

**INTERNATIONAL STANDARD ON QUALITY CONTROL 2  
ENGAGEMENT QUALITY REVIEWS (Exposure Draft: 2<sup>nd</sup> read)****Introduction****Scope of this ISQC**

1. This International Standard on Quality Control (ISQC) deals with:
  - The eligibility criteria for the engagement quality reviewer; and
  - The engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.
2. This ISQC applies to all engagements for which the firm determines that an engagement quality review is to be performed in accordance with ISQC 1 (Revised).<sup>1</sup>
3. ISQC 1 (Revised) establishes the firm's responsibilities for its system of quality management and requires the firm to establish policies or procedures regarding engagement quality reviews that address:
  - The scope of engagements subject to an engagement quality review;
  - The appointment of engagement quality reviewers to perform engagement quality reviews;
  - The responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review;
  - The responsibilities of the engagement partner in relation to the engagement quality review; (Ref: Para. A1)
  - Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer; and
  - Communication of responsibilities for engagement quality reviews.
4. This ISQC requires the engagement quality reviewer to perform procedures, taking into account the firm's policies or procedures that address the requirements of this ISQC. Nevertheless, given the nature and circumstances of the engagement subject to review, or the circumstances of the firm, the engagement quality reviewer may need to perform additional procedures beyond those set out in the firm's policies or procedures and this ISQC to achieve the objectives of this ISQC. (Ref: Para. A2)
5. An engagement quality review is one response, among others, to the firm's identified quality risks that relate to the quality objective in ISQC 1 (Revised).<sup>2</sup>
6. The engagement quality reviewer's evaluation of significant judgments is performed in the context of the applicable professional standards and laws and regulations. However, an engagement quality

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<sup>1</sup> Proposed ISQC 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, paragraph 43(e)(i)

<sup>2</sup> Proposed ISQC 1 (Revised), paragraph 42(b)

review is not an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures.

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. (Ref: Para. A1)

### **Authority of this ISQC**

8. This ISQC applies to:
  - (a) All firms of professional accountants when determining the eligibility of, and appointing, engagement quality reviewers; and
  - (b) All individuals appointed as engagement quality reviewers.
9. This ISQC contains the objectives for the firm and the engagement quality reviewer, respectively, in following the ISQC, and requirements designed to enable the firm and the engagement quality reviewer to meet their respective objectives. In addition, this ISQC contains related guidance in the form of application and other explanatory material, as discussed further in paragraph 12, and introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
10. The objectives of this ISQC provide the context in which the requirements of this ISQC are set, and are intended to assist the firm and the engagement quality reviewer in:
  - Understanding what needs to be accomplished; and
  - Determining whether more needs to be done to achieve their respective objectives.
11. The requirements of this ISQC are expressed using "shall."
12. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
  - Explain more precisely what a requirement means or is intended to cover; and
  - Include examples that illustrate how the requirements might be applied.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ISQC. Where appropriate, additional considerations specific to public sector audit organizations are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in this ISQC. They do not, however, limit or reduce the responsibility of the firm and the engagement quality reviewer to apply and comply with the requirements in this ISQC.

13. This ISQC includes, under the heading "Definitions," a description of the meanings attributed to certain terms for purposes of this ISQC. These are provided to assist in the consistent application and interpretation of this ISQC, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Control,

Auditing, Review, Other Assurance, and Related Services Pronouncements published by IFAC includes the terms defined in this ISQC. (Ref: Para.A3)

### Effective Date

14. This ISQC is effective for [TBD].

### Objectives

15. The objective of:

- (a) The firm is to appoint, for an engagement subject to an engagement quality review, an individual who meets the eligibility criteria for an engagement quality reviewer; and
- (b) The engagement quality reviewer is to fulfill the responsibilities for the performance and documentation of the engagement quality review.

### Definitions

16. In this ISQC, 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 partner or other suitably qualified individual designated by the firm to be responsible for the performance of the engagement quality review. (Ref: Para. A4–A5)
- (c) Relevant ethical requirements – Ethical requirements to which the engagement quality reviewer is subject in undertaking the engagement quality review of engagements that are audits or reviews of financial statements, or other assurance or related services engagements. 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

- 17. The firm and the engagement quality reviewer shall have an understanding of this ISQC, including its application and other explanatory material, to understand, as applicable, the objectives of this ISQC and to properly apply the requirements relevant to them.
- 18. The firm or the engagement quality reviewer, as applicable, shall comply with each requirement of this ISQC relevant to them unless the requirement is not relevant in the circumstances.
- 19. The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objectives 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 relevant objective in this standard, the firm or the engagement quality

reviewer, as applicable, shall take further actions to achieve their respective objectives. Such actions shall include consideration of whether additional eligibility criteria or engagement quality review procedures to those required by this ISQC are necessary to support the achievement of the objective of this ISQC.

### **Eligibility Criteria for the Engagement Quality Reviewer**

20. The firm's policies or procedures addressing the eligibility of the engagement quality reviewer established in accordance with ISQC 1 (Revised) shall require the firm to evaluate whether the individual to be appointed as the engagement quality reviewer is eligible for that appointment by determining that the individual: (Ref: Para. A6)
- (a) Is not a member of the engagement team;
  - (b) Is a partner or other individual with the competence, capabilities and appropriate authority to evaluate, including to question, when appropriate, the significant judgments made by the engagement team and the conclusions reached thereon; (Ref: Para. A7–A11)
  - (c) Is not subject to threats to objectivity related to the engagement or the engagement team that are not at, or that have not been reduced to, an acceptable level and complies with the firm's policies or procedures that address the engagement quality reviewer's objectivity (including, when applicable, limitations on the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner on an engagement subject to the review); and (Ref: Para. A12–A16)
  - (d) Complies with:
    - (i) Relevant ethical requirements; and (Ref: Para. A17–A19)
    - (ii) When applicable, requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A20)
21. 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: (Ref: Para. A21)
- (a) Discontinue the performance of the engagement quality review; or
  - (b) Decline the appointment to perform the engagement quality review by notifying the firm so that the firm can appoint another individual who meets the eligibility requirements.
22. Individuals who assist the engagement quality reviewer, when applicable, in performing the engagement quality review shall: (Ref: Para. A22–A23)
- (a) Not be members of the engagement team;
  - (b) Have the competence and capabilities 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.

### **Performance of the Engagement Quality Review**

23. The engagement quality reviewer shall perform procedures at appropriate points in time during the engagement. The nature, timing and extent of the procedures shall provide an appropriate basis for

an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. (Ref: Para. A24–A29)

24. The procedures the engagement quality reviewer shall perform include:
- (a) Reading and understanding relevant information:
    - (i) Obtained from the engagement team about the nature and circumstances of the engagement;
    - (ii) Included, or referred to, in the practitioner’s report, including as applicable, the subject matter information;
    - (iii) Provided by the firm about the results of its monitoring and remediation activities, in particular deficiencies that may relate to, or affect, the significant judgments made, or that ought to have been made, by the engagement team on the engagement subject to the engagement quality review;
  - (b) Discussing significant matters with the engagement partner and, if applicable, other members of the engagement team;
  - (c) Based on the information obtained in (a) and (b), identifying the significant judgments made, or that ought to have been made, by the engagement team, including those related to: (Ref: Para. A27)
    - (i) The overall strategy and plan for performing the engagement; and
    - (ii) The performance of the engagement.
  - (d) Reviewing selected engagement documentation of the significant judgments made, including significant judgments made in relation to significant matters, by the engagement team and the conclusions reached thereon and evaluating: (Ref: Para. A28–A29)
    - (i) The engagement team’s basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;
    - (ii) Whether consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations; and
    - (iii) Whether the engagement documentation supports the conclusions reached;
  - (e) For audits of financial statements, reviewing whether the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. (Ref: Para. A30)
  - (f) Reviewing the final draft of the engagement report, and when applicable, the final draft of the subject matter information; and
25. The engagement quality reviewer shall evaluate whether, on or before the date of the engagement report:
- (a) The requirements of this ISQC have been fulfilled, taking into account the firm’s policies or procedures that address the requirements in this ISQC, and the objective of this ISQC has been achieved; and

- (b) There are any unresolved matters of which the engagement quality reviewer is aware that would cause the engagement quality reviewer to believe that the significant judgments made by the engagement team made and the conclusions it reached thereon were not appropriate.

## **Documentation**

26. The engagement quality reviewer shall 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, including identifying the engagement documentation reviewed, and the conclusions reached in accordance with paragraph 25. The engagement quality reviewer shall document the date of completion of the engagement quality review. (Ref: Para. A31–A33)

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## **Application and Other Explanatory Material**

### **Introduction (Ref: Para. 3)**

- A1. For audits of financial statements, ISA 220 (Revised)<sup>3</sup> establishes requirements for the engagement partner in relation to the engagement quality review, 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 cooperate with the engagement quality reviewer;
  - 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.
- A2. The firm's policies or procedures may require the engagement quality reviewer to communicate specific information that is relevant to the firm's system of quality management. The engagement quality reviewer may identify other information not specified in the firm's policies or procedures that is relevant to the firm's system of quality management, and may be necessary to communicate to the firm. The engagement quality reviewer may also identify that the firm's policies or procedures for the engagement quality review are inadequate to support the achievement of the objective of the engagement quality review and communicate this information to the firm.

### **Authority of this ISQC (Ref: Para. 13)**

- A3. The Glossary of Terms may also include descriptions of other terms found in the ISQCs to assist in common and consistent interpretation and translation.

### **Definitions (Ref: Para. 16)**

#### *Engagement Quality Reviewer*

- A4. An individual is suitably qualified when the individual fulfills the eligibility requirements in paragraph 19 of this ISQC. A suitably qualified external individual may be a partner or an employee of:

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<sup>3</sup> Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 19

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- A firm within the firm's network, which is subject to the requirements for network requirements or services in paragraphs 60–65 of ISQC 1 (Revised);
- A service provider, which is subject to the requirements for service providers in paragraphs 66–67 of ISQC 1 (Revised). For example, a service provider may be:
  - A firm outside of the firm's network;
  - A professional accountancy body whose members may perform audits or reviews of historical financial information, or other assurance or related services engagements; or
  - An organization that provides relevant quality management services.

A5. In some circumstances, an individual or a team of individuals may assist the engagement quality reviewer in performing the engagement quality review. Nevertheless, the engagement quality reviewer appointed by the firm remains responsible for the overall performance of the review.

**Eligibility of the Engagement Quality Reviewer (Ref: Para. 20)**

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 persons, including those described in paragraphs A5–A6, to perform the engagement quality review. When an external person is to be appointed to perform the engagement quality review, making relevant inquiries about the external person before making the appointment may assist the firm in obtaining the necessary information about whether the external person meets the eligibility requirements to be an engagement quality reviewer. ISQC 1 (Revised)<sup>4</sup> contains requirements that address determining that the reputation or competence and capabilities of a service provider are appropriate in the context of the service provided.

*Competence, Capabilities and Appropriate Authority (Ref: Para. 20(b))*

- A7. Competence refers to the attainment and maintenance of knowledge, skills and experience relevant to 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.

Competence may also include expertise relevant to the nature and circumstances of the engagement (e.g., expertise with respect to information technology or specialized areas of accounting or auditing).

A8. Capabilities refers to having the time and resources to perform the engagement quality review, including having the time to perform the review at appropriate points in time during the engagement.

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<sup>4</sup> Proposed ISQC 1 (Revised), paragraph 66

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- A9. The competence and capabilities needed to evaluate the significant judgments made by the engagement team and the conclusions reached thereon may be affected by factors such as:
- 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 specialized matters, or contains aspects that are specialized (e.g., in relation to an audit of financial statements there may be specialized areas of accounting that relate to the engagement).
- A10. The authority of the engagement quality reviewer to evaluate the significant judgments made by the engagement team and the conclusions reached thereon may be affected by the individual's competence and capabilities. For example, an engagement quality reviewer who lacks relevant industry experience may not possess the ability or confidence that is necessary to evaluate significant judgments made by the engagement team on a complex industry-specific matter.
- A11. Actions at the firm level may contribute to establishing the authority of the engagement quality reviewer, for example, creating a culture of respect for the engagement quality reviewer. However, 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 is within the chain of command of, or 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.

*Threats to the Objectivity of the Engagement Quality Reviewer (Ref: Para. 20(c))*

- 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 key member of the engagement team, as well as when close personal relationships are developed through long association with such personnel.
  - 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 is in the chain of command of the engagement partner).
  - A self-review or self-interest threat may arise when the engagement quality reviewer was recently a previous member of the engagement team, in particular the engagement partner.
- A13. Such threats are addressed through application of relevant ethical requirements for identifying, evaluating and addressing threats. Relevant ethical requirements may identify actions individuals are



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required to take or consider taking, for example, the IESBA Code provides requirements and guidance for identifying, evaluating and addressing intimidation threats in certain circumstances.

- A14. ISQC 1 (Revised) requires the firm to establish policies or procedures that address limitations on the eligibility of individuals to be appointed to be the engagement quality reviewers who previously served as the engagement partner on an engagement subject to review. The firm's policies or procedures may specify an appropriate cooling-off period before an individual who served as engagement partner may be appointed to be the engagement quality reviewer. Such periods may vary depending on the nature and circumstances of the engagements subject to engagement quality review. ISQC 1 (Revised) provides guidance that, in the case of an audit of the 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.
- A15. In performing the engagement quality review, the engagement quality reviewer may not make decisions for the engagement team, as such actions may create a threat to the objectivity of the engagement quality reviewer. Accordingly, ISQC 1 (Revised) requires the firm to establish policies or procedures that address 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.

**Public Sector Considerations**

- A16. In the public sector, an auditor (for example, an Auditor General, or other suitably qualified person appointed on behalf of the Auditor General) may act in a role equivalent to that of 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. 20(d)(i))*

- A17. Relevant ethical requirements, as defined in this ISQC, are ethical requirements to which the engagement quality reviewer is subject. ISQC 1 (Revised) requires the firm, its personnel and others subject to relevant ethical requirements to fulfill their responsibilities in relation to the relevant ethical requirements, including independence requirements. Relevant ethical requirements ordinarily establish the principles of professional ethics. For example, the IESBA Code sets out the fundamental principles that establish the standard of behavior expected of a professional accountant, which comprise integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. The IESBA Code also provides a conceptual framework that professional accountants are required to apply to identify, evaluate and address threats to compliance with the fundamental principles. It also addresses specific topics relevant to complying with the fundamental principles and includes requirements for independence when performing audits, reviews and other assurance engagements.
- A18. 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;

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- 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.

A19. In addition, the IESBA Code also include 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:

- The engagement partner;
- The individual appointed as the engagement quality reviewer; or
- Any key audit partner role.<sup>5</sup>

*Compliance with Law or Regulation (Ref: Para. 20(d)(ii))*

A20. 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.

*Impairment of the Engagement Quality Reviewer's Eligibility (Ref: Para. 21)*

A21. The engagement quality reviewer's ability to perform the engagement quality review may become impaired in circumstances when an individual, after being appointed as an engagement quality reviewer, no longer meets the eligibility requirements. For example, changes in the engagement circumstances may arise during the course of the engagement and as a result, the individual may no longer have the competence to perform the engagement quality review. Paragraph 43(e)(ii)(c) of ISQC 1 (Revised) requires the firm to establish policies or procedures for the replacement of the engagement quality reviewer when the reviewer's ability to perform the engagement quality review is impaired.

*Circumstances when the Engagement Quality Reviewer is Assisted by Other Individuals (Ref: Para. 22)*

A22. In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual, 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.

A23. ISQC 1 (Revised)<sup>6</sup> requires the firm to establish policies or procedures that address the appointment of engagement quality reviewers to perform engagement quality reviews, including the criteria for eligibility to perform, or participate as an assistant, in the engagement quality review that fulfill the requirements of this ISQC. When the engagement quality reviewer is assisted by other individuals in performing the engagement quality review, the engagement quality reviewer remains responsible for the performance of the engagement quality review under this ISQC. In fulfilling that responsibility, the engagement quality reviewer may direct, supervise or review the work of those individuals, to determine that their work is appropriate. In some cases, the engagement quality reviewer may be assisted by external persons. In such cases, the assistants' responsibilities, including those related to compliance with relevant ethical requirements for an engagement quality reviewer, may be set out in the engagement contract for the assistance.

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<sup>5</sup> See, for example, R540.5-9 of the IESBA Code.

<sup>6</sup> ISQC 1, paragraph 43(e)(ii)(b)

**Performance of the Engagement Quality Review (Ref: Para. 23–25)**

- A24. ISQC 1 (Revised) requires the firm to establish policies or procedures that address the responsibilities of the engagement quality reviewer in performing the engagement quality review. Such policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer to demonstrate compliance with this ISQC. The firm's policies or procedures may also emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review. The procedures performed may include review, inspection, inquiry or observation.
- A25. 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 (e.g., planning, risk assessment, performance, completion, reporting) of the engagement allows significant matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report, and may support the engagement team in its application of professional judgment and its exercise of professional skepticism, when applicable, in performing the engagement. 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).
- A26. The extent of the engagement quality reviewer's procedures may depend on, among other matters:
- The firm's policies or procedures in response to its quality risk assessments, which may indicate new or greater quality risks in an industry or in relation to certain types of transactions (e.g., those that are complex) in an engagement with such transactions.
  - Deficiencies identified in the firm's monitoring and remediation process, which may indicate areas of greater quality risk in the engagement that are still present and that may require more extensive review by the engagement quality reviewer.
  - The complexity of the engagement.
  - 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 engagement continuance process, which may indicate new risks to achieving engagement quality.
  - 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, more extensive review or referring the matter to an appropriate individual in the firm.

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- For assurance engagements, the engagement team's consideration of, and responses to, areas of risks of material misstatement in the engagement.
- A27. Significant judgments of the engagement team evaluated by the engagement quality reviewer relate to significant matters in an engagement. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:
- Matters that give rise to significant risks (as defined in ISA 315 (Revised)).<sup>7</sup>
  - Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
  - Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
  - Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter paragraph in the auditor's report.
- A28. The scope of the engagement quality reviewer's review of engagement documentation to evaluate the engagement team's significant judgments is less extensive than the engagement partner's review and evaluation of significant judgments.
- A29. The engagement team's significant judgments include such judgments made throughout the planning and performance of the engagement, including, for example, those related to:
- Preliminary engagement activities (e.g., the engagement team's consideration of risks identified through the acceptance and continuance process).
  - Composition of the engagement team (e.g., the selection of engagement team members, or the decision to involve an expert, including an external expert).
  - In an assurance engagement performed in accordance with ISAE 3000 (Revised),<sup>8</sup> 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.
  - Planning the engagement (e.g., designing the procedures to be performed, including, as applicable, determining materiality, performing risk assessments and designing responses, including planned responses to significant risks, or determining the group audit strategy).
  - Performing the engagement, such as:
    - Circumstances that cause the engagement team significant difficulty (e.g., in an audit of financial statements, those that cause the auditor significant difficulty in applying the necessary audit procedures);
    - Areas of significant attention for the engagement team or more extensive involvement by senior personnel on the engagement (e.g., areas of complexity or involving greater judgment such as the engagement team's evaluation of the work performed by experts, or, in an audit of financial statements, the engagement team's consideration of related party relationships or transactions, the evaluation of the reasonableness of certain

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<sup>7</sup> ISA 315 (Revised), paragraph 4(e)

<sup>8</sup> ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

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accounting estimates and related disclosures, the evaluation of the entity's ability to continue as a going concern, or in group audit situations, the engagement team's evaluation of the adequacy of work performed by component auditors); and

- The matters communicated with management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- The conclusions reached by the engagement team, including for example:
  - How matters affecting the overall strategy and plan for performing the engagement have been addressed (e.g., the significance and disposition of corrected and uncorrected misstatements identified during the engagement);
  - Whether appropriate revisions were made, where applicable, to the identification and assessment of the risks of material misstatement and the responses to those risks; and
  - Whether there is information indicating that the financial statements or other subject matter information could be materially misstated, or other findings or circumstances that may result in a modification to the opinion or conclusion or that are to be included in the engagement report.
- The draft engagement report, for example:
  - The engagement team's draft opinion or conclusion, as applicable, including the basis for any modification thereof, and any matters or findings communicated in the report; and
  - When ISA 701<sup>9</sup> applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated. In such cases, the engagement quality reviewer may review the descriptions of the key audit matters for consistency with the audit documentation in relation to significant judgments reviewed in the engagement quality review.

*Whether the Engagement Partner has Taken Overall Responsibility for Managing and Achieving Quality on the Audit Engagement (Ref: Para. 24(e))*

A30. ISA 220 (Revised) requires that, in taking overall responsibility for managing and achieving quality on the audit engagement, the engagement partner determines that:

- Relevant ethical requirements, including those related to independence have been fulfilled;
- 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.

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<sup>9</sup> ISA 701, *Communicating Key Audit Matters in the Auditor's Report*

**Documentation (Ref: Para. 26)**

A31. 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 documentation reviewed.

A32. ISQC 1 (Revised)<sup>10</sup> requires the firm to establish policies or procedures that address the responsibilities of the engagement quality reviewer in documenting the engagement quality review. In some circumstances, the firm's policies or procedures may prescribe matters to be documented by the engagement quality reviewer in addition to the documentation requirements in this ISQC.

A33. 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 documentation of the engagement and may note issues raised in order to document the results of the review procedures and significant matters raised during the review. 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.

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<sup>10</sup> Proposed ISQC 1 (Revised), paragraph 43(e)(iii)