engagement performance. SAICA is however satisfied that it is clear in ED-ISQM 1 that the EQR is only one of the required responses to identified quality risks relating to engagement performance.
- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Response:

10. Paragraph 2 of ED-ISQM 2 states that this ISQM applies to all engagements for which an EQR is required to be performed in accordance with ED-ISQM 1. The requirements for engagements subject to an EQR are clearly stated in one specific paragraph of ED-ISQM 1, namely 37(e). SAICA is therefore satisfied that the overall linkages between the requirements for an EQR in ED-ISQM 1 and the requirements contained in ED-ISQM 2 are clear.
11. Paragraph 15 to 19 of ED-ISQM 2 requires the firm to establish certain policies or procedures in relation to the appointment and eligibility of engagement quality reviewers. It is recommended that the cross reference to ED-ISQM 1 be clarified. Since these build on the requirements relating to resources, a clear cross reference to paragraph 38 of ED-ISQM 1 should be made.
12. In relation to the interaction between ED-ISQM 2 and ED-220, the responsibilities of the engagement partner in relation to ensuring that an EQR is performed is not clear. In paragraph 15 of ED-ISQM 2, reference is made to the firm having to establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers. Paragraph A22 then states that ED-220 establishes the requirements for the engagement partner, in audit engagements for which an EQR is required, including being satisfied that an engagement quality reviewer has been appointed. This seems contradictory to the requirements of paragraph 15, as well as the intention of the EQR in being a firm level response to an identified quality risk.
13. To this end, we suggest that the first bullet point contained in paragraph A22 be removed and ED-ISQM 2 clarify that the firm and hence the individual that is assigned ultimate responsibility for the

SOQM be responsible for ensuring that an engagement quality reviewer is appointed when so required.

- 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:

14. In line with the objective of the IAASB’s project on quality management to move from a reactive, tick box approach to quality to a proactive, continuously process of quality management, SAICA supports the change in terminology.

15. We do not foresee any adverse consequences in response to the change in the terminology.

- 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:

16. SAICA supports the requirements for eligibility to be appointed as an engagement quality reviewer.

17. An area that was identified as requiring clarity relates to the initial and subsequent eligibility considerations. It was suggested that ED-ISQM 2 clarify that considerations relating to eligibility need to be made in detail at the time of initial appointment to the role, but for subsequent periods may be made at a higher level, focused on determination as to whether circumstances have changed, both in respect of the individual, and the wider engagement circumstances, but need not involve a complete re-assessment.

18. It is further recommended that the IAASB also consider including a requirement, that the engagement quality reviewer, once appointed, *remain alert* to matters that may affect his/her eligibility. In the event that such matters are identified, the engagement quality reviewer should consider their effect, if any, on their ability to perform the role, and consider whether any safeguards should be put in place, in consultation with the appropriate individual from the firm.

19. The one area that has a topic of debate related to whether the engagement quality reviewer has appropriate authority to perform the EQR. It was concluded that whether an individual has appropriate authority or not depends on the firm culture. We are satisfied that this message is clearly indicated in paragraph A10 and A11 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?

Response:

20. SAICA is of the view that the manner in which the guidance contained in paragraph A14 of ED-ISQM 2 is set out is appropriate. There is however a gap in relation to cooling-off requirements that has been identified.

21. In relation to Public Interest Entities (PIEs), the cooling off of the engagement quality reviewer is dealt with in Section 540 of the International Code of Ethics for Professional Accountants, namely Long Association. The question is then around entities that are not PIEs and whether there should be a cooling-off period for that individual before being able to act as the engagement quality reviewer again.

22. It is our view that ED-ISQM 2 should be expanded to include a requirement for the firm to establish policies or procedures regarding a cooling off period for individuals before being able to act as the engagement quality reviewer; perhaps as point 16 (d).
23. In relation to the guidance contained in paragraph A14 of ED-ISQM 2, we suggest that the application material be expanded to allow for local law, regulation or professional standards to impose additional requirements in relation to a cooling off period applicable to 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:

24. As indicated above, there are areas of additional guidance that we suggest be included in ED-ISQM 2.
25. It is SAICA's preference for any additional requirements in relation to a cooling off period for the engagement quality reviewer to be included in the International Code of Ethics for Professional Accountants.
- 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:

26. During our engagement with members, an overall concern around the extent of work required to be performed by the engagement quality reviewer was expressed. ED-ISQM 2 is more prescriptive than ED-220. At face value, it seems that the nature and extent of the engagement quality reviewer's procedures are more than those required to be performed by the engagement partner.
27. SAICA welcomes and supports the requirement contained in paragraph 21(a) for the firm to establish policies or procedures that address the engagement quality reviewer's responsibilities to be performed at appropriate points in time during the engagement in mitigating the risk for this response only being carried out right before the issue of the auditor's report.
28. Paragraph 22(a) of ED-ISQM 2 requires the engagement quality reviewer to *read and understand* certain information. It is not clear what is meant by *understand*, nor is it clear how the engagement quality reviewer will demonstrate compliance with this requirement.
29. In relation to the information that the engagement quality reviewer is required to read and understand, it is our view that paragraph 22(a)(ii) is not clear in that the results of monitoring and remediation should include both internal and external results; as well as firm level and engagement level results.
30. Paragraph 22(b) of ED-ISQM 2 requires that the engagement quality reviewer discuss significant matters with the engagement partner. Paragraph 22(c) then requires the engagement quality reviewer to identify areas involving significant judgement.
31. It is SAICA's view that ED-ISQM 2 is light in providing guidance around *significant matters* and *significant judgements*. SAICA suggests that a definition for the terms *significant matters* and *significant judgements* be included in both ED-ISQM 2 and ED-220. We further suggest that the information included in paragraph A27 of Agenda Item 6-A to the September 2018 meeting, namely ISQM 2 (Exposure Draft: 2nd Read) be reintroduced into the application material as this was seen as useful in explaining the interrelationship between significant matters and significant judgements. The examples of significant matters are seen as being particularly useful in providing guidance.

32. Paragraph 22(d) required the engagement quality reviewer to review selected engagement documentation. Additional guidance in terms of how to select the documentation that will be subject to review will be useful.
33. ED-ISQM 2 is silent on the engagement quality reviewer's responsibility in relation to the schedule of misstatements. With the prescriptive manner in which this standard is drafted, we suggest that this is an area that needs to be clarified. It is our suggestion that ED-ISQM 2 includes a requirement for the engagement quality reviewer to review the schedule of misstatements and evaluate whether the conclusion reached thereon is appropriate.
34. Paragraph 22(g) of ED-ISQM 2 requires that the engagement quality reviewer review the financial statements and the auditor's report or the engagement report and related subject matter, as the case may be. It is not clear to what extent the engagement quality reviewer is required to perform this review.
35. In relation to the completion of the EQR, paragraph 23 of ED-ISQM 2 requires that if concerns about the significant judgements made by the engagement team are not resolved to the engagement quality reviewer's satisfaction, he/she shall notify an appropriate individual within the firm that the EQR cannot be completed. In terms of the requirement contained in paragraph 21(b), this means that the engagement report cannot be issued as the EQR has not been completed. It is our view that ED-ISQM 2 is not clear in terms of how this situation is addressed and/or resolved.
36. To this end, we suggest that reference be made to the requirement for the firm to establish policies or procedures addressing differences of opinion as contained in paragraph 37(d) of ED-ISQM 1.
- 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:
37. During our outreach activities, views were expressed that the evaluation of the engagement team's exercise of professional scepticism is the responsibility of the engagement partner and should therefore not be included in the engagement quality reviewer's evaluation of significant judgements.
38. Other views indicated that the engagement quality reviewer's evaluation of the significant judgements should include evaluating the engagement team's exercise of professional scepticism. Uncertainty as to how this will actually be carried out was however noted.
39. It is SAICA's view that ED-ISQM 2 should require the engagement quality reviewer to evaluate whether the appropriate level of professional scepticism has been applied in the performance of the engagement. ED-ISQM 2 does address this appropriately. A framework in terms of how this is practically carried out is seen as useful implementation guidance.
40. In relation to the reference made to *when applicable, the appropriate exercise* professional scepticism. Questions were raised on numerous occasions around what is meant by *when applicable*. Clarity is therefore required here.
- 7) Do you agree with the enhanced documentation requirements?
- Response:
41. In line with the comment noted in paragraph 20 above, it is not clear how the engagement quality reviewer demonstrates that he/she has *read and understood* information.

42. Although paragraph 25 of ED-ISQM 2 requires the firm to establish policies or procedures that require the engagement quality reviewer to take responsibility for documenting the EQR, a question was raised in relation to who is ultimately responsible for ensuring that such documentation is included in the final audit file. Since the engagement partner is ultimately required to take overall responsibility for managing and achieving quality on the audit engagement, it can be assumed that the engagement partner will be held accountable for the lack of documentation but this is an area that requires clarity.
43. An area where ED-ISQM 2 is light is in terms of documentation relating to the judgement applied and how the engagement quality reviewer arrived at the conclusion of significant judgements.
- 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:

44. We are satisfied that the requirements of ED-ISQM 2 are scalable for firms of varying sizes and complexities.