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Explanatory Memorandum

ISQM 2 Engagement Quality Reviews

Issued by the **Auditing and Assurance Standards Board**



Australian Government
Auditing and Assurance Standards Board

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EXPLANATORY MEMORANDUM

ISQM 2 Engagement Quality Reviews

Introduction

1. The International Auditing and Assurance Standards Board (IAASB) has issued for public comment three exposure drafts (EDs) on interrelated proposed auditing standards that address quality management at the engagement and firm level. This explanatory memorandum represents the Australian exposure of one of those standards, Proposed International Standard on Quality Management *ISQM 2 Engagement Quality Reviews* (ED-ISQM 2).
2. This Explanatory Memorandum is to be read in conjunction with the overarching Explanatory Guide *Exposure of the IAASB's Proposed Quality Management Standards in Australia*. The Explanatory Guide provides stakeholders with an overview of the approach to exposing the proposed international quality management standards in Australia.

Overview

3. This Explanatory Memorandum gives Australian stakeholders an overview of:
 - (a) Request for comments – IAASB questions and additional Australian questions;
 - (b) Background to the matters identified for further consideration by the AUASB during the review of the proposed international standard;
 - (c) How to provide comments and the Australian comment date; and
 - (d) Planned outreach in Australia to gather further feedback on the proposed standards.
4. ED-ISQM 2 includes the IAASB's Explanatory Memorandum (EM) and is provided as an attachment to this Australian Explanatory Memorandum. Importantly, the IAASB's EM presents an overview of "Significant Matters" in relation to ED-ISQM 2 which outlines to stakeholders the main changes from the extant ASQC 1 and ASA 220 and includes:
 - (a) Extending the requirement for an engagement quality review to engagements in addition to audits of a financial report;
 - (b) Enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer;
 - (c) Enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including nature, timing and extent of the engagement quality review procedures performed; and
 - (d) Consideration of the effect of engagement quality reviews, and other forms of engagement reviews, on the appropriate exercise of professional scepticism by engagement teams.

Request for Comments

5. The AUASB requests comments on all matters in relation to ED-ISQM 2, but specifically in relation to the questions below, which comprise both IAASB and Australian specific questions. Stakeholders' responses to IAASB and Australian specific questions will be used to inform the AUASB in their formal response to the IAASB on ED-ISQM 2. Additionally, responses will be used in future deliberations supporting the issuance of the Australian standard. Stakeholders may address only specific questions relevant to them, or raise other matters not specifically addressed by a question.

IAASB Questions

NB: There are no variations between the questions below and those in the IAASB's Explanatory Memorandum, but for completeness and ease of use by respondents they are replicated in the Australian Explanatory Memorandum for 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?
2. Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?
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?
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 ED-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 ED-ISQM 2 as opposed to the IESBA Code?
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)?
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 scepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?
7. Do you agree with the enhanced documentation requirements?
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?

Australian Specific Questions

Matters for further consideration in relation to the Quality Management Standards

Stakeholders are asked to respond to the following specific questions identified by the AUASB during its deliberations on the IAASB’s development of the Quality Management Standards. Further information about the matters related to each of the questions can be found in Table 1 below.

9. Do you consider the definition of engagement teams has been consistently applied across the suite of Quality Management Standards? (Refer to **Matter 4** in table 1)
10. In relation to engagement quality reviews (Refer to **Matter 2 and 4** in table 1);
 - (a) Do you agree with the definition of Engagement Quality Reviews/Reviewer and do you consider the term to be clear and capable of application in a consistent way across engagements?

- (b) Do you agree that the engagement quality reviews should also be performed for audits of financial statements of entities that the firm determines are significant public interest entities?
- (c) Is the term “significant public interest entity” clear and capable of application in a consistent way across engagements in Australia?

Matters for further consideration in relation to ISQM 2

Stakeholders are asked to respond to the following specific questions identified by the AUASB during its deliberations on the IAASB’s development of ED-ISQM 2. Further information about the matters related to each of the questions can be found in Table 1 below.

- 11. Do you consider that the requirements in ED-ISQM 2 are appropriate for all engagements to which the standard will apply through ED-ISQM 1 e.g. other assurance and related services engagements and not just audits of a financial report? An example of this may be the “cooling-off periods”. (Refer to **Matter 6** in table 1)
- 12. Do you think the requirement for an engagement quality reviewers overall conclusion in paragraph 24 adds value to the performance of the engagement quality review as a whole? (Refer to **Matter 9** in table 1)
- 13. Do you consider that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate given the objectives and nature of the two distinct roles? (Refer to **Matter 11** in table 1)
- 14. Do you think there are noted inconsistencies between EQR responsibilities to review the report/deliverable as described in paragraph 22(g) and the range of engagements to which ED-ISQM 2 applies through ED-ISQM 1 para 37(e)? (Refer to **Matter 12** in table 1)

Considerations related to Australian Principles and Practices and Laws and Regulation

Stakeholders are asked to respond to the following AUASB specific questions which reflect considerations for ISQM 2 related to the Australian regulatory environment and principles and practices considered appropriate in Australia.

NB: The AUASB is yet to consider Australian modifications to this standard as part of its due process. Refer to paragraph 7 for further information

- 15. Are there any modifications to the extant ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, which are still relevant to the ED-ISQM 2?
- 16. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?
- 17. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 18. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 19. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standards? If significant costs are expected, the AUASB would like to understand:
 - (a) Where those costs are likely to occur;

- (b) The estimated extent of costs, in percentage terms (relative to audit fees); and
 - (c) Whether expected costs outweigh the benefits to the users of audit services?
20. Are there any other significant public interest matters that stakeholders wish to raise?

Matters identified by the AUASB for further consideration

6. As part of its International Strategy, the AUASB reviews the ongoing progress of all IAASB proposed standards over the course of their development. The AUASB’s International Strategy is designed to ensure the AUASB influences international standards and guidance as early as possible, by identifying matters for consideration that achieve public interest outcomes and ensuring they serve as the most effective base for the Australian auditing and assurance standards.

Matters 1-12 in Table 1 below have been raised by the AUASB during this review process and resulted in additional questions 9-14 in the “Request for Comments” above or are the subject of an existing IAASB question as noted below.

Table 1 – Matters Identified by the AUASB

Matter #	Para #	Matter Raised	Brief Description
1.	ISQM 1 – para 37(e)	Linkages to proposed ISQM 1 and Scope of engagements subject to EQR	The AUASB raises for consideration that this paragraph now sets out the linkages between ISQM 1 and ISQM 2 and specifies all engagements for which an Engagement Quality Review is required to be performed in accordance with proposed ISQM 1 (revised). IAASB have raised this at Question 1 and 2.
2.	ISQM 1 – para 19 & 37(e)	Scope of engagements subject to Engagement Quality Reviews	The AUASB raises for consideration that the scope of engagements subject to Engagement Quality Reviews now includes audits of financial statements of entities that the firm determines are significant public interest entities. The AUASB has included a specific question in the Explanatory Memorandum, refer Question 10.
3.	11	Changes to Key Definitions	The AUASB raises for consideration the changes to the terminology from “engagement quality control review/reviewer” to “engagement quality review/reviewer”. This change is proposed to be consistent with the proposed ISQM 1 (revised) which now refers to quality management rather than quality control. IAASB have raised this at Question 3.
4.	11	Definition of Engagement Team	The AUASB raises for consideration the definition of the term Engagement Team used across the suite of Quality Management Standards. The AUASB considers that the definitions are not used/defined consistently across the standards and are not clear and accordingly may not be capable of application in a consistent way for example Engagement Quality Reviewer, experts, specialists and group component auditors The AUASB has included a specific question in the Explanatory Memorandum, refer Question 9.
5.	15-20	Eligibility of the engagement quality reviewer (including cooling-off period)	The AUASB raises for consideration that these amendments seek to clarify what authority the Engagement Quality Reviewer has, actions to be taken when the Engagement Quality Reviewer’s eligibility is impaired; and Engagement Quality Reviewers objectivity including, when applicable, limitations on the eligibility to be appointed an Engagement Quality Reviewer. The AUASB also notes that further work is to be completed on the cooling-off period being coordinated with IESBA through a joint working group.

Matter #	Para #	Matter Raised	Brief Description
			IAASB have raised this at Question 4.
6.	Overall, 15-20 & A5	Application of all requirements in ED-ISQM 2 to a broad range of engagements under ISQM 1 (includes Cooling-off periods)	<p>The AUASB raises for consideration whether the requirements in ED-ISQM 2 are appropriate for all engagements to which the standard will apply through ED-ISQM 1 e.g. other assurance and related services engagements and not just audits of a financial report? An example of this may be the “cooling-off periods.”</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer Question 11.</p>
7.	21-23	Performance of an engagement quality review	<p>The AUASB raises for consideration that these requirements seek to clarify the Engagement Quality Reviewers responsibilities in relation to evaluating the engagement team’s significant judgements. For financial statement audits this has now been linked to the requirements in ISA 220 and A80 which provides examples of significant judgements through A29-A30 of ISQM 2. ED-ISQM 2 paragraph 22(e) addresses consultation on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations.</p> <p>IAASB have raised this at Question 5 and 6.</p>
8.	21(c) and A24	Consultation between the engagement team and the engagement quality reviewer	<p>The AUASB raises for considerations that this requirement deals with the risk of consultations between the engagement team and Engagement Quality Reviewer about a significant judgement, impairing the objectivity of the Engagement Quality Reviewer and the appropriate actions to take in these circumstances.</p> <p>IAASB have raised this at Question 5.</p>
9.	24	Engagement quality reviewer’s overall conclusion	<p>The AUASB raises for consideration that the requirement in ED-ISQM 2 at paragraph 24 addresses that the Engagement Quality Reviewer shall evaluate whether, the requirements of ISQM 2 have been fulfilled, and whether the Engagement Quality Review is complete. This is essentially a “stand back” provision.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer Question 12.</p>
10.	25 -27	Documentation	<p>The AUASB raises for consideration that ED-ISQM 2 has strengthened, clarified and been more specific in the amended documentation requirements.</p> <p>IAASB have raised this at Question 7.</p>
11.	Overall	Roles of EQR and EP	<p>The AUASB discussed whether requirements for the role of the engagement partner and the engagement quality reviewer are appropriate and proportionate given the objectives and nature of the two distinct roles in ED - ISA 220 and ED - ISQM 2.</p> <p>The AUASB has included a specific question in the Explanatory Memorandum, refer Question 13.</p>
12.	22(g)	Inconsistency between EQR responsibilities to review the report/deliverable and the range of	<p>The AUASB raises for consideration a potential inconsistency between EQR responsibilities to review the report/deliverable in paragraph 22(g) and the range of engagements to which ED-ISQM 2 applies through ED-ISQM 1 para 37(e). All engagements do not appear to be adequately addressed in ED-ISQM 2.</p>

Matter #	Para #	Matter Raised	Brief Description
		engagements to which ED-ISQM 2 applies through ED-ISQM 1 para 37(e)	

Consideration of Australian modifications to ASQM 2 from extant ASA 220

7. As outlined in the Explanatory Guide *Exposure of the IAASB's Proposed Quality Management Standards in Australia*, at this stage of the exposure process the AUASB has not considered Australian modifications to the proposed standard to reflect Australian principles and practices and laws and regulations. This will be completed at a later date once the proposed international standard is finalised.
8. To guide the AUASB in the future deliberation of Australian modifications to the proposed international standard, Australian stakeholders are asked to consider whether any current Australian specific modifications contained in the extant version of ASA 220¹ are applicable to the proposed ASQM 2. The list of modifications in the extant ASA 220 is summarised in Appendix 1. Refer to Question 15.

Comment Date

9. Comments to the AUASB will close on Wednesday 5 June 2019. This allows for the AUASB Audit Technical Group to analyse stakeholder comments and prepare a draft submission to the IAASB. The AUASB will then deliberate the content of the draft submission at a 26 June 2019 teleconference. The AUASB submission is due to the IAASB on 1 July 2019.
10. Where stakeholders for timing or other reasons cannot share a written submission with the AUASB, we request that feedback be provided in another form. Where stakeholders are intending to only share feedback directly with the IAASB, we request that:
 - (a) the AUASB is kept informed of any major concerns with the exposure drafts and if possible that the stakeholder submits or at least shares their submissions to the IAASB with the AUASB as early as possible, which may be on a confidential basis; and
 - (b) stakeholders respond directly to the AUASB on the Australian specific questions.

Planned Outreach in Australia

11. The AUASB plans to hold roundtable events in Sydney, Melbourne, Brisbane and Perth. Additionally, the AUASB intends to collaborate closely with the NZAuASB and the professional bodies in their outreach plans; so that we obtain sufficient feedback from the SMP sector. The AUASB is seeking involvement from practitioners who provide services other than audit, as these revised Quality Management Standards impacts those practitioners as well. Furthermore, the AUASB expects to host webinars summarising feedback from roundtable sessions, with a view to seeking additional feedback on specific areas. The timing of outreach events will be finalised by the end of March 2019 and posted on the AUASB website.

¹ Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, last issued in May 2017

Appendix 1:

Extracts of Australian Amendments relating to ASQM 2 from extant ASA 220

Extant ASA 220 Para #	Australian Text
Aus 21.1	<p data-bbox="328 477 727 506"><i>Engagement Quality Control Review</i></p> <p data-bbox="328 533 1350 651">For audits of financial reports of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul data-bbox="379 680 1366 976" style="list-style-type: none"><li data-bbox="379 680 1366 741">(a) The engagement team’s evaluation of the firm’s independence in relation to the audit engagement;<li data-bbox="379 770 1366 860">(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and<li data-bbox="379 889 1366 976">(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached. (Ref: Para. A28-A32)

**ATTACHMENT 1 – PROPOSED INTERNATIONAL
STANDARD ON QUALITY MANAGEMENT ISQM 2**

**Exposure Draft
February 2019**

Comments due: July 1, 2019

International Standard on Quality Management

Proposed International Standard on Quality Management 2

Engagement Quality Reviews

IAASB

International Auditing
and Assurance
Standards Board

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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REQUEST FOR COMMENTS

This Exposure Draft, proposed ISQM 2, *Engagement Quality Reviews*, was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by July 1, 2019.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

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Section 1 Introduction

1. This memorandum provides background to, and an explanation of, the exposure draft of International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews* (ED-ISQM 2), which the IAASB approved for exposure in December 2018. The sections that follow describe the key issues considered by the IAASB in developing ED-ISQM 2. The proposed revisions address the most relevant public interest issues related to engagement quality reviews, including those highlighted in the Invitation to Comment (ITC) released in December 2015, [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#).
2. ED-ISQM 2 is part of a package of proposed quality management standards for which the IAASB is seeking public comment. This memorandum supplements the overall explanatory memorandum, [The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level](#). The overall explanatory memorandum includes background to the IAASB's three quality management¹ exposure drafts, discusses the scalability of the standards and sets forth the IAASB's considerations regarding the possible effective dates of the three standards following final approval by the IAASB and approval of due process by the Public Interest Oversight Board. The overall explanatory memorandum also explains the linkages between the three quality management standards and addresses the related conforming amendments to the IAASB's International Standards on Auditing (ISAs).

Section 2 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-ISQM 2, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are free to address only questions relevant to them. When a respondent agrees with proposals in ED-ISQM 2, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not explicitly stated.

Section 3 Significant Matters

Section 3-A – Overall Matters

Public Interest Matters

3. The proposals in ED-ISQM 2 and the aspects of ED-ISQM 1² regarding engagement quality reviews are made with the public interest in the forefront. The IAASB noted in the ITC the public interest importance ascribed to engagement quality reviews by certain stakeholders, such as regulators. The overall explanatory memorandum describes the overarching public interest matters the IAASB has considered in developing the quality management exposure drafts. The IAASB also sought to explore the following possible actions identified in the ITC to address the public interest issues relevant to engagement quality reviews:

¹ The IAASB has changed the terms “quality control” and “engagement quality control review” to “quality management” and “engagement quality review,” respectively. In addition, the name of the standards has been changed from “International Standard on Quality Control” to “International Standard on Quality Management”. As explained in paragraph 11 of the explanatory memorandum for ED-ISQM 1, these changes were made to reflect the new quality management approach proposed for the firm's system of quality management in ED-ISQM 1, proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

² Paragraph 37(e) and related application material in proposed ISQM 1 address engagement quality reviews.

- Extending the requirement for an engagement quality review to engagements in addition to audits of financial statements.
 - Enhancing the eligibility criteria for an individual to be appointed as an engagement quality reviewer.
 - Enhancing the requirements and application material regarding the engagement quality reviewer's responsibilities, including the nature, timing and extent of the engagement quality review procedures performed.
 - Consideration of the effect of engagement quality reviews, and other forms of engagement reviews, on the appropriate exercise of professional skepticism by engagement teams.
4. The IAASB considered the importance of engagement quality reviews in the overall context of quality management and sought to address these public interest matters, as further discussed in this explanatory memorandum.

Professional Judgment and Professional Skepticism

5. The IAASB recognizes that engagement quality reviews support the exercise of professional skepticism at the engagement level by providing an objective evaluation of engagement teams' significant judgments made in performing an engagement. ED-ISQM 2 addresses the importance of this objective evaluation by requiring that firm policies or procedures set forth criteria for the eligibility of an individual to be appointed as an engagement quality reviewer. Such criteria include compliance with relevant ethical requirements, including that threats to objectivity of the engagement quality reviewer are eliminated or reduced to an acceptable level.
6. Further, ED-ISQM 2 requires firm policies or procedures to 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 engagement partner. This limitation is necessary to make sure that the engagement quality reviewer is in a position to objectively evaluate and, where appropriate, challenge the significant judgments made and the exercise of professional skepticism by the engagement team. The IAASB believes that this separation from the previous role as engagement partner is necessary for the engagement quality review to be an appropriate response to the assessed quality risk(s) for the engagement.
7. The IAASB also considered whether the concept of professional skepticism is relevant to professional judgments made by an engagement quality reviewer. Professional skepticism is generally described in the context of obtaining and evaluating audit evidence. ED-ISQM 2 notes that the engagement quality reviewer is not a member of the engagement team and is not required to obtain evidence to support the opinion or conclusion on the engagement. However, because the role of the engagement quality reviewer is to evaluate the significant judgments made by the engagement team, some might argue that, at least indirectly, the engagement quality reviewer also exercises professional skepticism in reviewing selected engagement documentation supporting those significant judgments and the conclusions reached thereon. Accordingly, the IAASB is seeking respondents' views on how ED-ISQM 2 addresses professional judgment and professional skepticism by the engagement quality reviewer, and whether additional guidance would be helpful in this area.
8. The IAASB also notes that the International Ethics Standards Board for Accountants' (IESBA's) project addressing the [role, mindset and behavioral characteristics expected of all professional accountants when performing their professional activities](#) may be relevant to professional judgments

made by the engagement quality reviewer. Therefore, the IAASB will continue to coordinate with IESBA in considering the effects of that project on ED-ISQM 2.

Scalability for Firms of Different Sizes

9. ED-ISQM 2 is intended to be applied by firms of all sizes based on the nature and circumstances of the engagements performed by the firm. The Appendix to this explanatory memorandum lists paragraphs that highlight how the proposed ISQM is scalable to the nature and circumstances of engagements that the firm performs.

Section 3-B – The Interrelationship Between Proposed ISQM 2 and Proposed ISQM 1 and Proposed ISA 220 (Revised)³

10. The explanatory memorandum for ED-ISQM 1 explains the firm's responsibility for establishing a system of quality management, including the new quality management approach. An engagement quality review is a response, among others, that is designed and implemented by a firm to address its assessed quality risks. Although the performance of an engagement quality review is undertaken at the engagement level, it is a response that is implemented by the engagement quality reviewer on behalf of the firm.

Basis for Developing a Separate Standard for Engagement Quality Reviews

11. The requirements for engagement quality reviews currently reside in extant ISQC 1⁴ and ISA 220.⁵ The IAASB concluded that having a separate standard for engagement quality reviews would provide a number of benefits, including:
 - (a) Placing emphasis on the importance of the engagement quality review.
 - (b) Facilitating the enhancement of the robustness of the requirements for the eligibility of engagement quality reviewers and the performance and documentation of the review.
 - (c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the engagement quality reviewer.
 - (d) Increasing the scalability of ED-ISQM 1 because there may be circumstances when a firm determines that there are no engagements for which an engagement quality review should be performed (e.g., a firm that performs only compilation engagements).
12. ED-ISQM 2 has been designed to operate as part of the firm's system of quality management, and therefore the IAASB observed the need for the requirements in ED-ISQM 1 and ED-ISQM 2 to be organized in a manner that provides appropriate linkages between the standards. The IAASB agreed that since the engagement quality review is a response to an assessed quality risk(s), ED-ISQM 1 should address the circumstances in which an engagement quality review should be performed. ED-ISQM 2 addresses the specific requirements for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review. The explanatory memorandum for ED-ISQM 1 discusses the IAASB's considerations regarding the scope of

³ Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴ International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵ ISA 220, *Quality Control for an Audit of Financial Statements*

engagements that are required to be subject to an engagement quality review in accordance with paragraph 37(e) of proposed ISQM 1.

13. Although there will no longer be requirements for the performance of engagement quality reviews in proposed ISA 220 (Revised), ED-220 contains requirements regarding the engagement partner's responsibilities relating to the engagement quality review, which largely focus on how the engagement partner and the engagement team interact with the engagement quality reviewer.

Section 3-C – Objective of the Standard

14. ED-ISQM 2 is a unique standard because it addresses the responsibilities of multiple parties, i.e., the firm and the engagement quality reviewer. However, since the engagement quality reviewer is acting on behalf of the firm, the IAASB is of the view that the objective of the standard should be framed as the objective of the firm.
15. In its deliberations on the objective of ED-ISQM 2, the IAASB recognized that the objectives in the IAASB's International Standards are intended to be outcome-oriented (i.e., the desired outcome of applying the requirements in the standard, and not an "executive summary" of those requirements). Accordingly, the objective of ED-ISQM 2 reflects the intended outcome (i.e., the performance of an engagement quality review).

Section 3-D – Appointment and Eligibility of Engagement Quality Reviewers

16. The IAASB recognized in the ITC concerns that had been expressed regarding the selection of the engagement quality reviewer, including the qualifications, experience and objectivity of the individual selected to perform the engagement quality review. Respondents to the ITC believed that the independence, integrity and objectivity of the engagement quality reviewer should be addressed. There was also a suggestion that the ability of the engagement quality reviewer to challenge the engagement team's judgments with confidence should be addressed, as well as the authority of the engagement quality reviewer. It was also highlighted that the engagement quality reviewer role should not be restricted to partners. Respondents also cautioned that the requirements should not be so onerous that the availability of suitable engagement quality reviewers is limited or non-existent, especially for small- and medium-sized practices (SMPs). The ITC also explored whether a cooling-off period should be required for an engagement quality reviewer who had previously been involved in the engagement.
17. In response to feedback from the ITC, the requirements in ED-ISQM 2 for the appointment and eligibility of the engagement quality reviewer (whether internal to the firm or external) are more robust than those in extant ISQC 1, as described in the subsections below. In addition, requirements and application material have been added to address:
 - The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers.
 - The eligibility of individuals to assist the engagement quality reviewer in performing the engagement quality review.
 - The engagement quality reviewer taking responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
 - 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.

Competence and Capabilities, Including Sufficient Time

18. Extant ISQC 1 includes requirements regarding the criteria for eligibility of engagement quality reviewers that focus on technical qualifications, including necessary experience and authority, and maintaining the reviewer's objectivity. ED-ISQM 2 expands the eligibility requirements and describes competence and capabilities of the engagement quality reviewer in a manner similar to other roles described in ED-ISQM 1. The application material provides further explanation of considerations in determining whether an individual has the competence and capabilities needed to perform the engagement quality review for a particular engagement.
19. The IAASB highlighted in the ITC that the timing of the performance of the engagement quality review is important with respect to both when the engagement quality reviewer becomes involved in the engagement quality review and the time allocated to the engagement quality reviewer for the performance of the review. Respondents supported the importance of the reviewer being involved at the right time. The IAASB agreed and has included a new explicit requirement in paragraph 16(a) of ED-ISQM 2 that the firm's policies or procedures require that the engagement quality reviewer has sufficient time to perform the review.

Appropriate Authority

20. Although extant ISQC 1 refers to having the necessary authority to perform the review, it does not provide further information about how such authority is attained.
21. The IAASB is of the view that authority may be established through different means, not only through having a particular title or position within the firm. ED-ISQM 2 highlights that the firm's culture, which is addressed in ED-ISQM 1, can enhance the authority of the engagement quality reviewer by creating a culture of respect for the role of the engagement quality reviewer, which also reduces the likelihood that the engagement quality reviewer is inappropriately influenced in a way that would compromise the reviewer's evaluation of significant judgments made by the engagement team. In addition, ED-ISQM 2 notes that the firm's policies or procedures addressing differences of opinion, which are required by ED-ISQM 1, may also enhance the authority of the engagement quality reviewer by providing a mechanism for the engagement quality reviewer to resolve issues when differences of opinion arise.

Relevant Ethical Requirements, Including Objectivity

22. In order to improve the focus on the objectivity of the engagement quality reviewer and address the more specific threats that may arise, ED-ISQM 2 requires that the engagement quality reviewer comply with relevant ethical requirements, and specifically highlights in the application material the threats to objectivity that may arise in relation to the engagement or the engagement team.

Appointment as the Engagement Quality Reviewer After Serving as the Engagement Partner ("Cooling-off" Period)

23. In the ITC, the IAASB recognized concerns regarding the need to address circumstances when an individual is appointed as the engagement quality reviewer immediately after serving as the engagement partner. The IAASB noted that relevant ethical requirements, such as the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)*, may not specifically address threats to objectivity that may arise in these circumstances. For example, a self-review or self-interest threat may arise, particularly in circumstances when judgments made by the individual in the previous engagement continue to have an effect on

subsequent periods, as is often the case in an audit of financial statements. Accordingly, the ITC suggested that this concern could be addressed through a mandatory cooling-off period.

24. Respondents to the ITC had mixed views regarding whether the IAASB should address the cooling-off period, including whether the IAASB should prescribe a cooling-off period or require firms to determine the period; whether it should be addressed by the IESBA; or whether there should be collaboration between the two Boards.
25. Given the varying views of respondents, and the need to ensure appropriate consideration of the IESBA Code, a joint working group was formed between the IAASB and IESBA to provide suggestions to the respective Boards about an appropriate way forward, recognizing each Board's mandate. Paragraphs 26-28 below further explain how the issue has been addressed in ED-ISQM 2. The IESBA is continuing to explore whether a specific provision or application material is also needed in the IESBA Code and respondents are asked to provide further input to assist the IESBA in determining its appropriate course of action.
26. The IAASB is of the view that when an individual is appointed as the engagement quality reviewer immediately after serving as the engagement partner, there are no safeguards or other actions that would eliminate the threats to the individual's objectivity or reduce them to an acceptable level. This view recognizes that the engagement quality reviewer is responsible for objectively evaluating the significant judgments made by the engagement team. In the case of an audit of financial statements, significant judgments made in prior periods often affect judgments made in subsequent periods, albeit that the facts and circumstances may change over time. The ability of the engagement quality reviewer to objectively evaluate the significant judgments is affected by previous involvement with those judgments.
27. Accordingly, ED-ISQM 2 includes 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. Furthermore, the application material in ED-ISQM 2 suggests such limitations may be accomplished by establishing a cooling-off period and notes that determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation and relevant ethical requirements. The application material further notes that, for an audit of a listed entity, it is unlikely that an engagement partner would be able to serve as the engagement quality reviewer until two subsequent audits have been conducted. The IAASB believes this application material recognizes that audits of listed entities generally involve more complex judgments by engagement teams and that a cooling-off period would be in the public interest. The IAASB considered, but rejected, the view that including such guidance would result in a de facto cooling-off requirement. Rather, the IAASB was of the view that including a guideline will help to support consistent application in practice.
28. The IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm's policies or procedures may specify a different cooling-off period. The IAASB is of the view that ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue.

Discussions with the Engagement Team

29. The IAASB recognizes the importance of encouraging discussions between the engagement partner and the engagement quality reviewer to support an effective and timely review, but also recognizes

that a potential threat to the engagement quality reviewer's objectivity could arise in some circumstances, for example, when the nature, timing or extent of the discussions create a perception that the engagement quality reviewer is making, or perceived to be making, decisions on behalf of the engagement team. Accordingly, ED-ISQM 2 requires the firm's policies or procedures to address, and sets forth appropriate actions to take in, these circumstances.

Use of External Resources to Perform the Engagement Quality Review

30. The IAASB noted in the ITC that SMPs may need to use third-party resources as engagement quality reviewers. Respondents to the ITC cautioned that the requirements should not be so onerous that the availability of suitable engagement quality reviewers is limited or non-existent, especially for SMPs. Accordingly, the application material supporting the appointment and eligibility requirements in paragraph 16 of ED-ISQM 2 clarifies that the same eligibility requirements apply to any individual to be appointed as engagement quality reviewer, whether within the firm or external (as may be the case when there is not a partner or other individual within the firm who is eligible to perform the engagement quality review).

Section 3-E – Performance and Documentation of the Engagement Quality Review

31. In the ITC, the IAASB identified issues regarding the nature, timing and extent of the procedures in performing an engagement quality review, including at what point in the engagement the engagement quality review is performed and the depth and focus of the review. Respondents to the ITC supported enhancing the requirements and application material addressing the nature, timing and extent of the procedures in performing an engagement quality review.
32. The IAASB agreed it was necessary to clarify and improve the requirements addressing the performance of the engagement quality reviews to enhance their robustness. The IAASB acknowledges the concerns raised by some respondents regarding the appropriate balance of responsibilities between the engagement quality reviewer and the engagement partner, i.e., that the responsibilities of the engagement quality reviewer should not outweigh those of the engagement partner. Recognizing the proposals in ED-220 that have enhanced the responsibilities of the engagement partner, the IAASB is seeking respondents' views on whether the requirements imposed on the engagement quality reviewer in ED-ISQM 2 are appropriate in light of the responsibilities of the engagement partner.

Timing of the Engagement Quality Review

33. The IAASB is of the view that an effective engagement quality review is achieved when the engagement quality reviewer is involved at appropriate points in the engagement, consistent with when significant judgments are being made by the engagement team, because doing so facilitates the resolution of issues in a timely manner. Accordingly, 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.

Significant Judgments and Significant Matters

34. In the ITC, the IAASB recognized concerns regarding the extent to which the engagement quality reviewer evaluates the assessment of, and response to, areas of significant risk or significant judgment made by the engagement partner and the engagement team. The IAASB affirmed its view in extant ISQC 1 that the engagement quality review provides an objective evaluation of the significant

judgments made by the engagement team, which in the case of audits of financial statements, include significant risks.

35. The IAASB noted that extant ISQC 1 requires the engagement quality reviewer to discuss significant matters with the engagement partner, and there sometimes is confusion between the population of matters that would be considered “significant matters” versus those that are “significant judgments.” The IAASB further noted that significant judgments could include those that are not related to significant matters. The IAASB agreed that significant judgments are identified through reading and understanding the information obtained from the engagement team and the firm about the engagement, and discussing the significant matters with the engagement partner, and if applicable, other members of the engagement team.
36. The IAASB observed that the concept of “significant matters” is addressed in ISA 230.⁶ The concept of “significant judgments,” which is integral to the definition of an engagement quality review, is addressed in proposed ISA 220 (Revised). The IAASB concluded that the engagement quality reviewer’s review of the engagement team’s significant judgments in ED-ISQM 2 needed to be consistent with the approach taken in relation to the engagement partner’s review of audit documentation in ED-220. As a result, ED-ISQM 2 includes application material to draw attention to these standards. The concepts of significant judgments and significant matters are not explicitly addressed in the standards for other types of engagements; however, the engagement quality reviewer would take into account the nature and circumstances of the engagement in identifying significant matters and significant judgments made by the engagement team. In doing so, the descriptions of those terms in ED-220 and ISA 230 may serve as useful guidance.

Documentation

37. In the ITC, the IAASB recognized concerns regarding the robustness of the documentation of the engagement quality review, including the issues raised as part of the review and the disposition of those issues.
38. ED-ISQM 2 includes a specific requirement for the engagement quality reviewer to take responsibility for documentation of the engagement quality review, and also adds a requirement that the documentation be filed with the engagement documentation. The IAASB also added an overarching requirement in ED-ISQM 2 for the documentation to be sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the nature, timing and extent of the engagement quality review procedures performed.

⁶ ISA 230, *Audit Documentation*

Section 4 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material in ED-ISQM 2. Comments are most helpful if they are identified with specific aspects of ED-ISQM 2 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

- 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?
- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?
- 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?
- 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?
- 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)?
- 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?
- 7) Do you agree with the enhanced documentation requirements?
- 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?

Scalability for Firms of Different Sizes and for Engagements Where Nature and Circumstances Differ

Note: This Appendix includes the relevant references to the material located within proposed ISQM 1 and ISQM 2 that incorporates scalability for firms of different sizes and for engagements where the nature and circumstances differ.

How Proposed ISQM 1 and ISQM 2 Address Scalability for Engagement Quality Reviews	Reference
<ul style="list-style-type: none"> • Engagement quality reviews are not required for all of a firm’s engagements, but only for specified engagements in accordance with ED-ISQM 1. • ED-ISQM 1 sets forth the engagements for which engagement quality reviews are required. Those requirements apply if the firm’s portfolio includes audits of financial statements of listed entities or audits or other engagements for which an engagement quality review is required by law or regulation. In addition, engagement quality reviews are required for engagements for entities the firm determines are of significant public interest, and engagements for which an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks. 	<ul style="list-style-type: none"> • Proposed ISQM 1 Engagement Performance – Paragraph 37(e). • Proposed ISQM 2 Scope of this ISQM – Paragraph 2.
<ul style="list-style-type: none"> • Engagement quality reviews are not an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm’s policies or procedures. 	<ul style="list-style-type: none"> • The Firm’s System of Quality Management and Role of Engagement Quality Reviews – Paragraph 6.
<ul style="list-style-type: none"> • Certain requirements may not be relevant depending on the nature and circumstances of the engagement. 	<ul style="list-style-type: none"> • Applying, and Complying with, Relevant Requirements – Paragraph 13. • Performance of the Engagement Quality Review – Paragraphs 22 and A25–A28.
<ul style="list-style-type: none"> • Explicit acknowledgment of circumstances of smaller firms or different types of engagements, including: 	<p>Appointment and Eligibility of Engagement Quality Reviewers</p>

<p>How Proposed ISQM 1 and ISQM 2 Address Scalability for Engagement Quality Reviews</p>	<p>Reference</p>
<ul style="list-style-type: none"> ○ Obtaining the services of external individuals to perform the engagement quality review; ○ Firm policies or procedures to determine limitations on an individual being appointed as engagement quality reviewer immediately after serving as the engagement partner, for example, specifying a suitable cooling-off period; ○ Consideration of the reasons for the assessments given to the quality risks in determining competence and capabilities required for an engagement; and ○ Impact of firm culture on authority of the engagement quality reviewer. 	<ul style="list-style-type: none"> • Assignment of Responsibility for the Appointment of Engagement Quality Reviewers – Paragraphs A2–A3. • Eligibility of the Engagement Quality Reviewer, Including Limitations on the Eligibility to be Appointed as the Engagement Quality Reviewer – Paragraphs A4–A5. • Eligibility Criteria for the Engagement Quality Reviewer – Paragraphs A7–A8.
<ul style="list-style-type: none"> • Relevant ethical requirements depend on the nature and circumstances of engagements subject to an engagement quality review. 	<ul style="list-style-type: none"> • Relevant Ethical Requirements – Paragraphs A13–A14.
<ul style="list-style-type: none"> • Recognition that it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer in certain circumstances. 	<ul style="list-style-type: none"> • Assignment of Responsibility for the Appointment of Engagement Quality Reviewers – Paragraph A3.
<ul style="list-style-type: none"> • Use of assistants in performing the engagement quality review is permitted. 	<ul style="list-style-type: none"> • Circumstances when the Engagement Quality Reviewer is Assisted by Other Individuals – Paragraphs 17 and A18.
<ul style="list-style-type: none"> • The nature, timing and extent of engagement quality review procedures may vary depending on the firm’s policies or procedures or the nature and circumstances of the engagement. 	<ul style="list-style-type: none"> • Performance of the Engagement Quality Review – Paragraph 21. • Procedures Performed by the Engagement Quality Reviewer – Paragraphs A25–A27. • Significant Matters and Significant Judgments – Paragraphs A29–A31.
<ul style="list-style-type: none"> • The form, content and extent of the documentation of the engagement quality review may vary. • The engagement quality review may be documented in a number of ways. 	<ul style="list-style-type: none"> • Documentation – Paragraphs A37 and A38.

**PROPOSED INTERNATIONAL STANDARD ON QUALITY
MANAGEMENT 2 –
ENGAGEMENT QUALITY REVIEWS**

(Effective as of TBD)

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Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*, should be read in conjunction with the *Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Introduction

Scope of this ISQM

1. This International Standard on Quality Management (ISQM) deals with:
 - The appointment and eligibility of the engagement quality reviewer; and
 - The engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.
2. This ISQM applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ISQM 1.⁷ This ISQM is premised on the basis that the firm is subject to proposed ISQM 1 or to national requirements that are at least as demanding.

The Firm's System of Quality Management and Role of Engagement Quality Reviews

3. Proposed ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to assessed quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with this ISQM.
4. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that:
 - (a) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.⁸
5. The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the nature and circumstances of the engagement, exercising professional skepticism.
6. An engagement quality review is an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgments is performed in the context of professional standards and applicable legal and regulatory requirements. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.
7. The engagement quality reviewer is not a member of the engagement team. The performance of an engagement quality review does not reduce the responsibilities of the engagement partner for

⁷ Proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 37(e)

⁸ Proposed ISQM 1, paragraph 21

managing and achieving quality on the engagement, nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team. The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence through its responses to matters raised in the engagement quality review.

Authority of this ISQM

8. This ISQM contains the objective for the firm in following this ISQM, and requirements designed to enable the firm and the engagement quality reviewer to meet that stated objective. In addition, it contains related guidance in the form of application and other explanatory material and introductory material that provides context relevant to a proper understanding of this ISQM, and definitions. Proposed ISQM 1 explains the terms objective, requirements, application material and other explanatory material, introductory material, and definitions.

Effective Date

9. This ISQM is effective for:
 - (a) Audits and reviews of financial statements for periods beginning on or after TBD; and
 - (b) Other engagements beginning on or after TBD.

Objective

10. The objective of the firm is to perform an engagement quality review for the engagement.

Definitions

11. In this ISQM, the following terms have the meanings attributed below:
 - (a) Engagement quality review – 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.
 - (b) Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.
 - (c) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountant when undertaking an engagement quality review. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.

Requirements

Applying, and Complying with, Relevant Requirements

12. The firm and the engagement quality reviewer shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to properly apply the requirements relevant to them.

13. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ISQM, unless the requirement is not relevant in the circumstances of the engagement.
14. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of this standard. However, if the firm or the engagement quality reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of this standard, the firm or the engagement quality reviewer, as applicable, shall take further actions to achieve the objective.

Appointment and Eligibility of Engagement Quality Reviewers

15. The firm shall establish policies or procedures that require the assignment of responsibility for the appointment of engagement quality reviewers to an individual(s) with the competence, capabilities and appropriate authority within the firm to fulfill the responsibility. Those policies or procedures shall require such individual(s) to appoint the engagement quality reviewer. (Ref: Para. A1–A3)
16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and 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 engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)
 - (a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)
 - (b) Comply with relevant ethical requirements, including that threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team are eliminated or reduced to an acceptable level; and (Ref: Para. A13–A16)
 - (c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)
17. The firm shall establish policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer. Those policies or procedures shall require that such individuals not be members of the engagement team, and:
 - (a) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and
 - (b) Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation. (Ref: Para. A18-A19)
18. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
19. The firm shall establish policies or procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances. (Ref: Para. A20)
20. When the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility, the engagement quality reviewer shall notify the appropriate individual(s)

in the firm, and: (Ref: Para. A21)

- (a) If the engagement quality review has not commenced, decline the appointment to perform the engagement quality review; or
- (b) If the engagement quality review has commenced, discontinue the performance of the engagement quality review.

Performance of the Engagement Quality Review

21. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:

- (a) The engagement quality reviewer's responsibilities to perform procedures in accordance with paragraphs 22–23 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon;
- (b) The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review; and (Ref: Para. A22–A23)
- (c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer, and appropriate actions to take in these circumstances. (Ref: Para. A24)

22. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: Para. A24–A34)

- (a) Read and understand information:
 - (i) Obtained from the engagement team about the nature and circumstances of the engagement; and
 - (ii) Provided by the firm about the results of its monitoring and remediation, in particular about identified deficiencies that may relate to, or affect, the areas involving significant judgments by the engagement team.
- (b) Discuss significant matters with the engagement partner and, if applicable, other members of the engagement team. (Ref: Para. A29)
- (c) Based on the information obtained in (a) and (b), identify the areas involving significant judgments made by the engagement team, including those related to: (Ref: Para. A30–A31)
 - (i) The overall strategy and plan for performing the engagement;
 - (ii) The performance of the engagement; and
 - (iii) Forming an opinion or conclusion, when applicable, and reporting on the engagement.
- (d) Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and evaluate:
 - (i) The engagement team's basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;
 - (ii) Whether the engagement documentation supports the conclusions reached; and

- (iii) Whether the conclusions reached are appropriate.
 - (e) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations. (Ref: Para. A32)
 - (f) For audits of financial statements, 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. (Ref: Para. A33–A34)
 - (g) Review:
 - (i) For an audit of financial statements, the financial statements and the auditor's report thereon, including, if applicable, the description of the key audit matters; or
 - (ii) For an assurance or related services engagement, the engagement report, and when applicable, the subject matter information.
23. If the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate, the engagement quality reviewer shall notify the engagement partner. If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed. (Ref: Para. A35)

Completion of the Engagement Quality Review

24. 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 so, the engagement quality reviewer shall notify the engagement partner that the engagement quality review is complete.

Documentation

25. The firm shall establish policies or procedures that require the engagement quality reviewer to take responsibility for documentation of the engagement quality review. (Ref: Para. A36–A39)
26. The firm shall establish policies or procedures that require documentation of the engagement quality review in accordance with paragraph 27, and that such documentation be included with the engagement documentation.
27. The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review. The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes:
- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
 - (b) An identification of the engagement documentation reviewed;
 - (c) The engagement quality reviewer's determination in accordance with paragraph 24;
 - (d) The notifications required in accordance with paragraphs 23 and 24; and

- (e) The date of completion of the engagement quality review.

Application and Other Explanatory Material

Appointment and Eligibility of Engagement Quality Reviewers

Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 15)

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
 - The criteria in paragraph 16 regarding the eligibility of engagement quality reviewers; and
 - The nature and circumstances of the engagement subject to an engagement quality review (e.g., the nature of the entity and the composition of the engagement team).
- A2. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of listed entities than for audits of non-listed entities or other engagements.
- A3. In certain circumstances, it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer, for example, in the case of a smaller firm or a sole practitioner.

Eligibility of the Engagement Quality Reviewer, Including Limitations on the Eligibility to be Appointed as the Engagement Quality Reviewer (Ref: Para. 16)

- A4. In some circumstances, there may not be a partner or other individual within the firm who is eligible to perform the engagement quality review and the firm may therefore contract with, or obtain the services of, external individuals to perform the engagement quality review. An external individual may be a partner or an employee of another firm within the firm's network or a service provider. When using such an external individual, the firm is subject to the requirements for network requirements or network services in paragraphs 59–60 of proposed ISQM 1, or the requirements for service providers in paragraph 65 of proposed ISQM 1, respectively.
- A5. An individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual's objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level. In recurring engagements, the matters on which significant judgments are made and the facts and circumstances around those significant judgments are not likely to vary to a degree such that an objective evaluation of those judgments can be made by the individual who served as the engagement partner in the immediate previous period. Accordingly, this ISQM requires the firm to establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the

engagement, and applicable provisions of law or regulation or relevant ethical requirements. In the case of an audit of financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted.

Eligibility Criteria for the Engagement Quality Reviewer

Competence and Capabilities, Including Sufficient Time (Ref: Para. 16(a))

- A6. Competence refers to the integration and application of technical competence, professional skills, and professional ethics, values and attitudes, and the appropriate experience relevant to the nature and circumstances of the engagement, including:
- An understanding of professional standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to the engagement;
 - Knowledge of the entity's industry;
 - An understanding of, and experience relevant to, engagements of a similar nature and complexity; and
 - An understanding of the responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review, which may be attained or enhanced by receiving relevant training from the firm.
- A7. An engagement quality review is a response to assessed quality risks relating to engagement performance. Accordingly, an understanding of the reasons for the assessments given to the quality risks may be an important consideration in the firm's determination of the competence and capabilities required to perform the engagement quality review for that engagement. Other factors to consider in determining whether the engagement quality reviewer has the competence and capabilities, including sufficient time, needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon include, for example:
- The nature of the entity.
 - The specialization and complexity of the industry or regulatory environment in which the entity operates.
 - The extent to which the engagement relates to matters requiring specialized expertise (e.g., with respect to information technology or specialized areas of accounting or auditing), or scientific and engineering expertise, such as may be needed for certain assurance engagements. Also see paragraph A18.
- A8. In evaluating the competence and capabilities of an individual who may be appointed as an engagement quality reviewer, the findings arising from the firm's monitoring activities (e.g., findings from the inspection of in-process or completed engagements for which the individual was an engagement team member or engagement quality reviewer) or the results of external inspections may also be relevant considerations.
- A9. A lack of appropriate competence or capabilities may affect the ability of the engagement quality reviewer to exercise appropriate professional judgment in performing the review. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence necessary to evaluate and, where appropriate, challenge significant judgments made, and the exercise

of professional skepticism, by the engagement team on a complex, industry-specific accounting or auditing matter.

Appropriate Authority (Ref: Para. 16(a))

A10. Actions at the firm level help to establish the authority of the engagement quality reviewer. For example, by creating a culture of respect for the role of the engagement quality reviewer, the engagement quality reviewer is less likely to experience pressure from the engagement partner or other personnel to inappropriately influence the outcome of the engagement quality review. In some cases, the engagement quality reviewer's authority may be enhanced by the firm's policies or procedures to address differences of opinion, which may include actions the engagement quality reviewer may take when a disagreement occurs between the engagement quality reviewer and the engagement team.

A11. The authority of the engagement quality reviewer may be diminished when:

- The culture within the firm promotes respect for authority only of individuals at a higher level of hierarchy within the firm.
- The engagement quality reviewer has a reporting line to the engagement partner, for example, when the engagement partner holds a leadership position in the firm or is responsible for determining the compensation of the engagement quality reviewer.

Public Sector Considerations

A12. In the public sector, an auditor (e.g., an Auditor General, or other suitably qualified individual appointed on behalf of the Auditor General) may act in a role equivalent to that of the engagement partner with overall responsibility for public sector audits. In such circumstances, when applicable, the selection of the engagement quality reviewer may include consideration of the need for independence and the ability of the engagement quality reviewer to provide an objective evaluation.

Relevant Ethical Requirements (Ref: Para. 16(b))

A13. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of engagements subject to an engagement quality review. Various provisions of relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm.

A14. Relevant ethical requirements may establish requirements addressing threats created by the long association of the engagement quality reviewer with an audit client. For example, in relation to audits of public interest entities, the IESBA Code contains requirements for an engagement quality reviewer to serve a required cooling-off period after that individual has served in that role, or any combination of engagement partner, engagement quality reviewer or any other key audit partner role, for specified periods.

Threats to the Objectivity of the Engagement Quality Reviewer

A15. Threats to the engagement quality reviewer's objectivity may be created by a broad range of facts and circumstances. For example:

- A familiarity or self-interest threat may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team.

- An intimidation threat (either implicit or explicit) may be created when pressure is exerted on the engagement quality reviewer (e.g., when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner).

A16. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, the IESBA Code specifically addresses intimidation threats in certain circumstances.

Law or Regulation Relevant to Eligibility of the Engagement Quality Reviewer (Ref: 16(c))

A17. Law or regulation may prescribe additional requirements regarding the eligibility of the engagement quality reviewer. For example, in some jurisdictions, the engagement quality reviewer may need to possess certain qualifications or be licensed to be able to perform the review.

Circumstances when the Engagement Quality Reviewer is Assisted by Other Individuals (Ref: Para. 17)

A18. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise. For example, highly specialized knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgments made by the engagement team related to those transactions.

A19. When the engagement quality reviewer is assisted by an external individual, the assistant's responsibilities, including those related to compliance with relevant ethical requirements, may be set out in the contract or other agreement between the firm and the assistant.

Impairment of the Engagement Quality Reviewer's Eligibility to Perform the Engagement Quality Review (Ref: Para. 19–20)

A20. Factors that may be relevant to the firm in considering whether the eligibility of the engagement quality reviewer to perform the engagement quality review is impaired include:

- Whether changes in the circumstances of the engagement result in the engagement quality reviewer no longer having the appropriate competence and capabilities to perform the review;
- Whether changes in the other responsibilities of the engagement quality reviewer indicate that the individual no longer has sufficient time to perform the review; or
- Notification from the engagement quality reviewer in accordance with paragraph 20.

A21. In circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review becomes impaired, the firm's policies or procedures may set out a process by which alternative eligible individuals are identified or may specify the period of time after notification within which the firm is required to appoint a replacement.

Performance of the Engagement Quality Review (Ref: Para. 21–23)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 21(b))

A22. Proposed ISA 220 (Revised)⁹ establishes the requirements for the engagement partner¹⁰ in audit engagements for which an engagement quality review is required, including:

- Being satisfied that an engagement quality reviewer has been appointed;
- Cooperating with the engagement quality reviewer and informing members of the engagement team of their responsibility to do so;
- Discussing significant matters arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
- Not dating the auditor's report until the completion of the engagement quality review.

A23. ISAE 3000 (Revised)¹¹ also establishes requirements for the engagement partner in relation to the engagement quality review.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: Para. 21(c))

A24. Frequent communication between the engagement team and engagement quality reviewer throughout the engagement may assist in facilitating an effective and timely engagement quality review. However, a threat to the objectivity of the engagement quality reviewer may be created depending on the timing and extent of the discussions with the engagement team about a significant judgment. The firm's policies or procedures may set forth the actions to be taken by the engagement quality reviewer or the engagement team to avoid situations in which the engagement quality reviewer is, or may be perceived to be, making decisions on behalf of the engagement team. For example, in these circumstances the firm may require consultation about such significant judgments with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 21–24)

A25. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.

A26. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer at appropriate points in time throughout all stages of the engagement (e.g., planning, risk assessment, performance, completion, reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. In other circumstances, it may be appropriate for the engagement quality reviewer to perform the

⁹ Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 33

¹⁰ Similar requirements exist in paragraph 36 of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

¹¹ ISAE 3000 (Revised), paragraph 36

procedures near the end of the engagement (e.g., when the engagement is not complex and is completed within a short period of time). Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, as applicable, professional skepticism, by the engagement team in planning and performing the engagement.

A27. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:

- The reasons for the assessments given to quality risks, for example, engagements performed for entities in emerging industries or with complex transactions.
- The findings arising from the firm's monitoring activities, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
- The complexity of the engagement.
- The nature and size of the entity, including whether the entity is a listed entity.
- Other information relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or concerns raised about the commitment to quality of the firm or its personnel.
- The firm's acceptance and continuance of client relationships and specific engagements, which may indicate new risks to achieving quality for an engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.
- For assurance engagements, the engagement team's consideration of, and responses to, areas of risks of material misstatement in the engagement.

A28. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

Significant Matters and Significant Judgments (Ref: Para. 22(b)–(d))

A29. For audits of financial statements, proposed ISA 220 (Revised) requires the engagement partner to review audit documentation relating to significant matters¹² and other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.¹³

A30. For audits of financial statements, proposed ISA 220 (Revised) provides examples of significant judgments that may be identified by the engagement partner related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team.¹⁴

¹² ISA 230, *Audit Documentation*, paragraph A8

¹³ Proposed ISA 220 (Revised), paragraph 29

¹⁴ Proposed ISA 220 (Revised), paragraph A80

A31. For engagements other than audits of financial statements, the engagement quality reviewer may consider the nature and circumstances of the engagement in identifying significant matters, and significant judgments made by the engagement team. For example, in an assurance engagement performed in accordance with ISAE 3000 (Revised), the engagement team's determination of whether the criteria to be applied in the preparation of the subject matter information are suitable for the engagement may involve or require significant judgment. The examples in proposed ISA 220 (Revised)¹⁵ also may be useful to the engagement quality reviewer in identifying significant judgments in engagements other than audits of financial statements.

Whether Consultation Has Taken Place on Difficult or Contentious Matters or Matters Involving Differences of Opinion (Ref: Para. 22(e))

A32. Proposed ISQM 1¹⁶ sets out requirements for the firm to establish policies or procedures addressing consultation on difficult or contentious matters, including the engagement team's responsibilities for consultation, the matters on which consultation is required and how the conclusions should be agreed and implemented. Proposed ISQM 1¹⁷ also sets out requirements for the firm to establish policies or procedures to address differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or personnel performing duties within the firm's system of quality management, including those who provide consultation.

Overall Responsibility of the Engagement Partner for Managing and Achieving Quality on the Engagement (Ref: Para. 22(f))

A33. Proposed ISA 220 (Revised) requires the engagement partner to determine, prior to dating the auditor's report, that:

- The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
- The firm's policies or procedures, and the nature and circumstances of the audit engagement, and any changes thereto, have been taken into account in complying with the requirements of proposed ISA 220 (Revised).¹⁸

A34. Other pronouncements of the IAASB, including ISRE 2400 (Revised),¹⁹ ISAE 3000 (Revised),²⁰ and ISRS 4410 (Revised)²¹ also require the engagement partner to take responsibility for the overall quality on the engagement.

¹⁵ Proposed ISA 220 (Revised), paragraph A80

¹⁶ Proposed ISQM 1, paragraph 40(c)

¹⁷ Proposed ISQM 1, paragraph 40(d)

¹⁸ Proposed ISA 220 (Revised), paragraph 37

¹⁹ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

²⁰ ISAE 3000 (Revised), paragraph 33

²¹ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, paragraph 23

The Engagement Quality Reviewer's Evaluation (Ref: Para. 23)

A35. The firm's policies or procedures may specify the individual(s) in the firm to be notified if the engagement quality reviewer has unresolved concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. Such individual(s) may include the individual assigned the responsibility for the appointment of engagement quality reviewers.

Documentation (Ref: Para. 25–27)

A36. Paragraphs 67 and 68 of proposed ISQM 1 require the firm to prepare documentation of the firm's system of quality management. Engagement quality reviews performed in accordance with this proposed ISQM are one response, among others, to a firm's quality risks related to the performance of engagements, and are therefore subject to those documentation requirements.

A37. The form, content and extent of the documentation of the engagement quality review may depend on factors such as:

- The nature and complexity of the engagement;
- The nature of the entity;
- The nature and complexity of the matters subject to the engagement quality review; and
- The extent of the engagement documentation reviewed.

A38. The engagement quality review may be documented in a number of ways. For example, the engagement quality reviewer may document the review of engagement documentation electronically in the IT application for the performance of the engagement. Alternatively, the engagement quality reviewer may document the review through means of a memorandum. The engagement quality reviewer's procedures may also be documented as part of other engagement documentation, for example, minutes of the engagement team's discussions where the engagement quality reviewer was present.

A39. Paragraph 21(b) requires that the firm's policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. The documentation of the engagement quality review may be completed after the date of the engagement report, but before the assembly of the final engagement file.

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