

**EXPOSURE DRAFT**

**ED 02/19**  
(March 2019)

# **Proposed Auditing Standard** **ASQC ASQM 2** *Engagement Quality Reviews*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be received by no later than 27 May 2019. Comments should be addressed to:

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Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
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## **Formal Submissions**

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**Proposed Auditing Standard ASQM 2**  
*Engagement Quality Reviews*

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## PREFACE

### Reasons for Issuing ED 02/19

The AUASB issues exposure draft ED 02/19 of proposed Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### Main Proposals

This proposed Auditing Standard represents the Australian equivalent of the IAASB's Exposure Draft ISQM 2 *Engagement Quality Reviews* (comments due 1 July 2019) and will replace certain requirements in relation to engagement quality reviews from the current ASQC 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services* and ASA 220 *Quality Management for an Audit of Financial Report and Other Historical Financial Information* issued by the AUASB in January 2010 and December 2015 respectively .

This proposed Auditing Standard contains differences from the current ASQC 1 and ASA 220, which are detailed in the [Explanatory Memorandum](#) at the front of the Proposed International Standard on Quality Management 2 (ISQM 2). The key changes from the extant ASQC 1 and ASA 220 introduced by the IAASB include:

- Extending the requirement for an engagement quality review to engagements in addition to audits of a financial report
- 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 nature, timing and extent of the engagement quality review procedures performed; and
- Consideration of the effect of engagement quality reviews, and other forms of engagement reviews, on the appropriate exercise of professional scepticism by engagement teams.

### Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after [date]\*.

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\* The IAASB is proposing an effective date 18 months following the approval of the standards by the Public Interest Oversight Board (PIOB). Typically the PIOB approves the standards one quarter after the approval of the standards by the IAASB.

## **New Auditing Standard**

This proposed Auditing Standard is a new pronouncement of the AUASB and accordingly does not supersede a pre-existing Auditing Standard.

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed issuance of *ASQM 2 Engagement Quality Reviews* by no later than 27 May 2019. The AUASB is seeking comments from respondents on the following questions:

### **Questions Extracted from the International IAASB’s Explanatory Memorandum**

1. Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ASQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ASQM 2 should deal with the remaining aspects of engagement quality reviews?
2. Are the linkages between the requirements for engagement quality reviews in ED-ASQM 1 and ED-ASQM 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-ASQM 2?
  - (a) What are your views on the need for the guidance in proposed ASQM 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 ASQM 2 as opposed to the APESB 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 ASA 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-ASQM 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-ASQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

### **Australian Specific Questions**

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?

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3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. 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 standard? If there are significant costs, do these outweigh the benefits to the users of audit services?
5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASQM 2 *Engagement Quality Reviews* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied.



## **Conformity with International Standards on Quality Control**

This Auditing Standard conforms with International Standard on Quality Management ISQM 2 *Engagement Quality Reviews* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISQM) are identified with the prefix “Aus”.

Compliance with this Auditing Standard enables compliance with ISQM 2.

## AUDITING STANDARD ASQM 2

### *Engagement Quality Reviews*

#### **Application**

- Aus 0.1 This Auditing Standard applies to a firm that performs:
- (a) an audit of a financial report for a financial year, or an audit or review of a financial report for a half-year, in accordance with the *Corporations Act 2001*;
  - (b) an audit or review of a financial report, or a complete set of financial statements, for any other purpose;
  - (c) an audit or review of other historical financial information;
  - (d) an audit or review other than of historical financial information;
  - (e) other assurance engagements; and
  - (f) related services engagements.

#### **Operative Date**

- Aus 0.2 This ASQM is effective for:
- (a) Audits and reviews of a financial report for periods beginning on or after TBD; and
  - (b) Other engagements beginning on or after TBD.

#### **Introduction**

##### **Scope of this Auditing Standard**

1. This Australian Standard on Quality Management (ASQM) 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 ASQM applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ASQM 1.<sup>1</sup> This ASQM is premised on the basis that the firm is subject to proposed ASQM 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 ASQM 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 ASQM.

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<sup>1</sup> Proposed ASQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph 37(e)

## **Proposed Auditing Standard ASQM 2**

### ***Engagement Quality Reviews***

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4. The objective of the firm is to design, implement and operate a system of quality management for audits or reviews of a financial report, 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.<sup>2</sup>
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 judgement and, when applicable to the nature and circumstances of the engagement, exercising professional scepticism.
6. An engagement quality review is an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached thereon. The engagement quality reviewer's evaluation of significant judgements 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 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 ASQM**

8. This ASQM contains the objective for the firm in following this ASQM, 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 ASQM, and definitions. Proposed ASQM 1 explains the terms objective, requirements, application material and other explanatory material, introductory material, and definitions.

#### **Effective Date**

9. [Deleted by the AUASB. Refer Aus 0.2]

#### **Objective**

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

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<sup>2</sup> Proposed ASQM 1, paragraph 21

## **Definitions**

11. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Engagement quality review – An objective evaluation of the significant judgements 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 Australian Ethics Standards Board for Accountants' *Australian Code of Ethics for Professional Accountants (including Australian Independence Standards)* (APESB Code) related to audits or reviews of a financial report, 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 ASQM, including the application and other explanatory material, to understand the objective of this ASQM 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 ASQM, 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)

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***Engagement Quality Reviews***

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- (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 judgements 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 judgement 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)

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**Engagement Quality Reviews**

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- (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 judgements 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 judgements 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 judgements made by the engagement team and the conclusions reached thereon and evaluate:
    - (i) The engagement team’s basis for making the significant judgements, including when applicable, the appropriate exercise of professional scepticism;
    - (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 a financial report, 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 a financial report, the financial report 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 judgements 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)

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*Completion of the Engagement Quality Review*

24. The engagement quality reviewer shall determine whether the requirements in this ASQM 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.

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## **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 ASQM 1, or the requirements for service providers in paragraph 65 of proposed ASQM 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 judgements are made and the facts and circumstances around those significant judgements are not likely to vary to a degree such that an objective evaluation of those judgements can be made by the individual who served as the engagement partner in the immediate previous period. Accordingly, this ASQM 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 a financial report 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.



## Proposed Auditing Standard ASQM 2 *Engagement Quality Reviews*

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### *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 judgements made by the engagement team and the conclusions reached thereon include, for example:
- The nature of the entity.
  - The specialisation and complexity of the industry or regulatory environment in which the entity operates.
  - The extent to which the engagement relates to matters requiring specialised expertise (e.g., with respect to information technology or specialised 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 judgement 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 judgements made, and the exercise of professional scepticism 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 APESB 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 APESB Code specifically addresses intimidation threats in certain circumstances.

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### *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 specialised knowledge, skills or expertise may be useful for understanding certain transactions undertaken by the entity to help the engagement quality reviewer evaluate the significant judgements 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. A22. Proposed ASA 220 (Revised)<sup>3</sup> establishes the requirements for the engagement partner<sup>4</sup> 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;

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<sup>3</sup> Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 33

<sup>4</sup> 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*

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- 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. ASAE 3000 (Revised)<sup>5</sup> 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 judgement. 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 judgements 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 emphasise the importance of the engagement quality reviewer exercising professional judgement 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 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 judgement and, as applicable, professional scepticism, 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.

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<sup>5</sup> ASAE 3000 (Revised), paragraph 36

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- 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 Judgements (Ref: Para. 22(b)–(d))*

A29. For audits of a financial report, proposed ASA 220 (Revised) requires the engagement partner to review audit documentation relating to significant matters<sup>6</sup> and other areas involving significant judgements, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached.<sup>7</sup>

A30. For audits of a financial report, proposed ASA 220 (Revised) provides examples of significant judgements 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.<sup>8</sup>

A31. For engagements other than audits of a financial report, the engagement quality reviewer may consider the nature and circumstances of the engagement in identifying significant matters, and significant judgements made by the engagement team. For example, in an assurance engagement performed in accordance with ASAE 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 judgement. The examples in proposed ASA 220 (Revised)<sup>9</sup> also may be useful to the engagement quality reviewer in identifying significant judgements in engagements other than audits of a financial report.

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

A32. Proposed ASQM 1<sup>10</sup> 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 ASQM 1<sup>11</sup> 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

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<sup>6</sup> ASA 230, *Audit Documentation*, paragraph A8

<sup>7</sup> Proposed ASA 220 (Revised), paragraph 29

<sup>8</sup> Proposed ASA 220 (Revised), paragraph A80

<sup>9</sup> Proposed ASA 220 (Revised), paragraph A80

<sup>10</sup> Proposed ASQM 1, paragraph 40(c)

<sup>11</sup> Proposed ASQM 1, paragraph 40(d)

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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 ASA 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 judgements 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 ASA 220 (Revised).<sup>12</sup>
- A34. Other pronouncements of the AUASB, including ASRE 2400 (Revised)<sup>13</sup> and ASAE 3000 (Revised),<sup>14</sup> also require the engagement partner to take responsibility for the overall quality on the engagement.

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<sup>12</sup> Proposed ASA 220 (Revised), paragraph 37

<sup>13</sup> International Standard on Review Engagements (ASRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

<sup>14</sup> ASAE 3000 (Revised), paragraph 33

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*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 judgements 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 ASQM 1 require the firm to prepare documentation of the firm's system of quality management. Engagement quality reviews performed in accordance with this proposed ASQM 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.