



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.** 5.5.1  
**Meeting Date:** 12 September 2018  
**Subject:** Proposed ISQC 2  
**Prepared By:** Marina Michaelides  
**Date Prepared:** 3 September 2018

**Action Required**

**For Information Purposes Only**

Agenda Item Objectives	AUASB SMEs
<ol style="list-style-type: none"><li>1. To update the AUASB on actions taken since this project was last discussed by the IAASB in September 2017.</li><li>2. To seek the AUASB's views on the draft exposure draft of proposed ISQC 2.</li></ol>	Gareth/ Marina
<p><b>1. Update on IAASB ISQC 2 Task Force Work</b></p> <ol style="list-style-type: none"><li>1. In December 2015, the IAASB issued an Invitation to Comment (ITC), "Enhancing Audit Quality in the Public Interest – A Focus on Quality Control, Professional Skepticism and Group Audits." Responses to the ITC highlighted the need to address engagement quality control reviews as an important feature of a quality management system.</li><li>2. The Audit Quality Enhancements Coordination Working Group reported at the June 2016 IAASB meeting that there was ongoing support for the importance of engagement quality control reviews as a key quality control measure, while maintaining balance and perspective relative to the role of the engagement partner, who is ultimately responsible for audit quality.</li><li>3. The Task Force last presented the draft exposure draft (ED) of proposed ISQC 2 (and related amendments to ISQC 1) for engagement quality (EQ) reviews to the Board at the September 2017 IAASB meeting. Extracts from the minutes of that meeting, as well as minutes of other past IAASB meetings reflecting decisions made related to EQ reviews, are included in Appendix B to this agenda item. Relevant extracts from the September 2017 minutes are also referenced within this paper.</li><li>4. In the process of progressing the draft ED of proposed ISQC 2, the Task Force has also aligned terms and concepts with related terms and concepts used in the ISQC 1 and ISA 220 projects. The Task Force will continue to monitor progress on the ISQC 1 and ISA 220 projects, interact with the respective Task Forces and make any changes required to maintain consistency among the standards. Co-ordination will be managed at a staff, Task Force chair, and Task Force level as needed.</li></ol>	

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## 2. Key matters for consideration by the AUASB

Overall the proposed ISQC 2 seems to have addressed the comments made by the IAASB at the September 2017 meeting.

Key areas the taskforce are seeking views on:

1. **Linkages to proposed ISQC 1** – revised objective includes both the objectives pertaining to the eligibility criteria (firm level link to ISQC 1) and the performance of the EQ review. No specific issues to raise. ATG believe the objectives are clear and appropriately show the direct link to ISQC 1 para 43.
2. **Authority of proposed ISQC 2** – this has been included in ISQC 2 as the authority as drafted in ISQC 1 only relates to the firm and therefore is not adequate for ISQC 2. The taskforce concluded ISQC 2 required its own authority to deal with the EQ reviewer. The wording is consistent with ISQC 1 para 13-17. The ATG agrees the authority should be included in ISQC 2.
3. **Definitions** – Change to the terminology from ‘engagement quality **control** review/reviewer to “engagement quality review/reviewer”. This change is proposed to be consistent with the proposed ISQC 1 (revised) which now refers to quality management rather than quality control. ATG thinks the change is appropriate and consistent with the new suite of standards – ISQC 1, ISQC 2 and ISA 220 however this is likely to result in necessary conforming amendments. ATG don’t have any specific issues with the changes to the definition of “relevant ethical requirements” to apply to the EQ reviewer and believe it should be aligned with ISQC 1 and proposed ISA 220.
4. **Scope of engagements subject to an engagement quality review** – the intended scope of the EQ reviews are now clearer, sufficiently robust and are in the public interest. The requirement in para 43(e)(i) now includes all audits of financial statements of other entities that are of significant public interest. This is likely to result in a more consistent application across the practices. The definition of “significant public interest entity” would need to be dealt with at a jurisdictional level. The AUASB to review what other National Standard setters use as a definition and discuss further with the firms as to how they would apply this in practice.

Question 4c – para A103 of ISQC 1 should not refer to public sector however should be left to the firm to capture this as part of their quality management process. This would be mean the firms EQ reviewer would pick those up if required by the firm or as a significant public interest entity.

5. **Eligibility of the engagement quality reviewer (including cooling-off period)** – ATG believe the eligibility criteria for EQ reviewers and for individuals who assist the EQ reviewer outlined in para 20-22 are clear and allows the use of professional judgement in considering the candidates qualifications.

Further work is to be completed on the cooling-off period being coordinated with IESBA through a joint working group.

6. **Performance of an engagement quality review** – ATG believe the taskforce has improved the focus on significant judgements in paras 23-25 and clarified what these may be as well as how the EQ reviewer may identify significant judgements. It has also clarified the difference between significant matters and significant judgements in the application material para A29. The taskforce needs to coordinate with the ISA 220 taskforce so that examples of significant judgements are consistent.
7. **Consultation between the engagement team and the engagement quality reviewer** – ATG has no specific issues with how the taskforce has dealt with the risk of consultations impairing the objectivity of the EQ reviewer under proposed ISQC 1 para 43(e)(v) and A109.

8. **The engagement quality reviewer's overall conclusion** – The taskforce has included a requirement at para 25(a) that the EQ reviewer shall evaluate whether, the requirements of ISQC 2 have been fulfilled, taking into account the firm's policies and procedures and the objective of ISQC 2 has been achieved. Does the AUASB think that the stand back requirement in para 25(a) should be performed at the firm level, engagement partner level or the EQ reviewer level?
- Para 25(b) deals with the evaluation of unresolved matters the EQ reviewer becomes aware of in relation to significant judgements made and that the conclusions reached were not appropriate. It is noted by the ATG that this requirement does not specifically state how these unresolved matters need to be dealt with by the EQ reviewer.
- The ATG would like to seek the AUASB's views on these matters.
9. **Documentation** – ATG agree with the taskforce's conclusion that the documentation requirements in ISQC 1 should not specifically address EQ reviews. ATG agrees the documentation requirements in para 26 of ISQC 2 are appropriate for the EQ reviewer.

**Next steps / milestones for this project**

- This project is closely linked to the draft ED of proposed ISQC 1 (Revised), under which the firm's policies and procedures for EQ reviews are established, and to the draft ED of proposed ISA 220 (Revised), which deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner.
- The Task Force will continue to monitor progress on the ISQC 1 and ISA 220 projects, interact with the respective Task Forces and make any changes required to maintain consistency among the standards. Co-ordination will be managed at a staff, Task Force chair, and Task Force level as needed.
- The task force anticipates that proposed ISQC 2 with ISQC 1 and ISA 220, will go to the December 2018 IAASB meeting for approval as an exposure draft.

**Action Required**

No.	Action Item	Responsibility
1	Provide comments on the proposed ISQC 2	AUASB

**Material Presented**

Agenda Item 5.5.1	AUASB Board Meeting Summary Paper
Agenda Item 5.5.2	Agenda Item 6 Proposed ISQC 2 – Issues paper
Agenda Item 5.5.3	Agenda Item 6-A ISQC 2 ED 2 <sup>nd</sup> read (clean)
Agenda Item 5.5.4	Agenda Item 6-B Extracts ISQC 1 addressing EQR (clean)

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