



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **2.3**
Meeting Date: 26 June 2019
Subject: ED – ISQM 2
Date Prepared: 19 June 2019

Action Required

For Information Purposes Only

Agenda Item Objectives

1. **Consider and provide input** into the AUASB response to the IAASB on ED - ISQM 2 Engagement *Quality Reviews* (Agenda Item 2.3.1). Input by the AUASB directed as follows:
 - (a) AUASB directed to the summary table of issues under considerations matter 1 below;
 - (b) AUASB directed to consideration matter 2 below; and
 - (c) AUASB directed to consideration matter 3 below
2. **Consider and provide input** into the AUASB covering letter to the IAASB on the IAASB's EDs on the Quality Management suite of standards (Agenda Item 2.6)
- 3.

Considerations

The matters in the table below were raised by the AUASB through the course of the development of the proposed ISQM 2 and this table was included in the Explanatory Memorandum to ISQM 2. These matters resulted in Australian specific questions raised as part of the Australian exposure draft process. While the AUASB did not receive formal submissions addressing these comments, the ATG received feedback at the roundtables as well as from the AUASB at recent AUASB meetings. The table below, links the issues raised to the draft AUASB submission to the IAASB on ISQM 2.

Matter #	Matter Raised	Brief Description	Link to draft AUASB submission on ISQM 2 Agenda Item 2.3.1
1	Linkages to proposed ISQM 1 and Scope of	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	Question 1 and 2.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Matter #	Matter Raised	Brief Description	Link to draft AUASB submission on ISQM 2 Agenda Item 2.3.1
	engagements subject to EQR	Review is required to be performed in accordance with proposed ISQM 1 (revised).	
2	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.	Refer Agenda Item 2.2.1 Question 11
3	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.	Question 3
4	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.	Refer Agenda Item 2.4.1 Question 2
5	Eligibility of the engagement quality reviewer (including cooling-off period)	<p>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.</p> <p>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.</p>	Question 4
6	Application of all requirements in ED-ISQM 2 to a broad range of engagements under ISQM 1 (includes Cooling-off periods)	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.	Question 9

Matter #	Matter Raised	Brief Description	Link to draft AUASB submission on ISQM 2 Agenda Item 2.3.1
7	Performance of an engagement quality review	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.	Question 5 and 6
8	Consultation between the engagement team and the engagement quality reviewer	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.	Question 5
9	Engagement quality reviewer's overall conclusion	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.	Question 10
10	Documentation	The AUASB raises for consideration that ED-ISQM 2 has strengthened, clarified and been more specific in the amended documentation requirements.	Question 7
11	Roles of EQR and EP	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.	Refer Agenda Item 2.4.1 Question 2
12	Inconsistency between EQR responsibilities to review the report/deliverable and the range of engagements to which ED-ISQM 2 applies through ED-ISQM 1 para 37(e)	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.	Question 5 This point needs to be revisited by the AUASB further in the meeting.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

1. Other National Standard Setters

NZAuASB

The ATG have reviewed and considered the NZAuASB draft submission on the IAASB Exposure Draft. The ATG raises for AUASB consideration the following matters included in the NZAuASB draft submission that is either not currently included in the draft AUASB submission or is inconsistent with the draft AUASB submission:

- As further discussed in the response to question 4, the NZAuASB is concerned that the IAASB has extended well beyond its mandate in establishing ethical provisions in the proposed ED. Further, the NZAuASB is concerned that the IAASB's interpretation of the IESBA long association provisions (1) are inconsistent with those provisions and (2) establish quasi requirements. The NZAuASB is strongly opposed to the inclusion of this guidance in the final ISQM 2 and urges the IAASB to leave the application of the IESBA Code to the IESBA to develop guidance as appropriate.

“Compelling Reasons” Assessment

The ATG will continue to monitor the matters raised in the submission to the IAASB and if they are addressed to meet the needs of the AUASB and Australian stakeholders.

Material Presented

3.2	ISQM 2 Board Meeting Summary Paper
3.2.1	ISQM 2 Draft Submission to IAASB
