

Agenda Item 4-A

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 2 – ENGAGEMENT QUALITY REVIEWS (CLEAN)

[CONTENTS PAGE TO BE INSERTED]

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

Introduction

Scope of this ISQM

1. This International Standard on Quality Control (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, or for which the firm determines such a review is an appropriate response to assessed quality risks, in accordance with proposed ISQM 1.¹ 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 establish 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.²
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

¹ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, paragraph 40(e)

² Proposed ISQM 1, paragraph 21

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 applying professional judgment and, when applicable, exercising professional skepticism. An engagement quality review performed in accordance with this ISQM is one response, among others, to a firm's quality risks related to the performance of engagements.

[Former paragraph 4 deleted – point covered in paragraph 14]

[Deleted text from former paragraph 5 included in new paragraph 5]

6. 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 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 review does not itself produce evidence to support the opinion or conclusion on the engagement, but the engagement team's responses to matters raised in the engagement quality review may result in obtaining further evidence.

Authority of This ISQM

8. This ISQM contains the objective for the firm in following the ISQM, and requirements designed to enable the firm and the engagement quality reviewer to meet the 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 the ISQM, and definitions. Proposed ISQM 1 further explains the terms objective, requirements, application material and other explanatory material, introductory material, and definitions.

[Former paragraphs 8 and 10-13 deleted]

Effective Date

9. This ISQM is effective for TBD.

Objective

10. The objective of the firm is to obtain from the engagement quality reviewer, on or before the date of the engagement report, an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

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 that is completed on or before the date of the engagement report.

- (b) Engagement quality reviewer – A suitably qualified partner or other individual appointed by the firm to be responsible for the performance of the engagement quality review. (Ref: Para. A1)
- (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, as applicable, 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.
- 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. Such actions shall include consideration of whether additional eligibility criteria or engagement quality review procedures to those required by this ISQM are necessary to support the achievement of the objective of this ISQM.

Appointment and Eligibility of Engagement Quality Reviewers

- 15. [Moved from ISQC 1.43(e)(ii)] The firm shall establish policies or procedures regarding the appointment of engagement quality reviewers that address:
 - (a) [Previously ISQM 1.43(e)(ii)a] The assignment of responsibility for the appointment of engagement quality reviewers to an individual with the competence, capabilities, and the appropriate authority within the firm needed to assume the responsibility; (Ref: Para. A2–A3)
 - (b) [Previously part of ISQM 1.43(e)(ii)b] The criteria for eligibility to be appointed as an engagement quality reviewer and, when applicable, individuals who assist the engagement quality reviewer, in accordance with paragraphs 16 and 17, respectively; (Ref: Para. A4)
 - (c) [Previously part of ISQM 1.43(e)(ii)b] 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; and (Ref: Para. A5–A6)
 - (d) [Previously ISQM 1.43(e)(ii)c] Circumstances in which the engagement quality reviewer's ability to perform the engagement quality review would be deemed to be impaired, including when notified by the engagement quality reviewer in accordance with paragraph 18, and the process for identifying a replacement in such circumstances.

16. The engagement quality reviewer shall:
- (a) Not be a member of the engagement team;
 - (b) Be a partner or other individual with the competence and capabilities, including sufficient time, and the appropriate authority to evaluate the significant judgments made by the engagement team and the conclusions reached thereon; and (Ref: Para. A7–A13)
- [Former subparagraph c included in new subparagraphs (c)(i) and (ii)]
- (c) Comply with:
 - (i) Relevant ethical requirements, [Moved from former subparagraph (c)] including that threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team do not exist, or have been reduced to an acceptable level; (Ref: Para. A14–A17)
 - (ii) [Moved from former subparagraph (c)] Requirements established by the firm regarding limitations on the eligibility to be appointed as the engagement quality reviewer for the engagement as described in paragraph 15(c); and
 - (iii) When applicable, requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A18)
17. [Previously paragraph 22 – switched order with previous paragraph 21] Individuals who assist the engagement quality reviewer shall: (Ref: Para. A19–A20)
- (a) Not be members of the engagement team;
 - (b) Have the competence and capabilities, including sufficient time, to perform the duties assigned to them; and
 - (c) Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer.
18. [Previously paragraph 21 – switched order with previous paragraph 22 and reversed order of (a) and (b)] When the engagement quality reviewer is, or becomes, aware of circumstances that impair the engagement quality reviewer’s eligibility to be an engagement quality reviewer, the engagement quality reviewer shall notify the appropriate individual(s) in the firm so that the firm can appoint another individual who meets the eligibility requirements, 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

19. The firm shall establish policies or procedures regarding the performance of the engagement quality review that address:
- (a) [Adapted from former ISQC 1.43(e)(iii)] The engagement quality reviewer’s responsibilities to perform procedures in accordance with paragraphs 20–21 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; (Ref: Para. A22)
- (b) [Moved from former ISQC 1.43(e)(iv)] 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. A23)
 - (c) [Moved from former ISQC 1.43(e)(v)] 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. (Ref: Para. A24)

[Former paragraph 43(e)(vi) of ISQC 1 covered in paragraph 43 of proposed ISQM 1 – see Agenda Item 2-A]

20. In performing the engagement quality review, the engagement quality reviewer shall: (Ref: A25–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 its monitoring and remediation, in particular 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) Concluding, 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 were appropriate.
 - (e) [Moved from paragraph 24(d)(ii)] Evaluate whether 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 audits 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 other engagements, the engagement report, and when applicable, the subject matter information.
21. The engagement quality reviewer shall evaluate whether, on or before the date of the engagement report:
- (a) The requirements of this ISQM have been fulfilled and the objective of the engagement quality review has been achieved; and
 - (b) There are any concerns that the significant judgments made by the engagement team, or the conclusions it reached thereon, were not appropriate. If so, the engagement quality reviewer shall notify the engagement partner and appropriate individual(s) in the firm that the engagement quality review cannot be completed until such concerns are addressed to the engagement quality reviewer's satisfaction.

Documentation

22. The firm shall establish policies and procedures that require the engagement quality reviewer to prepare documentation that 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. (Ref: Para. A35–A37)
23. The firm's policies or procedures shall require the documentation of the engagement quality review to be included with the engagement documentation.
24. The engagement quality reviewer shall include in the documentation of the engagement quality review:
- (a) The name 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 evaluation in accordance with paragraph 21;
 - (d) The date of completion of the engagement quality review; and
 - (e) Other documentation required by the firm's policies and procedures.

Application and Other Explanatory Material

[Former paragraph A1 moved to paragraph A23]

[Former paragraph A2 addressed in paragraph 42 of ISQM 1 – see Agenda Item 2-B]

[Former paragraph A3 deleted]

Definitions (Ref: Para. 11(b))

A1. A partner or other individual is suitably qualified when that individual fulfills the eligibility criteria in paragraph 16.

Appointment and Eligibility of Engagement Quality Reviewers

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

- A2. [Moved from former paragraph A104 of ISQC 1] Competence and capabilities that enable an individual to assume 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, including those regarding the competence and capabilities, including sufficient time, and the appropriate authority and objectivity of the engagement quality reviewer; and
 - The nature and circumstances of the engagement subject to engagement quality review (e.g., the nature of the entity and the composition of the engagement team).
- A3. In exceptional 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. In these circumstances, a threat to the objectivity of the individual responsible for the appointment of the engagement quality reviewer may arise.

Eligibility of the Engagement Quality Reviewer (Ref: Para. 15(b))

- A4. [Moved from former paragraph A6] In some circumstances, there may not be an 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. [Moved from former paragraph A4] A suitably qualified external individual may be a partner or an employee of:
- A firm within the firm's network, which is subject to the requirements for network requirements or network services in paragraphs 59–64 of proposed ISQM 1; or
 - A service provider, which is subject to the requirements for service providers in paragraphs 65–66 of proposed ISQM 1.

When an external individual is to be appointed to perform the engagement quality review, making relevant inquiries about the individual before making the appointment may assist the firm in obtaining the necessary information about whether the individual meets the eligibility requirements to be an engagement quality reviewer.

Limitations on the Eligibility of Individuals to be Appointed as Engagement Quality Reviewers (Ref: Para. 15(c))

- A5. [Moved from ISQC 1, former paragraph A106B] Relevant ethical requirements or law or regulation may establish requirements for a cooling-off period during which individuals are prohibited from serving as the engagement quality reviewer for engagements for which they previously served in another role(s). For example, the IESBA Code contains prohibitions, for audits of public interest entities, on individuals acting in any of the following roles, or combination of such roles, for a period of more than seven cumulative years, with a minimum cooling-off period of two years:
- The engagement partner;
 - The individual appointed as the engagement quality reviewer; or
 - Any key audit partner role.
- A6. [Moved from ISQC 1, former paragraph A106C] 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 as engagement quality reviewers who previously served as 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. 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(b))

- A7. 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.

[Deleted text from paragraph A7 moved to paragraph A8 and amended]

[Deleted former paragraph A8 as capabilities, including sufficient time, is part of the requirement in para. 16(b)]

- A8. 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 (e.g., a listed 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.
- A9. [Moved from ISQC 1, former paragraph A106A] In evaluating the competence and capabilities of the individual(s) 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.
- A10. Insufficient 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 significant judgments made by the engagement team on a complex industry-specific accounting or auditing matter.

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

- A11. 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 engagement quality reviewer that enables the engagement quality reviewer to withstand 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.
- A12. [Previously part of paragraph A11] The authority of the engagement quality reviewer may be diminished when:
- The culture within the firm promotes respect for authority only when it comes from an individual that is 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

A13. [Previously paragraph A16] In the public sector, an auditor (for example, 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.

[Former paragraph A12 moved to new paragraph A16]

[Former paragraph A13 moved to A17]

[Former paragraph A14 incorporated into paragraphs A5 and A6]

[Former paragraph A15 included in paragraph A24]

[Former paragraph A16 moved to paragraph A13]

Relevant Ethical Requirements (Ref: Para. 16(c)(i))

A14. 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 the relevant ethical requirements may apply only to individual professional accountants, such as an engagement quality reviewer, and not the firm. For example, Part 2 of the IESBA Code applies to individuals who are professional accountants in public practice when performing professional activities pursuant to their relationship with the firm.

A15. Relevant ethical requirements may contain provisions addressing the long association of the engagement quality reviewer with the engagement. For example, the IESBA Code addresses threats that may arise from long association in the role of engagement quality reviewer in audits of financial statements of public interest entities in the context of:

- The audit client and its operations;
- The audit client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

Threats to the Objectivity of the Engagement Quality Reviewer

A16. [Previously paragraph A12] Threats to the engagement quality reviewer's objectivity may arise in the following circumstances:

- A familiarity, self-review or self-interest threat may arise when the engagement quality reviewer was recently consulted on matters of significant complexity or judgment in the engagement.
- 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 arise 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).

- A self-review or self-interest threat may arise when the engagement quality reviewer was recently a member of the engagement team.

A17. [Previously paragraph A13] Relevant ethical requirements may identify actions individuals are required to take, or consider taking, to address threats to objectivity. For example, the IESBA Code provides requirements and guidance for identifying, evaluating and addressing intimidation threats in certain circumstances.

[Former paragraph A19 deleted – addressed in paragraph A5]

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

A18. 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)

A19. 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 and evaluating judgments associated with certain transactions undertaken by the entity. [Last sentence moved from former paragraph A5] Nevertheless, the engagement quality reviewer appointed by the firm remains responsible for the overall performance of the review, including that the work of individuals assisting in the review is appropriate.

A20. 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 (Ref: Para. 18)

A21. The engagement quality reviewer's ability to perform the engagement quality review may become impaired, for example, when changes in the engagement circumstances arise during the course of the engagement and as a result, the individual no longer has the competence or capabilities, including sufficient time, to perform the engagement quality review. [From paragraph A106D of former ISQC 1] The firm's policies or procedures that address providing a replacement for the engagement quality reviewer may set out a process by which alternative eligible individuals are identified or the period of time after notification within which the firm is required to appoint a replacement. Such policies or procedures also may address circumstances in which the engagement quality reviewer becomes aware that the eligibility of an individual assisting the reviewer is impaired, for example, when that individual has not complied with relevant ethical requirements.

Performance of the Engagement Quality Review (Ref: Para. 19–21)

Engagement Quality Reviewer's Responsibilities to Perform Procedures (Ref: Para. 19(a))

A22. Paragraphs A25–A34 provide guidance regarding the procedures to be performed by the engagement quality reviewer, and the reviewer's overall evaluation based on the procedures performed, in accordance with paragraphs 20 and 21, respectively, of this ISQM.

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 19(b))

A23. [Moved from former paragraph A1] Proposed ISA 220 (Revised)³ establishes the requirements for the engagement partner⁴ in audit engagements for which an engagement quality review is required, including:

- Determining 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.

Discussions Between the Engagement Quality Reviewer and the Engagement Team (Ref: Para. 19(c))

A24. [Moved from former paragraph A109 of ISQC 1 and amended] 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, circumstances may arise when the discussions between the engagement team and the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer. 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 with other relevant personnel in accordance with the firm's consultation policies or procedures.

Procedures Performed by the Engagement Quality Reviewer (Ref: Para. 20–21)

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 performing the engagement at the completion of the planning phase. In other circumstances, it may be appropriate for the engagement quality reviewer to perform the procedures at 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 support the engagement team in exercising professional judgment and, as applicable, professional skepticism, in planning and

³ Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 33

⁴ 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*

performing the engagement such that conclusions reached on significant judgments made by the engagement team are appropriate.

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 as required by proposed ISA 220 (Revised).⁵ 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, more extensive review or 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. 20(b)–(d))

A29. For audits of financial statements, proposed ISA 220 (Revised) requires the engagement partner to review audit documentation relating to significant matters⁶ 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.⁷

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.⁸

⁵ Proposed ISA 220 (Revised), paragraph 33(b)

⁶ ISA 230, *Audit Documentation*, paragraph A8

⁷ Proposed ISA 220 (Revised), paragraph 29

⁸ 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)⁹ also may be useful to the practitioner 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. 20(e))

A32. Proposed ISQM 1¹⁰ 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 1¹¹ 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 Audit Engagement (Ref: Para. 20(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).¹²

A34. Other pronouncements of the IAASB, including ISRE 2400 (Revised),¹³ ISAE 3000 (Revised),¹⁴ and ISRS 4410 (Revised)¹⁵ also require the engagement partner to take responsibility for the overall quality on the engagement. Furthermore, ISAE 3000 (Revised)¹⁶ establishes requirements for the engagement partner in relation to the engagement quality control review.

⁹ Proposed ISA 220 (Revised), paragraph A80

¹⁰ Proposed ISQM 1, paragraph 40(c)

¹¹ Proposed ISQM 1, paragraph 40(d)

¹² Proposed ISA 220 (Revised), paragraph 37

¹³ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

¹⁴ ISAE 3000 (Revised), paragraph 33

¹⁵ International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*, paragraph 23

¹⁶ ISAE 3000 (Revised), paragraph 36

Documentation (Ref: Para. 22–24)

A35. 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.

A36. 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.

A37. Although the engagement partner does not date the auditor's report until the completion of the engagement quality review,¹⁷ which includes resolving matters raised by the engagement quality reviewer before the report is issued, the documentation of the engagement quality review may be completed after the date of the report.¹⁸

¹⁷ Proposed ISA 220, (Revised), paragraph 33(d)

¹⁸ ISA 230, *Audit Documentation*, paragraph 14