Engagement Quality Review

Option A

Note to IAASB:

- This paper is to be read in conjunction with the paper on Option B.
- Option A includes all requirements for firm policies or procedures in ISQC 1 and has all the EQ reviewer responsibilities in ISQC 2.
- This paper includes relevant extracts from ISQC 1 and 2 to illustrate in a basic manner how this option will work. It has been prepared on a rapid basis and does not reflect other changes in response to the Board discussion on Wednesday. The Task Force also notes that improvements to the wording and structure will be made as the Task Force further discuss both standards.

Matter for IAASB Consideration

- The Board is asked to focus on the explanation of the pros and cons (or consequences) for each option (A and B) and to express a preference for an option.

Location of Material *(paragraph numbers reflected hereunder refer to the Board meeting posted papers)*

ISQC 1	ISQC 2
• Firm policies or procedures on: o Scope (para. 43(e)(i)) o Appointment (incl. eligibility) (para. 43(e)(ii)) o Responsibilities of EQ reviewer (para. 43(e)(iii)) o Responsibilities of EP in relation to EQ reviews (para. 43(e)(iv)) o Discussions that lead to an objectivity threat (para. 43(e)(v)) o Communication of responsibilities (para. 43(e)(vi)) • **Firm policies or procedures on:** o **Detailed eligibility criteria (para. 20)** • **Eligibility of assistants (para. 22)**	• Impairment of eligibility (para. 21) • Performance of EQ review (para. 23-25) • Documentation of EQ review (para. 26)

Pros and Cons of Option A

Pros	Cons
1. Avoids two-part objective; firm and EQ review responsibilities are in their own documents. 2. Firm responsibilities to establish policies or procedures related to engagement quality reviews are all in ISQC 1. Responsibilities of the engagement quality reviewer are all in ISQC 2.	1. EQ reviewer responsibilities are split between ISQC 1 and ISQC 2. 2. ISQC 1 will be more overwhelmed by the volume of detailed EQ review material, which is only one response to quality risks. 3. May be harder for SMPs to use because both standards need to be read together to get a complete picture of EQ review requirements. 4. More complex for users of the standards to apply.

ISQC 1 – Illustrative Extracts

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 for: (Ref: Para. A100–A102)

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).

(ii) ~~The appointment of engagement quality reviewers to perform engagement quality reviews, including:~~

~~a.~~ The assignment of responsibility for the appointment of engagement quality reviewers to an individual with the competence, capabilities, appropriate authority within the firm and objectivity, needed to assume the responsibility; (Ref: Para. A104)

(iii) [Moved from ISQC2.20 – level of numbering and lead-in changed]~~b.~~ The appointment of an individual to perform the engagement quality review who:

a. Is not a member of the engagement team;

b. Is a partner or other individual with the competence, capabilities and appropriate authority to evaluate, including to question, when appropriate, the significant judgments made by the engagement team and the conclusions reached thereon; (Ref: Para. A7–A11)

c. Is not subject to threats to objectivity related to the engagement or the engagement team that are not at, or that have not been reduced to, an acceptable level and complies with the firm's policies or procedures that address the engagement quality reviewer's objectivity (including, when applicable, limitations on the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner on an engagement subject to the review); and (Ref: Para. A12–A16)

d. Complies with:

(i) Relevant ethical requirements; and (Ref: Para. A17–A19)

(ii) When applicable, requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A20)

(iv) ~~c.~~ The replacement of the engagement quality reviewer when the reviewer's ability to perform the engagement quality review is impaired. (Ref: Para. A106D)

(v) [Moved from ISQC 2.22] The ~~firm and the engagement quality reviewer shall determine that~~ assignment of any individuals to assist~~ing~~ the engagement quality reviewer in performing the engagement quality review ~~arewho assist the engagement quality reviewer, when applicable, in performing the engagement quality review shall:~~ who (Ref: Para. A22–A23)

~~(~~a.~~)~~ Are n~~N~~ot ~~be~~ members of the engagement team;

~~(~~b.~~)~~ Have the competence and capabilities to perform the duties assigned to them; and

~~(~~c.~~)~~ Comply with relevant ethical requirements and, if applicable, the requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer.

~~b. The criteria for eligibility to perform, or participate as an assistant in, the engagement quality review that fulfill the requirements in ISQC 2,[1] including limitations on the eligibility of individuals to be engagement quality reviewers who previously served as engagement partner on the engagement subject to the review; and (Ref: Para. A105–A106C)~~

(vi~~ii~~) The responsibilities of the engagement quality reviewer in performing and documenting the engagement quality review that fulfill the requirements of ISQC 2.[2]

~~[1] Proposed ISQC 2, paragraphs 20 and 22~~

~~[2] Proposed ISQC 2, paragraphs 23–26~~

(~~i~~vii) The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review. (Ref: Para. A108–A108A)

(viii) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the objectivity of the engagement quality reviewer. (Ref: Para. A109)

(~~vi~~ix) Communication of responsibilities for engagement quality reviews to, as applicable:

a. Individuals involved in appointing engagement quality reviewers;

b. Engagement quality reviewers and individuals who assist engagement quality reviewers in performing such reviews; and

c. Engagement partners and members of engagement teams on engagements subject to engagement quality review.

ISQC 2 – Selected Requirements Only

Requirements

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Impairment of the Eligibility ~~Criteria for~~of the Engagement Quality Reviewer

~~20.~~ [Moved to ISQC 1.43(e)(iii)]

21. When the engagement quality reviewer is, or becomes, aware of circumstances that impair the engagement quality reviewer's eligibility to be an engagement quality reviewer,[3] the engagement quality reviewer shall: (Ref: Para. A21)

(a) Discontinue the performance of the engagement quality review; or

(b) Decline the appointment to perform the engagement quality review by notifying the firm so that the firm can appoint another individual who meets the eligibility requirements.

~~22.~~ [Moved to ISQC 1.43(e)(v)]

Performance of the Engagement Quality Review

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[3] ISQC 1, paragraph 43(e)(iii)