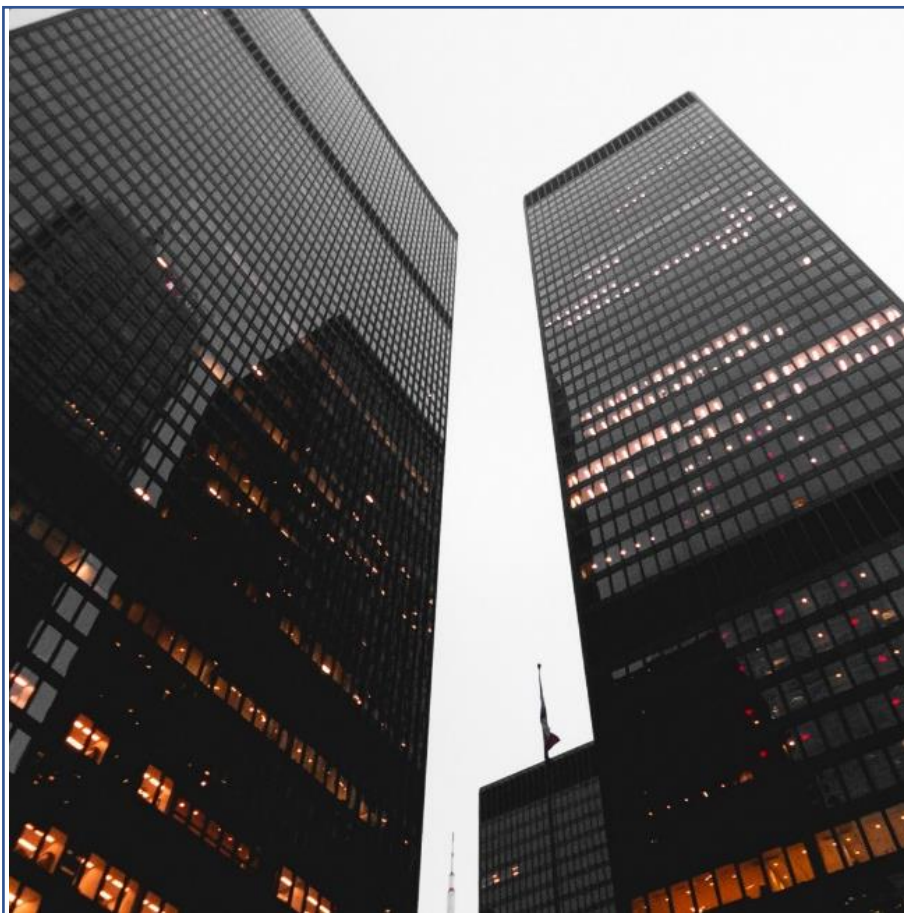


# Newsletter

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## In this issue

The International Auditing and Assurance Standards Board issued International Standard on Quality Management (ISQM) 2 – Engagement Quality Reviews, that deals with the appointment and eligibility of the engagement quality reviewer, and the engagement quality reviewer’s responsibilities relating to the performance and documentation of an engagement quality review.

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## INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 2, ENGAGEMENT QUALITY REVIEWS

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### BACKGROUND

International Standard on Quality Management (ISQM) 1 addresses the scope of engagements subject to an EQ review. The performance of an EQ review is undertaken at the engagement level by the EQ reviewer on behalf of the firm. Accordingly, ISQM 2, Engagement Quality Reviews, addresses:

- The appointment and eligibility of the EQ reviewer; and
- The EQ reviewer's responsibilities relating to the performance and documentation of an EQ review.

### EFFECTIVE DATE

ISQM 2 is effective for:

- Audits and reviews of financial statements for periods beginning on or after **December 15, 2022**; and
- Other assurance and related services engagements beginning on or after **December 15, 2022**.

### OBJECTIVE

ISQM 2 is a unique standard because it addresses the responsibilities of multiple parties (i.e., the firm and EQ reviewer). However, since the EQ reviewer is acting on behalf of the firm, the objective of the standard is framed as the objective of the firm.

Accordingly, the objective of the standard includes a reference to the EQ review being carried out by an eligible individual appointed by the firm to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

### RELATIONSHIP BETWEEN ISQM 1 AND ISQM 2

ISQM 1 requires firms to establish quality objectives, identify and assess quality risks, and design and implement responses.

The specified responses in ISQM 1 include establishing policies or procedures addressing EQ reviews in accordance with ISQM 2, and requiring an EQ review for the following categories of engagements:

- audits of financial statements of listed entities,
- audits or other engagements for which an EQ review is required by law or regulation, and
- audits or other engagements for which the firm determines that an EQ review is an appropriate response to address one or more quality risk/s.

In cases where an engagement falls under any of the three (3) categories mentioned, ISQM 2 will apply with respect to the appointment and eligibility of the EQ reviewer, and performance and documentation of the EQ review.

## REQUIREMENTS

The following are the requirements in **applying and complying with relevant requirements**:

- The firm and the EQ reviewer shall have an understanding of ISQM 2, including the application and other explanatory material, to understand the objective of ISQM 2 and to properly apply the requirements relevant to them.
- The firm or the EQ reviewer, as applicable, shall comply with each requirement of ISQM 2, unless the requirement is not relevant in the circumstances of the engagement.
- The proper application of the requirements is expected to provide a sufficient basis for the achievement of the objective of ISQM 2. However, if the firm or the EQ reviewer determines that the application of the relevant requirements does not provide a sufficient basis for the achievement of the objective of ISQM 2, the firm, or the EQ reviewer, as applicable, shall take further actions to achieve the objective.

## SIGNIFICANT JUDGMENTS AND SIGNIFICANT MATTERS

Extant ISQC 1 requires the EQ reviewer to:

- 1) discuss significant matters with the engagement partner;
- 2) review selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
- 3) evaluate the conclusions reached in formulating the report and consider whether the proposed report is appropriate.

Paragraphs 25A – 25C of ISQM 2 expands these provisions by requiring the EQ reviewer to:

- Read, and obtain an understanding of, information communicated by:
  1. the engagement team regarding the nature and circumstances of the engagement and the entity; and
  2. the firm related to the firm's monitoring and remediation process, in particular identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team.
- Discuss with the engagement partner and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing and reporting on the engagement.
- Based on information obtained and discussions made above, review selected engagement documentation relating to the significant judgments made by the engagement team and evaluate:
  1. the basis for making those significant judgments, including, when applicable to the type of engagement, the exercise of professional skepticism by the engagement team;
  2. whether the engagement documentation supports the conclusions reached; and
  3. whether the conclusions reached are appropriate.

The discussion with the engagement partner (or other engagement team members, if applicable), along with the information obtained from the engagement team about the nature and circumstances of the entity, will enable the EQ reviewer to become aware of the areas for which significant judgments would have been made.

Obtaining an understanding of information communicated by the engagement team and the firm may assist the EQ reviewer in understanding the significant judgments that may be expected for the engagement. Based on that information, the EQ reviewer reviews selected engagement documentation in support of those significant judgments.

## ELIGIBILITY CRITERIA FOR THE ENGAGEMENT QUALITY REVIEWER

- Competence and Capabilities, Including Sufficient Time

ISQM 2 expands the eligibility requirements and describes competence and capabilities of the EQ reviewer in a manner similar to other roles described in ISQM 1 that focus on technical qualifications, including necessary experience and authority, and maintaining the reviewer's objectivity.

- Appropriate Authority

ISQM 2 highlights that the firm's culture can enhance the authority of the EQ reviewer by creating a culture of respect for the role of the EQ reviewer, which also reduces the likelihood that the EQ reviewer is inappropriately influenced in a way that would compromise the reviewer's evaluation of significant judgments made by the engagement team. It further notes that the firm's policies or procedures addressing differences of opinion may also enhance the authority of the EQ reviewer by providing a mechanism for the EQ reviewer to resolve issues when differences of opinion arise.

- Relevant Ethical Requirements, Including Objectivity

A requirement for firms to establish policies and procedures designed to maintain the objectivity of the EQ reviewer.

- Cooling-Off Period for an Individual After Previously Serving as the Engagement Partner

A new requirement for the firm's policies or procedures to specify a cooling-off period of two (2) years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of the EQ reviewer.

- Law or Regulation Relevant to the Eligibility of the EQ Reviewer

A new explicit requirement that the firm's policies or procedures require that the EQ reviewer comply with provisions of law and regulation, if any, that are relevant to the eligibility of the EQ reviewer.

## EFFECT OF CHANGES

The requirements for EQ reviews currently reside in extant ISQC 1 and ISA 220. ISQM 2 replaces the extant provisions relating to EQ reviews in ISQC 1 and ISA 220.

Having a separate standard for EQ reviews provides a number of benefits, including:

- a) Placing emphasis on the importance of the EQ review;
- b) Enhancing the robustness of the requirements for the eligibility of EQ reviewers and the performance and documentation of the review;
- c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the EQ reviewer; and
- d) Increasing the scalability of ISQM 1 because there may be cases when a firm may determine that there are no audits or other engagements for which an EQ review is an appropriate response to address one or more quality risk(s).

Sources:

[International Standard on Quality Management \(ISQM\) 2, Engagement Quality Reviews](#)

[Introduction to International Standard on Quality Management \(ISQM\) 2, Fact sheet](#)

[FIRST TIME IMPLEMENTATION GUIDE - International Standard on Quality Management \(ISQM\) 2, Engagement Quality Reviews](#)

### **Our View:**

*The development of a separate standard for EQ reviews highlights the significance of the EQ review and enhances its effectiveness. This will enable sole practitioners or audit firms to appoint the most qualified individual to carry out the EQ review and establish the EQ reviewer's responsibilities. As we apply this to our engagements, we safeguard the public interest while upholding our commitment to quality.*

*Long-term association with an audit or assurance client may pose a threat to independence, particularly self-interest and self-review threat. The specific guidance in ISQM 2 regarding the cooling-off period before the engagement partner can assume the role of EQ reviewer assists in safeguarding such threats that could jeopardize a professional accountant's adherence to the fundamental principles.*

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Comments and suggestions are welcome.

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