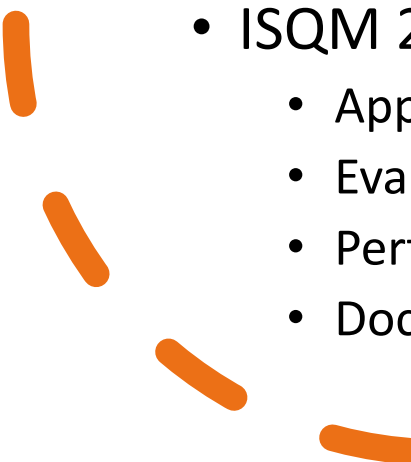


ISQM 2 Engagement Quality Reviews






Technical overview: Agenda

- When is an engagement quality review required?
 - ISQM 1 response to a risk
 - What is an engagement quality review?
 - EQR vs Independent review of a file
 - What are the requirements when an engagement quality review is performed?
 - ISQM 2 requirements
 - Appointing the reviewer
 - Evaluating the reviewer
 - Performing the review
 - Documentation
- 



ISQM 1 vs ISQM 2

- Engagement quality reviews form part of the firm's system of quality management:
 - ISQM 1 deals with the firm's responsibility to establish policies or procedures addressing **engagements** that are required to be subject to engagement quality reviews
 - ISQM 2 deals with the **appointment** and **eligibility** of the engagement quality reviewer, and the **performance** and **documentation** of the engagement quality review (ISQM 1.2)
- 

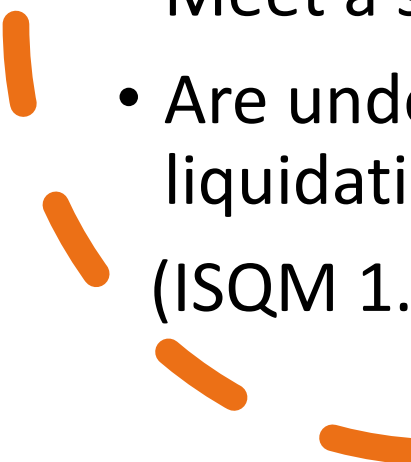
Requirement to perform EQR

- An EQR is a firm-level response to an assessed quality risk that is implemented by the engagement quality reviewer on behalf of the firm
 - Audits of financial statements of listed entities
 - Audits or other engagements for which an engagement quality review is required by law or regulation
 - Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s)
- (ISQM 1.34(f) – specified response from standard)



Law or regulation requiring EQR

- Public interest entities as defined in a particular jurisdiction
- Operate in the public sector or which are recipients of government funding, or entities with public accountability
- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds)
- Meet a specified asset threshold
- Are under the management of a court or judicial process (e.g., liquidation)



(ISQM 1.A133)

Public Interest Entities

IFAC/IESBA Code


- A publicly traded entity
- An entity one of whose main functions is to take deposits from the public
- An entity one of whose main functions is to provide insurance to the public
- An entity defined as PIE jurisdictionally **
- An entity for which the audit is required to be conducted in compliance with the same independence requirements that apply to the audit of listed entities – Jurisdictionally
- Other entities based on:
 - Business activities
 - Subject to regulatory supervision
 - Size
 - Importance of the entity to the sector in which it operates
 - Number and nature of stakeholders
 - Potential systemic impact on other sectors and the economy

IRBA Code

- Same requirements as IESBA code but:
 - Nature of Business
 - **Number of equity / debt holders**
 - Size
 - **Number and nature of stakeholders**
 - **Potential systemic impact on other sectors and the economy**
 - **List provided in IRBA code R400.8b SA**

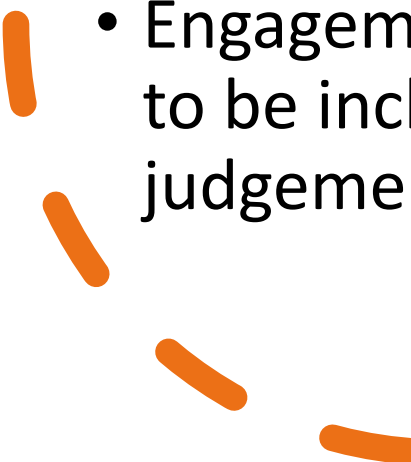


Appropriate response to risk assessment

- Unable to withdraw from engagement where the firm is aware of information that would have caused the firm to decline
 - Engagements involving a high level of complexity or judgement
 - Industry with estimates with high degree of estimation uncertainty
 - Uncertainties that cast significant doubt on going concern
 - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria
- 




Appropriate response to risk assessment

- Engagements with recurring inspection findings, unremedied significant deficiencies in controls or material restatement of comparatives
 - Unusual circumstances have been identified during acceptance process
 - Engagements that involve reporting on information that is expected to be included in a regulatory filing – involve higher degree of judgement, e.g., pro-forma information in a prospectus
- 



Appropriate response to risk assessment

- Entities in emerging industries – no previous experience
 - Entities where concerns were expressed by securities or prudential regulators
 - Non-PIE clients that may have public interest or public liability
 - Hold significant amount of assets in fiduciary capacity
 - High public profile
 - Large number of wide stakeholders
- 

What is an EQR?

- Objective evaluation of the significant judgments made by the engagement team, and the conclusions reached thereon (ISQM 1.16d)
- To be completed on or before the date of the engagement report – NB!!
- Firm may, as a risk response, require a review by an APPROPRIATE REVIEWER
 - This is NOT an EQR
 - May be for ethical reasons or significant risks or technical expertise reasons
 - Can be done in addition to EQR
 - ISQM 2 will NOT be applicable in this instance

ISQM 2 requirements



Appointment of
Engagement
Quality Reviewer

Performance of
Engagement
Quality Review





Documentation

Engagement Quality Reviewer

- Engagement quality reviewer: A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review (ISQM 1.16e)
 - May not be a member of the engagement team
 - Firm to establish a specified cooling-off period during which the engagement partner is precluded from being appointed as the EQR (ISQM 2.19)
 - Listed entities – 2 years
 - Other audits – firm to decide
 - Code has different cooling off period



Eligibility of Engagement Quality Reviewers

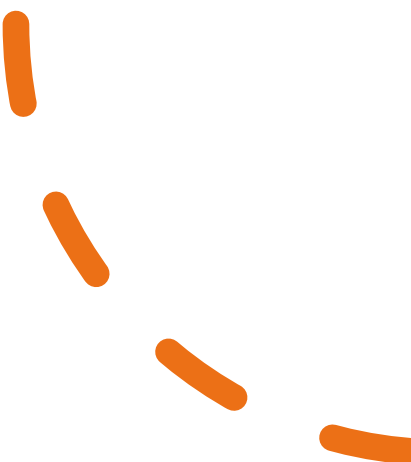
- Must have the competence and capabilities, including sufficient time, and the appropriate authority
 - Comply with relevant ethical requirements so that threats to objectivity are eliminated or reduced to an acceptable level
 - Comply with requirements of law and regulation that are relevant to the eligibility of the engagement quality reviewer (local requirements)
 - Same apply to individuals who assist the EQR
 - ISQM 2.18
- 
- 
- 
- 

Performance of the Engagement Quality Review

- Read and understand information:
 - From engagement team - nature and circumstances of engagement
 - From firm - results of monitoring and remediation
- Discuss significant matters and judgements with the engagement partner and other members of the engagement team
- Identify areas involving significant judgments made by the engagement team – scope of review

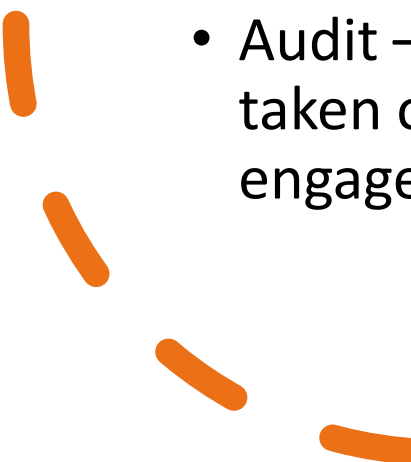


Performance of the Engagement Quality Review - Scope

- Review selected engagement documentation and evaluate:
 - Basis for making significant judgments, including the appropriate exercise of professional skepticism
 - Whether the engagement documentation supports the conclusions reached
 - Whether the conclusions reached are appropriate
- 

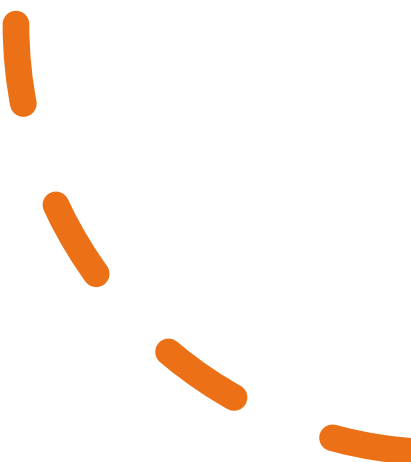


Performance of the Engagement Quality Review - Scope

- Regardless of documentation selected for review, the reviewer **MUST** evaluate the following:
 - Audit – The basis for determination that independence requirements have been satisfied
 - Appropriate consultation has taken place and the conclusions arising from those consultations
 - Audit – The basis for the engagement partner's conclusion that they have taken overall responsibility for managing and achieving quality on the audit engagement
- 

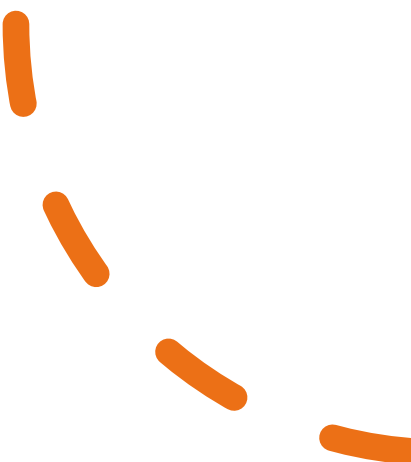


Performance of the Engagement Quality Review - Scope

- The reviewer MUST review:
 - Audit – Financial statements, auditor's report and a description of the key audit matters
 - Independent review – Financial statements and the report thereon
 - Other services – Engagement report and the subject matter information
- 



Performance of the Engagement Quality Review - Outcome

- If EQR raised concerns that significant judgments and conclusions are not appropriate, to notify the engagement partner
 - If concerns not resolved, notify an appropriate individual in the firm
 - If the reviewer determines that requirements have been fulfilled, and the EQR is complete, notify the engagement partner
- 

Documentation

- The engagement quality reviewer must take responsibility for documentation of the EQR
- Documentation must be included with the engagement documentation
 - Will the EQR use their own templates?
 - Will the firm provide the templates?

Documentation

- Documentation must:
 - Enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of the procedures performed by the engagement quality reviewer
- Include:
 - The names of the engagement quality reviewer and individuals who assisted
 - An identification of the engagement documentation reviewed
 - Notification that requirements have been fulfilled
 - Notification that EQR is complete
 - Date of completion