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submitted electronically through the IAASB website

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**Re.: Exposure Draft: International Standard on Quality Management,  
Proposed International Standard on Quality Management 2,  
Engagement Quality Reviews**

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the IAASB Exposure Draft “International Standard on Quality Management, Proposed International Standard on Quality Management 2, Engagement Quality Reviews” of February 2019, hereinafter referred to as “the draft”.

We have provided our responses to the questions posed in the Consultation Paper in the Appendix to this comment letter.

However, we would like to make the following overall observations about the draft.

*Overemphasis of the role of engagement quality reviews (EQRs) in quality engagements*

In our view, the treatment of EQRs in a separate standard overemphasizes the role of EQRs in fostering quality in the performance of engagements because EQRs are only one of a number of possible responses to the risk of not achieving quality objectives (quality risks) at engagement level. Furthermore, in many cases, EQRs may not be the most appropriate or effective response to these quality risks. Furthermore, we believe that the engagement partner and engagement team remain primarily responsible for quality at engagement level

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– not the engagement quality reviewer. Setting such detailed requirements for EQRs and engagement quality control reviewers may diminish the responsibility of the engagement partner and engagement team for quality at engagement level. We have provided more details explaining our views on this matter in our response to Question 1 in the Appendix to this comment letter.

*The objective of an EQR is to improve engagement quality.*

We recognize that the objective of an EQR as written draws on the definition of an EQR in paragraph 11 (a). However, we believe that while that definition should, as written, define what an EQR is, in contrast the objective in paragraph 10 ought to explain what an EQR is for.

To this effect we believe that the objective of an EQR needs to be written in terms of contributing to the firm meeting the objective of the firm under ISQM 1 for engagements for which ISQM 1 contemplates EQRs. Writing the objective in this way would then tie the objective of an EQR to the quality of engagements.

*EQRs should be more scalable by including a consideration of quality risks and therefore focus on the more important quality risks*

We are not convinced that the proposed work effort for EQRs is proportionate because it does not focus on the more important quality risks. For example, if the judgments in an audit of the financial statements of an entity's ability to continue as a going concern represent the greatest risk to quality and an EQR is performed, then the EQR should focus on the significant judgments for this matter compared to other significant judgments. We believe that engagement quality reviewers should consider quality risks and thereby focus on the significant judgments with greater risks to engagement quality with a concomitant lesser focus on other significant judgments for which engagement quality risks are lower. This implies that an engagement quality reviewer would need to consider quality risks and then address those risks. This may mean that in some circumstances, in particular for Non-PIEs where particular quality risks gave rise to the need for an EQR, for engagement quality risks related to certain significant judgments that are considered as being acceptably low, the engagement quality reviewer may not need to address those risks.

*The term significant judgement should be defined*

The term "significant judgments" is used in the definition of an EQR in

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paragraph 11 (a) and is therefore central to the scope of an EQR. A term that has such a great impact on the scope of the EQR needs to be clearly defined and – in particular – clearly distinguished from other concepts, such as professional judgments generally (as defined in ISA 200) and significant professional judgments (as used in ISA 230). The cross-reference to ISA 220 is not particularly helpful because ISA 220 does not define “significant judgments” either.

For these reasons, we believe that the term “significant judgements” should be clearly defined in ISQM 1 and ISQM 2.

*Some of the requirements are over-engineered*

In our view, some of the requirements are over-engineered, such as paragraph 15.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack  
Executive Director

Wolfgang Böhm  
Director Assurance Standards,  
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## Appendix:

### Response to Questions Posed in the Exposure Draft

- 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?**

In our view, the treatment of EQRs in a separate standard overemphasizes the role of EQRs in fostering quality in the performance of engagements because EQRs are only one of a number of possible responses to the risk of not achieving quality objectives (quality risks) at engagement level. Furthermore, in many cases, EQRs may not be the most appropriate or effective response to these quality risks. Furthermore, we believe that the engagement partner and engagement team remain primarily responsible for quality at engagement level – not the engagement quality reviewer. Setting such detailed requirements, for EQRs and engagement quality control reviewers, that exceed the nature and extent of requirements in relation to the selection and responsibilities of the engagement partner, may diminish the responsibility of the engagement partner and engagement team for quality at engagement level.

We believe that this overemphasis of the role of EQRs in quality is misplaced because an EQR is just an additional review beyond the review process that takes place within the engagement team and therefore does not represent a measure to improve quality at source – that is, at engagement team level. It is more important for quality at engagement level to have adequate capabilities and resources within the engagement team, including an appropriate engagement partner. To use an analogy from quality management in production processes, adding an engagement quality reviewer is similar to having an additional supervisor at various points in an automobile production line, which has proven to be an inefficient and ineffective quality measure compared to having assemblers in the production line be responsible for quality at assembly.

Nevertheless, we recognize that EQRs are a proven quality measure that is recognized as such in ISQC 1, national quality control standards and in legislation in some jurisdictions and that EQRs have an important role in

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fostering quality in engagements. Our concern relates to the overemphasis of EQRs in ISQM 1 and 2 – not the fact that EQRs are addressed in these standards.

We do recognize that integrating requirements for EQRs within ISQM 1 would increase its complexity and length, whereas the draft of ISQM 2 is rather lean and focused on a specific response to quality risks. Since the draft covers both requirements for the firm and for the engagement quality control reviewer, the split between the requirements in the two standards is rather confusing. If ISQM 2 were to be retained, it would best to have all requirements addressing the firm in ISQM 1 and all requirements addressing the engagement quality control reviewer in ISQM 2.

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

As noted in our response to Question 1, since the draft covers both requirements for the firm and for the engagement quality control reviewer, the split between the requirements in the two standards is rather confusing. If ISQM 2 were to be retained, it would best to have all requirements addressing the firm in ISQM 1 and all requirements addressing the engagement quality control reviewer in ISQM 2. However, we continue to believe that a separate standard for EQRs is not needed and overemphasizes EQRs in comparison to other responses to quality risks.

**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?**

We support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer” because the emphasis is now on quality management, rather than on quality control. Hence dropping the word “control” is appropriate. We do not see any adverse consequences of changing the terminology in our jurisdiction.

**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?**

We believe that some of the requirements for eligibility are over-engineered because many different roles and responsibilities are required (we note, in particular, paragraph 15). This is particularly the case for small and medium size practices (SMPs), where there may only be very few engagements for which an EQR is required.

**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?**

Paragraph 16 of the draft requires the firm to set policies and procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer 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 (i.e., a “cooling-off period”). Paragraph A5 further explains why such limitations are required and steers firms to require at least a two-year cooling-off period. These paragraphs in connection with paragraph A4 would then effectively require a firm to seek an engagement quality reviewer external to the firm if these limitations on eligibility of engagement partners were not fulfilled.

We would like to point out that EU legislation for both public interest entities (PIEs) and non-PIEs does not require a rotation period for the engagement quality control reviewer or a cooling-off period for former engagement partners. Furthermore, although the IESBA Code of Ethics requires an engagement quality control reviewer for PIEs to rotate every seven years, the Code does not require such a cooling-off period for individuals that were previously the engagement partner on the engagement. This implies that, for example, under current EU legislation and the IESBA Code, an individual could serve for one year as an engagement partner and then another six years as the engagement quality reviewer. Under the proposal in the draft, the engagement partner would need to cool-off for two years prior to serving as the engagement quality reviewer.

In our view, the results of this requirement and its application material are disproportionate. It is precisely the competence obtained in the previous role as engagement partner that may uniquely qualify an individual to engage in quality review on an engagement. Furthermore, the views of the

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reviewer would be balanced by the views of a new engagement partner. Consequently, we believe that the IAASB is overemphasizing objectivity compared to competence for reviewers. We also note that the requirement in paragraph 16 and its application material will further limit the pool of competent individuals that would be eligible to act as engagement quality reviewers – especially for smaller practices.

**b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?**

We believe that since rotation requirements are located in the part of the IESBA Code relating to independence for audits and reviews, cooling-off periods, if any, should also be included in the Code and therefore not in ISQM 2.

**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)?**

As noted in the body of our comment letter, we do not agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures because we believe that the work effort they will cause is disproportionate due to not focusing on the more important quality risks. We believe that EQRs should also require a consideration of quality risk by focusing on the significant judgments with greater risks to engagement quality with a concomitant lesser focus on other significant judgments for which engagement quality risks are lower. This implies that an engagement quality reviewer would need to consider quality risks and then address those risks. This may mean that in some circumstances where the engagement quality risks related to certain significant judgments are considered as being acceptably low, the engagement quality reviewer may not need to address those risks.

**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 skepticism? Do you**



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

Before answering the question posed, we note that the term “significant judgments” is used in the definition of an EQR in paragraph 11 (a) and is therefore central to the scope of an EQR. A term that has such a great impact on the scope of the EQR needs to be clearly defined – and in particular – clearly distinguished from other concepts, such as professional judgments generally (as defined in ISA 200) and significant professional judgments (as used in ISA 230). The cross-reference to ISA 220 is not particularly helpful because ISA 220 does not define “significant judgments” either. For these reasons, we believe that the term “significant judgments” should be clearly defined in ISQM 1 and ISQM 2.

We do believe that when significant judgments are undertaken in an engagement by an engagement team and the engagement is an assurance engagement to which professional skepticism applies, then the engagement quality reviewer’s evaluation of those significant judgments also includes **consideration** of the appropriate exercise of professional skepticism. We do not believe that it would be appropriate to require an “evaluation” of professional skepticism” because, as defined in the IAASB Glossary of Terms, an evaluation of professional skepticism would involve an analysis of the exercise of professional skepticism, including the performance of further procedures. If professional skepticism does not apply in the engagement (e.g., non-assurance engagements, such as agreed-upon procedures engagements and compilation engagements), then no such consideration on the part of the engagement quality reviewer is required.

Since an engagement quality control reviewer is not a part of the engagement team in an assurance engagement, the engagement quality reviewer DOES NOT gather evidence to support the opinion expressed in the assurance report. Consequently, in line with the current IESBA Project on Role and Mindset Expected of Professional Accountants, exercising professional skepticism cannot be required of an engagement quality reviewer. However, the engagement quality reviewer would be expected to apply the fundamental principles of the IESBA Code of Ethics, which would include the requirements in relation to the project noted.



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

Although the documentation requirements for EQRs have been extended compared to those in ISQC 1, we believe that they are appropriate and will not cause major problems in practical implementation.

**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?**

As noted in our response to the comment letter, we are not convinced that the proposed work effort for EQRs is proportionate because it does not focus on the more important quality risks. We believe EQRs should also require a consideration of quality risk by focusing on the significant judgments with greater risks to engagement quality with a concomitant lesser focus on other significant judgments for which engagement quality risks are lower. This implies that an engagement quality reviewer would need to consider such quality risks and then address those risks. This may mean that in some circumstances where the engagement quality risks related to certain significant judgments are considered as being acceptably low, the engagement quality reviewer may not need to address those risks.