EXTRACTS OF ISQC 1 ADDRESSING THE SCOPE OF ENGAGEMENTS SUBJECT TO AN ENGAGEMENT QUALITY REVIEW

Note to IAASB: The proposed revisions below are in response to the Board’s discussions in Wednesday’s plenary session and to written comments received.

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 2 for: (Ref: Para. A100–A1032)

a. All audits of financial statements of listed entities and of other entities that are of significant public interest;

b. Engagements for which an engagement quality review is required by law or regulation; and

c. Other engagements or classes of engagements for which the firm has determined that an engagement quality review is an appropriate response to a quality risk identified by the firm because of the reasons for the assessment given to the quality risk or for other reason(s).

Other engagements, including:

(i) Those for which the firm determines an engagement quality review is an appropriate response to a quality risk; or

(ii) Audits of financial statements of entities that the firm determines are of significant public interest. …

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Application Material

Engagement Performance

…

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

A100. Other than listed entities, entities that 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 take into account, for example, have a large number and wide range of stakeholders
The nature and size of the business. The firm also may take into account the relative significance of factors such as these in the context of the jurisdiction or region in which the entity operates, are significant due to their nature and size of the business (e.g., financial institutions such as banks, insurance companies, and pension funds).

Considerations Specific to Public Sector Audit Organizations

A103. Engagements for public sector entities may also have been of significant public interest due to the range of such entities’ stakeholders. In addition to the factors for determining whether an entity may be of significant public interest in paragraph A100, public sector entities that may be of significant public interest may include governments (e.g., audits of the financial statements of the whole of government reporting entity), state-owned corporations that are state owned or those in which the state has a controlling stake or a stake with significant influence, beneficiaries of public funding and larger public utilities) or the size or complexity of the entity. Ongoing transformations within the public sector may also give rise to new types of entities that have significant public interest. By contrast, smaller public sector entities, such as certain municipalities or public hospitals, may be inherently less subject to public interest considerations. In some cases, laws or regulations, such as those establishing oversight or reporting requirements, may be relevant in determining whether a public sector entity is of significant public interest.