

## Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

1 July 2019

To: Thomas R. Seidenstein  
The Chairman  
International Auditing and Assurance Standards Board  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via IAASB website

### Submission on IAASB's Proposed International Standard on Quality Management 2 (ED-ISQM 2)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

We support the IAASB's efforts to continuously improve audit quality. How audit firms manage audit quality is a key component to achieving audit quality. However, as stated in our submission on ISQM 1, any changes to the process by which firms manage quality, including engagement quality reviews must be evaluated in terms of benefits delivered balanced against the costs of implementation and ongoing maintenance by firms. We are generally supportive of the proposals to clarify the role of the engagement quality reviewer and how engagement quality reviews should be performed.

### Overall comments

#### *Scalability*

As stated above, changes to the engagement quality review process need to be evaluated in terms of cost versus benefit. For SMPs (and other firms) there will be significant work effort in implementing these changes and on an ongoing basis for Engagement Quality Reviewers (EQRs) to produce the documentation required by the standard. For the changes to deliver clear benefits, there needs to be implementation guidance addressing the documentation

requirements and providing examples of how the EQR would document certain requirements (such as demonstrating their evaluation of the team's exercise of professional scepticism).

***Use of the term 'significant public interest entity'***

We do not support the introduction of this term as it is inconsistent with the IESBA's Code of Ethics for Professional Accountants (including International Independence Standards) and introduces unnecessary complexity and judgement into the determination of entities that should be subject to an engagement quality review. This will lead to divergence in practice. The IAASB should adopt the IESBA's terminology in relation to public interest entities.

Our responses to the specific questions raised in ED-ISQM 2 are enclosed in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com) and Antonis Diolas, Manager Audit and Business Law at ACCA via email; [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com)

Yours sincerely

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## Appendix A

### Responses to specific questions

- 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?**

Our stakeholders were generally supportive of separating the requirements for engagement quality reviews into a second standard.

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

Yes. However, we do not believe that ED-ISQM 1's use of the term "significant public interest entity" in paragraph 37(e)(ii) is appropriate. Our stakeholders found this term confusing as it is inconsistent with the terminology of 'public interest entity' used in the IESBA's Code of Ethics for Professional Accountants (including International Independence Standards). It was felt that all public interest entities are 'significant' and adding another category above 'public interest entity' just adds another layer of complexity and judgement which will lead to divergence in interpretation and compliance. The terminology used by the IAASB should be consistent with the IESBA terminology. There is also a lack of clarity around whether appointing an EQR is the appropriate response to risk in circumstances other than where one is required by law or due to public interest.

- 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?**

Our stakeholders were generally supportive of the change, however concerns were raised that a change in terminology will result in firms having to update documentation that may not otherwise be impacted by the new standards which will increase the work effort required to implement the standards. We understand that in some countries, this change will require updates to legislation which can be time consuming and may delay implementation.

- 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?**

We believe that it is appropriate for proposed ISQM 2 to require that ethical requirements must be complied with in the appointment of an EQR and the performance of the engagement quality review. The detail of those ethical requirements should be located in the IESBA Code, including requirements in relation to cooling-off periods required to maintain independence. We

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note that cooling off periods need to be carefully considered as they present further challenges for SMPs in managing engagement quality reviews.

### 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)?

Our stakeholders were generally supportive of the proposals. However there could be more clarification of:

- What procedures are required for other reviews such as concurring reviews
- What happens if the EQR performs the review and is not satisfied with the engagement team's work
- Consideration of how SMPs can manage the need for an EQR if there is not a suitable person within their firm due to independence considerations or due to the firm being a single person firm i.e. how do you deal with outsourcing an engagement quality review.
- How the EQR can assess the EP's time spent on the engagement and whether this was sufficient, which could be challenging in practice.

### 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?

We believe it is appropriate for the EQR to consider the engagement team's exercise of professional scepticism in undertaking the review. As regulators are often concerned with the documentation of professional scepticism, we believe that practitioners, especially SMPs would benefit from examples of how the EQR would evidence this consideration in practice. We do not believe that the standard needs to be more specific on the exercise of professional scepticism by the EQR. As we have stated in previous submissions, we believe that professional scepticism is a 'state of mind' that cannot be instilled by it being mentioned more often in standards.

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

It is useful for the standard to provide clarity about reasonable documentation of an engagement quality review. However as this is a complex role that includes evaluation of complex audit judgements, professional scepticism, and other matters, we believe that implementation support and examples will be necessary to enable practitioners to understand what level of documentation is appropriate. The EQR should be focused on performing a high quality review and if excessive time is spent on documentation, it reduces the time available for a review to be performed.

### 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?

While the concepts in the standard appear scalable, as stated above and in our submissions on proposed ISQM 1 and ISA 220, preparing documentation in relation to these standards will represent a significant work effort, particularly for SMPs. Implementation guidance and examples of documentation would assist SMPs to reduce this effort. We note that there is little

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guidance in the standard around the use of EQRs in other assurance engagements. With increasing focus on emerging forms of external reporting, more firms are likely to become involved in assurance engagements other than audits of financial statements. We encourage the IAASB to consider whether such engagements may present specific challenges for the EQR that need to be addressed either in the standard or in implementation guidance dealing with other assurance engagements.

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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 121,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

### About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 219,000 members and over 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.