



# Proposed ISQM 2, *Engagement Quality Reviews*

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IAASB CAG Meeting

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Agenda Item G



International Auditing  
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Standards Board

# Introduction

- The objectives of this session are to obtain Representatives' views on the ISQM 2 Task Force's (Task Force) proposed revisions relating to:
  - (a) Engagements subject to an engagement quality (EQ) review in proposed ISQM 1
  - (b) The objectivity of the EQ reviewer, including a mandatory cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner, in proposed ISQM 2

# Scope of Engagements Subject to an EQ Review

## Task Force's Proposed Revisions: (see *Section I of Agenda Item G.2*)

- **Absorb separate category** for engagements subject to an EQ review 'due to the nature and circumstances of the engagement or the entity' (i.e., 4<sup>th</sup> category) into the broader category of engagements for which the firm determines an EQ review is 'an appropriate response to assessed quality risks' (i.e., 3<sup>rd</sup> category)
- **Align** the wording and structure of the related application material with proposed ISQM 1

## Scope of Engagements Subject to an EQ Review (Cont.)

41A. In designing and implementing responses, the firm shall include the following responses in accordance with paragraph 22F: (Ref: Para. A153A)

...

- (e) The firm establishes policies or procedures addressing engagement quality reviews in accordance with proposed ISQM 2, and requiring an engagement quality review for:
  - (i) Audits of financial statements of listed entities;
  - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A153H)
  - (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to assessed quality risks relating to the engagement performance quality objectives. (Ref: Para. A153I-A153K)

# Scope of Engagements Subject to an EQ Review (Cont.)

## Matter for IAASB CAG Consideration

- 1. What are the Representatives' views on the revised requirements and application material relating to the scope of engagements subject to an EQ review, as presented in **Agenda Item G.3**?*

# IESBA Coordination Update on EQ Reviewer Objectivity

- New IESBA Exposure Draft (ED), *Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers*, approved on EQ reviewer objectivity:
  - Unanimously approved the project proposal and ED to change Section 120 of the IESBA Code to address the EQ reviewer objectivity
  - Released the ED on January 30, 2020 for a 45-day accelerated consultation period
  - Comments on the ED are requested by March 16, 2020
  - Intent is for the IESBA to be in a position to adopt a final pronouncement in September 2020

## IESBA Coordination Update on EQ Reviewer Objectivity (Cont.)

- Proposed adding application material at the end of Section 120 of the IESBA Code to describe:

### **Section 120 The Conceptual Framework**

#### *Engagement Quality Reviews*

- **120.14 A2** – Threats to compliance with the fundamental principles that may be created when an individual is appointed EQ reviewer immediately after having served on the audit engagement team
- **120.14 A3** – The factors that are relevant in evaluating the level of such threats
- **120.14 A4** – Examples of actions that might be safeguards to address the threats

# Objectivity and Cooling-off Period

## **Task Force's Proposed Revisions:** *(see Section II-B of Agenda Item 8 of the December 2019 IAASB meeting)*

- Specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of EQ reviewer
- Apply such requirement to all engagements for which an EQ review is performed
- Revise application material supporting the requirement in paragraph 16A
- Coordinate with and obtain feedback from IESBA Representatives and Staff



## Objectivity and Cooling-off Period (Cont.)

16A. The firm's policies or procedures established in accordance with paragraph 16(b) shall also address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer. (Ref: Para. A17A–A17B)

## Objectivity and Cooling-off Period (Cont.)

### Matters for IAASB CAG Consideration

2. *What are the Representatives' views on the revised requirements and application material relating to objectivity, including a mandatory cooling-off period, as presented in paragraphs 16A and A17A-A17B of **Agenda Item G.4**?*

## IAASB Interaction with the IAASB CAG on Draft ISQM 2

### Matters for IAASB CAG Consideration

3. *Representatives are asked whether there are any other matters that should be considered by the Board before finalizing proposed ISQM 2.*



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