

1 July 2019

Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

Dear Willie,

IAASB Exposure Draft –ISQM 2, Engagement Quality Reviews

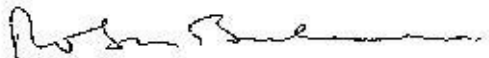
Thank you for the opportunity to comment on this Exposure draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the explanatory memorandum in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

The NZAuASB is concerned that the IAASB has extended well beyond its mandate in establishing ethical provisions in the proposed ED. Further, the NZAuASB is concerned that the IAASB's interpretation of the IESBA long association provisions (1) are inconsistent with those provisions and (2) establish de facto requirements. The NZAuASB is strongly opposed to the inclusion of this guidance in the final ISQM 2 and urges the IAASB to leave the application of the IESBA Code to the IESBA to develop guidance as appropriate.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Robert Buchanan
Chairman

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Submission of the New Zealand Auditing and Assurance Standards Board

IAASB Exposure Draft – ISQM 2

I Schedule of Responses to the IAASB’s Specific Questions

1. Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

Response:

The NZAuASB is supportive of a separate standard for engagement quality reviews and agrees that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews.

2. Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Response:

Yes, the NZAuASB considers that the linkages are clear. The NZAuASB encourages the IAASB to continue to check for consistency between the standards as they are finalised.

3. Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

Response:

The NZAuASB is supportive of the change in terminology. No adverse consequences of changing the terminology have been identified.

4. Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Response:

The NZAuASB does not support the requirement in paragraph 16 nor the related application material in paragraph A5.

Specifically, the NZAuASB does not support the drafting of the requirements in paragraph 16 and suggests the following amendments (deleted text shown with strike-through, added text shown with bold underline),

The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer, which may ~~and that~~ include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an

engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and:...

Furthermore, the NZAuASB is strongly opposed to the guidance in paragraph A5 which provides, as an example of a limitation on the eligibility, establishing a cooling off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.

The NZAuASB is of the view that the current drafting of the requirement, along with the related application material creates a de facto requirement that is not consistent with the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code)*.

The basic tenet underlying the IESBA Code is that professional accountants (or their firms, as applicable) comply with the fundamental principles, including independence, and apply the conceptual framework. That conceptual framework requires the professional accountant to identify, evaluate and address threats to the fundamental principles and independence.

In its long association project, the IESBA considered the familiarity and self-review threats and related safeguards and included examples and guidance where a partner may change roles during the "time on" period. This explicitly caters for an engagement partner moving between the role of the engagement partner and the engagement quality review role. The NZAuASB therefore does not consider that it is within the mandate of the IAASB to evaluate the threats and safeguards in a different way than that assessed by the IESBA.

In addition, the IESBA's rotation rules apply to public interest entities and the IAASB's proposed application material relates to listed entities. This is inconsistent with the IESBA Code and is likely to add to the confusion and complexity by applying multiple rules from multiple sources.

The cooling off period for the engagement partner moving to the role of the engagement quality review role cannot be considered in isolation but must be considered in combination with the already complex requirements of the IESBA Code.

The NZAuASB adopted the revised long association requirements of the revised and restructured IESBA Code in order to align with international requirements but raised significant concerns with the IESBA when these proposals were developed. In New Zealand, these new rules have created significant supply pressures on New Zealand auditors.

The NZAuASB therefore has even further concerns that the IAASB is now adding additional cooling off "requirements" in its standards. We strongly disagree that this application material will not result in de facto requirements because if the two year cooling off period is not followed, this will be questioned by regulators. This will add complexity and confusion to an already complex area as well as increase the supply pressure on eligible engagement quality reviewers even further.

The NZAuASB is not supportive of the guidance in paragraph A5 and urges the IAASB to defer the application of the IESBA Code to the IESBA to develop guidance as appropriate.

5. Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Response:

The NZAuASB is supportive of the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures, however, it is not clear why paragraph 22(f) is applicable only to audits of financial statements. The application material in paragraph A34 indicates that other

pronouncements of the IAASB, including ISRE 2400 (Revised)¹, ISAE 3000 (Revised)² and ISRS 4410³ require the engagement partner to take responsibility for the overall quality of the engagement.

Additionally, the NZAuASB notes that the extant requirement for the firm to establish policies and procedures to require the engagement quality review to include consideration of the engagement team's evaluation of the firm's independence in relation to the specific engagement⁴ and the related requirement in extant ISA 220⁵ have not been included in ED ISQM 2. The NZAuASB views this as an important consideration made by the engagement quality reviewer and recommends that paragraph 22 be amended to include evaluation about whether relevant ethical requirements, including those related to independence, have been fulfilled. This would also be consistent with the requirement on the engagement partner in ED 220⁶.

- 6. Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?**

Response:

The NZAuASB agrees that the engagement quality reviewer's evaluation of the engagement team's significant judgements includes evaluating the engagement team's exercise of professional scepticism. It is difficult, however, to envisage how the IAASB anticipates this will be evidenced. Examples of how the engagement quality reviewer would evidence this consideration in practice would be especially helpful.

The NZAuASB does not believe that the ED-ISQM 2 should further address the exercise of professional scepticism by the engagement quality reviewer. As noted in paragraph 6 of the exposure draft, an engagement quality review is an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached thereon.

- 7. Do you agree with the enhanced documentation requirements?**

Response:

The NZAuASB is supportive of the enhanced documentation requirements. However, implementation support and examples would be helpful to enable practitioners to understand what level of documentation is appropriate. The focus for the engagement quality reviewer is on performing a high quality review. Excessive time spent on documentation reduces the time available for the review to be performed.

¹ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*, paragraph 25

² International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 33

³ International Standard on Related Services (ISRS) 4410, *Compilation Engagements*, paragraph 23

⁴ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 38(a)

⁵ International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, paragraph 21(a)

⁶ Proposed International Standard on Auditing (ED) 220, *Quality Management for an Audit of Financial Statements*, paragraph 19

8. Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

Response:

While the requirements for engagement quality reviews in ED-ISQM 2 appear scalable for firms of varying size and complexity the focus of the standard appears to be engagement quality reviews for audits of historical financial information. There is little guidance in the standard around the use of engagement quality reviews in other assurance engagements. With increasing focus on EER, more firms are likely to become involved in assurance engagements other than audits or reviews of historical financial information. Accordingly, the NZAuASB encourages the IAASB to consider whether such engagements may present specific challenges to the engagement quality reviewer that need to be addressed either in the standard or in implementation guidance dealing with other assurance engagements.