

5 June 2019

Scientia Professor Simnett AO  
Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins St West  
Melbourne Victoria 8007  
AUSTRALIA

Dear Scientia Professor Simnett

**Exposure Draft – Proposed International Standard on Quality Management ISQM 2,  
Engagement Quality Reviews**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft – Proposed International Standard on Quality Management ISQM 2, Engagement Quality Reviews (ED-ISQM 2). The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG agrees with ED-ISQM 2. However, ACAG has raised some matters for the IAASB to consider so as to ensure the suite of quality management standards are coherent, the requirements are easily understood, and can be practically applied by firms of all sizes.

One of the more significant matters identified by ACAG relates to the interrelationship between the proposed suite of quality management standards and the IESBA Code (the Code), in particular the introduction and application of ‘significant public interest entity’ compared to the existing ‘public interest entity’ concept within the Code; and the requirement to rotate engagement quality reviewers already established within the Code not currently replicated in ED-ISQM 2.

ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

The attachment to this letter addresses the AASB’s additional specific requests for comments, in addition to the IAASB’s requests for comments, as outlined in ED-ISQM 2.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Andrew Richardson  
**Chairman**  
**ACAG Audit Standards Committee**

## AUASB Specific Matters for comment

***Matters for further consideration in relation to the Quality Management Standards*****1. Do you consider the definition of engagement teams has been consistently applied across the suite of Quality Management Standards?**

ACAG believes the definition of engagement team has been consistently applied across ED-220 and ED-ISQM 1, however the term is not defined in ED-ISQM 2.

ACAG acknowledges the explanatory guidance in ED-220 (paragraphs A16 to A19) defines the engagement team to include individuals from service delivery firms or network firms and excludes the engagement quality reviewer. However, this is not made clear in ED-ISQM 1. ACAG recommends that ED-ISQM 1 include the same explanatory paragraphs or reference to specific paragraphs in ED-220 when discussing the engagement team to ensure consistent application.

**2. In relation to engagement quality reviews;**

- a) **Do you agree with the definition of Engagement Quality Reviews/Reviewer and do you consider the term to be clear and capable of application in a consistent way across engagements?**
- b) **Do you agree that the engagement quality reviews should also be performed for audits of financial statements of entities that the firm determines are significant public interest entities?**
- c) **Is the term “significant public interest entity” clear and capable of application in a consistent way across engagements in Australia?**

a) ACAG agrees with the definitions of engagement quality reviews/reviewer and believes they are clear and capable of consistent application across engagements.

b) ACAG agrees in principle that engagement quality reviews should be performed for audits of ‘significant public interest entities’. ACAG acknowledges that firms may already be requiring engagement quality reviews for ‘high profile clients’, ‘greater than normal risk clients’ etc., although the criteria for appointing one may not be consistent across all engagements without guidance on what constitutes a ‘significant public interest entity’ as discussed below.

c) ACAG is concerned about the introduction of the ‘significant public interest entity’ in isolation of the definition of ‘public interest entity’ as per the IESBA Code. If this term is to be retained and drive the engagement quality reviewer’s involvement, ACAG recommends the IAASB:

- clarify the differences, if any, between a ‘public interest entity’ and a ‘significant public interest entity’; and
- provide guidance on how firms should assess and determine significant public interest entities.

Without addressing the above, ACAG does not believe firms will be capable of applying this term in a consistent manner across engagements.

**3. Do you consider that the requirements in ED-ISQM 2 are appropriate for all engagements to which the standard will apply through ED-ISQM 1 e.g. other assurance and related services engagements and not just audits of a financial report? An example of this may be the “cooling-off periods”.**

Yes, ACAG considers the requirements are appropriate.

However, we refer to our response to the IAASB’s question 4 where we believe additional guidance is required to apply the ‘cooling off periods’ requirements.

**4. Do you think the requirement for an engagement quality reviewers overall conclusion in paragraph 24 adds value to the performance of the engagement quality review as a whole?**

Yes, ACAG is supportive of an overall conclusion and believes it will add value to the performance of the engagement quality review as a whole.

**5. Do you consider that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate given the objectives and nature of the two distinct roles?**

ACAG considers that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate. ACAG does raise the need for more guidance, especially in ED-ISQM 2, to address conflicts and resolution of differences of opinion between the engagement partner and engagement quality reviewer.

Paragraph 23 of ED-ISQM 2 provides the engagement quality reviewer a notification mechanism for unresolved concerns only. This does not adequately address what steps the engagement quality reviewer or the notified individual should take, for example:

- If the matter is referred to an appropriate third party, who concludes in favour of the engagement partner and whether the engagement quality reviewer can consider the matter resolved even if they continue to have concerns about the conduct of the engagement?
- If the answer to the above question is no, can the engagement partner consider the review complete where an appropriate third party has concluded in their favour?

The above questions raise the need for additional guidance on what steps should be taken by the engagement quality reviewer and engagement partner to address instances of unresolved differences. In order to round out the process, ACAG suggests similar guidance as that in paragraphs A93 – A94 of ED-220 which provides avenues for the engagement team / engagement quality reviewer to take when differences of opinion arise.

**6. Do you think there are noted inconsistencies between EQR responsibilities to review the report/deliverable as described in paragraph 22(g) and the range of engagements to which ED-ISQM 2 applies through ED-ISQM 1 para 37(e)?**

No, ACAG does not believe there are noted inconsistencies between ED-ISQM 2 paragraph 22(g) and the range of engagements listed in ED-ISQM 1 paragraph 37(e), as:

- ED-ISQM 1 requires the appointment of the engagement quality reviewer for certain types of engagements; in contrast with
- ED-ISQM 2 that addresses the types of reports that the engagement quality reviewer should review, once appointed, for those engagements.

Notwithstanding, ACAG believes the requirements could be clarified, especially in relation to 'subject matter information' as referred to in para 22(g)(ii) of ED-ISQM 2. ACAG believes guidance would be helpful to determine:

- whether this is consistent with the term 'subject matter information' as defined by ASAE 3000 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'
- how to interpret 'and when applicable' for the engagement quality reviewer to review subject matter information i.e. in what instances would this not be applicable.

**7. Are there any modifications to the extant ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, which are still relevant to the ED-ISQM 2?**

ACAG recommends the AASB review the Aus insertions to address Australian specific requirements for continuing relevancy to ED-ISQM 2.

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

ACAG has not identified any matters for comment.

**9. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

ACAG has not identified any matters for comment.

**10. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

ACAG has not identified any matters for comment.

**11. 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 standards? If significant costs are expected, the AUASB would like to understand:**

- a) **Where those costs are likely to occur;**
- b) **The estimated extent of costs, in percentage terms (relative to audit fees); and**
- c) **Whether expected costs outweigh the benefits to the users of audit services?**

ACAG does not believe there are additional significant costs in complying with the requirements of ED-ISQM2.

5 June 2019

Mr Martin Baumann  
Chair  
International Auditing and Assurance Standards Board (IAASB)  
529 5<sup>th</sup> Avenue  
New York, New York 10017  
UNITED STATES OF AMERICA

Dear Mr Baumann

**Exposure Draft ISQM 2 – Proposed International Standard on Quality Management 2,  
Engagement Quality Reviews**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft – Proposed International Standard on Quality Management ISQM 2, Engagement Quality Reviews (ED-ISQM 2). The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG agrees with ED-ISQM 2. However, ACAG has raised some matters for the IAASB to consider so as to ensure the suite of quality management standards are coherent, the requirements are easily understood, and can be practically applied by firms of all sizes.

One of the more significant matters identified by ACAG relates to the interrelationship between the proposed suite of quality management standards and the IESBA Code (the Code), in particular the introduction and application of the ‘significant public interest entity’ compared to the existing ‘public interest entity’ concept within the Code; and the requirement to rotate engagement quality reviewers already established within the Code not currently replicated in ED-ISQM 2.

ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

The attachment to this letter addresses the IAASB’s requests for comments outlined in ED-ISQM 2.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Andrew Richardson  
**Chairman**  
**ACAG Audit Standards Committee**

## IAASB Specific Matters for comment

1. **Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?**

Yes, ACAG supports a separate standard for engagement quality reviews, in that ED-ISQM 1 deals with engagements for which an engagement quality reviewer is to be appointed, and ED-ISQM 2 deals with the remaining aspects of engagement quality reviewer's authority, eligibility and skills and capabilities.

2. **Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?**

ACAG acknowledges that there are linkages between ED-ISQM 1 and ED-ISQM 2, but they are not robust. Where requirements are linked, ACAG recommends linkages be made to specific paragraph references to enhance clarity and understandability.

Additionally, ACAG recommends better linkages be made between ED-ISQM 2 and ED-220 to address conflicts and resolution of differences of opinion between the engagement partner and engagement quality reviewer. ED-ISQM 2 paragraph 26 requires the engagement quality reviewer to notify appropriate person(s) where their concerns are not satisfactorily resolved. In order to round out the process, ACAG suggests the IAASB incorporate the guidance in paragraphs A93 – A94 of ED-220 which provides avenues for the engagement team / engagement quality reviewer to take when differences of opinion arise.

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?**

ACAG supports the change and does not foresee any adverse consequences arising from this change.

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-ISQM 2? (a) What are your views on the need for the guidance in proposed ISQM 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 ISQM 2 as opposed to the IESBA Code?**

Yes, ACAG supports the eligibility requirements as described in paragraphs 16 and 17 of ED-ISQM 2.

- a) ACAG believes additional guidance is required in relation to rotation requirements and the related ‘cooling off’ period for engagement quality reviewers to address instances where:
- an individual only performs the engagement quality reviewer role; or
  - where the engagement quality reviewer role has been performed before or after other roles, such as that of the engagement partner.

ED-ISQM 2 is silent on the maximum length of service for an engagement quality reviewer and the related ‘cooling off period’. The only reference to a ‘cooling off period’ is included in paragraph A5 and relates to when a partner of a listed entity becomes the listed entity's engagement quality reviewer. The lack of guidance in ED-ISQM 2 is inconsistent with the Code, which stipulates specific guidelines for time served and the related ‘cooling off period’, depending on type of engagement and role the individual performs on that engagement.

In relation to the type of engagement, the Code defines the term public interest entity (PIE) which attracts additional requirements given the associated risk. The terms public interest entities and significant public interest entities are referred to in the suite of quality

management standards, however are not sufficiently defined to determine how they relate to, or differ from PIEs referred to in the Code. The lack of clarity for terms that are so closely worded but which may have different meanings will cause confusion and result in misapplication.

Moreover, without additional guidance on what constitutes significant public interest entities, it will be difficult for firms to assess and determine those entities for which an engagement quality reviewer is required to be appointed.

- b) ACAG believes this additional guidance is better placed in ED-ISQM 2 as the scope of the Code expands beyond that of the engagement quality reviewer and focuses requirements for those involved with PIEs.
- c) Further to responding to the question, ACAG has concerns over the explanatory memorandum material paragraph 28 that states that there may be circumstances where no cooling-off period is necessary.

*'28. The IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm's policies or procedures may specify a different cooling-off period. The IAASB is of the view that ED-ISQM 2 provides appropriate flexibility because it places the onus on the firm to establish policies or procedures that are appropriate to address the issue.'*

ACAG does not believe there will be any instances where no cooling-off period would ever be appropriate:

- given the nature of engagements where an engagement quality reviewer is required to be appointed; and
- irrespective of the engagement, long standing associations, even for the engagement reviewer role, will give rise to familiarity and self-review threats.

**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 ISA 220 (revised)?**

ACAG supports the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures which are considered appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). ACAG recommends additional guidance on the method of resolution for unresolved quality concerns, as suggested in our response in question 2.

**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-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?**

Yes, ACAG agrees it is appropriate for the engagement quality reviewer to evaluate the teams' significant judgements and that this would require exercising professional scepticism.

The enhanced focus in the profession on the sufficiency and appropriateness of documentation by engagement teams of their exercise of professional skepticism, should also extend to that of the engagement quality reviewer.

ACAG believes that additional guidance on the nature and the extent of documentation by the engagement quality reviewer in their evaluation of the engagement team's exercise of professional scepticism would be useful.

**7. Do you agree with the enhanced documentation requirements?**

ACAG supports the enhanced documentation requirements.

**8. Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?**

Yes, ACAG believes the requirements for engagement quality reviews in ED-ISQM 2 are scalable for firms of varying size and complexity. There is flexibility in the timing and extent of procedures as well as the ability to use external services or internal/external assistants with relevant expertise.

**Other comments**

ACAG believes additional clarity would assist in the application of ED-ISQM 2 paragraphs A12 and A13:

- a) In relation to paragraph A12, ACAG is unclear why the specific public sector consideration was called out given it appears to reiterate that the requirements for the private sector would also be applicable for the public sector. If this is the case, then ACAG does not believe its inclusion is necessary. If instead the IAASB intended to address the issue of authority in the public sector context, ACAG recommends additional explanation and guidance be inserted to address this.
- b) In relation to paragraph A13, ACAG recommends the IAASB provide an example of what is intended when making the statement '*various provisions of relevant ethical requirements may only apply to individual professional accountants, such as an engagement quality reviewer, and not the firm*'.