

ENGAGEMENT QUALITY REVIEW—EXTRACTS FROM PROPOSED ISQM 1¹ ADDRESSING ENGAGEMENTS SUBJECT TO AN ENGAGEMENT QUALITY REVIEW (Marked)

Note to IAASB: This paper reflects matters relating to engagement quality reviews as discussed in Agenda Item 1. Paragraph 1 of **Agenda Item 1** describes how the following paragraphs have been marked from the September 2018 meeting materials. Paragraph 43(e) as shown below has been collapsed into a single requirement and the ordering of certain sub-requirements has changed but, except for the changes shown, is consistent with the version discussed by the IAASB on September 21, 2018.

Requirements

Engagement Performance

43. In designing and implementing responses to address the quality risks identified by the firm, the firm shall include the following responses that relate to engagement performance:

...

(e) Establishing policies or procedures addressing engagement quality reviews ~~regarding:~~~~(i) The scope of engagements subject to an engagement quality review, including requiring an engagement quality review~~ to be performed in accordance with ~~ISQC-ISQM 2, including requiring an engagement quality review~~ for: (Ref: Para. A100–A103A)

~~(i) a. Audits of financial statements of listed entities;~~

~~(ii) Audits of financial statements of entities that the firm determines are of significant public interest; and~~

~~(iii) e. Audits or oOther engagements, including for which:~~

~~a. An Engagements for which an engagement quality review is required by law or regulation; and/or~~

~~b. (i) Those for which tThe firm determines that an engagement quality review is an appropriate response to a quality risk, considering the reasons for the assessment given to the quality risk Audits of financial statements of entities that the firm determines are of significant public interest.~~

...

¹ Proposed ISQM (Previously International Standard on Quality Control) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Application Material

Engagement Performance

A99. **To be moved to ISQM 2** The effectiveness of the engagement quality review in addressing quality risks is enhanced in circumstances when the firm has a culture that promotes a commitment to quality in the conduct of engagements. Such a culture may be created by:

- Assigning responsibility for the oversight of the engagement quality review process to a senior individual within the firm;
- Allocating appropriate resources for the performance of engagement quality reviews;
- Emphasizing the importance of the engagement quality review;
- Promoting personal characteristics essential to quality that include respect for the engagement quality reviewer and a responsible attitude to matters raised by the engagement quality reviewer; and
- Establishing policies or procedures addressing differences of opinion and encouraging appropriate discussion between the engagement quality reviewer and the engagement partner or the engagement team throughout the engagement.

~~Scope of Engagements Subject to an Engagement Quality Review (Ref: Para. 43(e)(ii))~~

A100. ~~Other than listed entities, e~~Entities that ~~the firm may determine to may~~ be of significant public interest ~~may~~ include entities such as financial institutions (e.g., certain banks, insurance companies, and pension funds), and other entities such as certain charities. In determining whether an entity is of significant public interest, ~~the firm may matters taken~~ into account ~~include~~, for example, the number and range of stakeholders and the nature and size of the business. The firm also may consider the relative significance of factors such as these in the context of the jurisdiction or region in which the entity operates.

A100A. Law or regulation may require an engagement quality review ~~for engagements other than audits of listed entities, for example, audits of financial statements of to be performed for engagements for~~ entities that:

- Are characterized in law or regulation as public interest entities;
- Operate in the public sector or which are recipients of government funding;
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds);
- Meet an asset threshold determined by law or regulation; or
- Are under ~~judicial the~~ management ~~of a court or judicial process (e.g., liquidation)~~.

A101. ~~The firm may determine that~~ Examples of audits or other engagements for which the firm may determine that an engagement quality review is an appropriate response to ~~an identified and assessed a~~ quality risk ~~for other engagements because of the significance of the effect of the quality risk related to~~

~~inappropriate judgments being made or inappropriate conclusions being reached on the achievement of the quality objectives. Examples of such engagements or classes of engagements include those:~~

- ~~That involve a high level of complexity or judgment~~ ~~or where previous issues have been encountered on the engagement~~, for example ~~audits~~:
 - ~~Audits of financial statements for entities~~ ~~For entities~~ operating in industries that involve making accounting estimates with a high degree of estimation uncertainty (e.g., financial institutions, extractive industries), ~~or for which~~ -
 - ~~With a history of misstatements or deficiencies in internal controls, significant internal or external inspection findings, a material restatement of comparative information in the financial statements or an auditor's report that required reissuance.~~
 - ~~For entities in which there are~~ events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.
 - An assurance engagement that involves significant judgment by the practitioner in measuring the underlying subject matter (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- ~~Where previous issues have been encountered on the engagement, for example, engagements with a history of misstatements or deficiencies in internal control, recurring internal or external inspection findings, or a material restatement of comparative information in the financial statements.~~
- ~~For which there are~~ unusual circumstances, are identified during the firm's acceptance and continuance of client relationships and specific engagements which may be identified as part of the firm's acceptance and continuance of client relationships process or through the firm's monitoring of its system of quality management (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- For which assurance is provided on financial or non-financial information that is expected to be included in a regulatory filing, or that may involve a higher degree of risk, such as pro forma financial information to be included in a prospectus.
- Engagements identified through the firm's monitoring of its system of quality management (e.g., audit engagements in a particular industry for which issues were identified, or engagements for entities that have been the subject of communications from a securities or prudential regulator).

A102. The firm's responses to a quality risk may include forms of engagement reviews that are not engagement quality reviews, for example, reviews of the audit engagement team's procedures on significant risks or reviews of certain matters by individuals within the firm who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review to appropriately address the quality risks.

~~A102A. [Previously part of A102] However, there may also be circumstances where~~ In some cases, due to the nature and circumstances of the engagements performed by the firm, there are ~~may be~~ no engagements for which an engagement quality review is ~~is an appropriate response~~ required to be performed, or for which the firm would determine that an engagement quality review would be an appropriate response to a quality risk, such as ~~which~~ may be the case when a firm performs only related services engagements.

Considerations Specific to Public Sector Audit Organizations

A103. ~~Engagements for p~~Public sector entities may be of significant public interest due to the range of ~~such entities~~their stakeholders, ~~and the nature of the services they provide. In addition to the f~~Factors for to consider in determining whether ~~an entity may be of significant public interest in paragraph A100,~~a public sector ~~entities~~entity that may be of significant public interest may include the nature of the entity and the financial information that is the subject of the engagement (e.g., whether the entity is a national, regional or local government or whether an opinion is being expressed on the entire entity or only certain units). Other factors to consider may include whether the entity is a ~~governments (e.g., audits of the financial statements of the whole of government reporting entity),~~corporations that ~~are is~~ state owned or ~~these~~in which the state has a controlling stake or a stake with significant influence, ~~and~~larger public sector entities may be determined to be of significant public interest due to their social or economic influence on the community or region in which the entity operates~~utilities~~. By contrast, ~~smaller public sector entities, such as certain municipalities or public hospitals, may be inherently less subject to public interest considerations.~~

A103A. [Previously part of A103] The firm may determine that an engagement quality review is an appropriate response to a quality risk for engagements in the public sector for which ~~In some cases, laws or regulations, such as those~~ establishes additional~~ing oversight or reporting requirements, may be relevant in determining whether a public sector entity is of significant public interest. For example, in some jurisdictions the auditor may be required to provide a comprehensive assessment of compliance with law, regulation or other authority, and prevention and detection of fraud and corruption (e.g., a separate report on instances of non-compliance to the legislature or other governing body or communicating such instances in the auditor's report).~~