

July 1, 2019

International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**Re: Exposure Draft (ED): Proposed International Standard on Quality Management 2, *Engagement Quality Reviews***

Thank you for the opportunity to comment on this Exposure Draft ("ED").

MNP LLP ("MNP") is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of publicly traded entities. In addition, our client base includes small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations, municipalities and government entities. Our engagements for such entities include audits, reviews and other assurance and related services engagements. As such we believe that we are positioned well to provide commentary on this ED.

We have reviewed the ED and have provided our responses to the specific questions below. We support the International Auditing and Assurance Standards Board's (the "IAASB") project to adopt Proposed International Standard on Quality Management 2 ("ISQM 2") and overall, we agree with the proposed changes as set out in the ED and we have set out, in the responses below, areas where we believe additional guidance is required.

**Proposed ISQM 2 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?**

Yes, we support a separate standard for engagement quality reviews. As ED-ISQM 1 deals with all aspects of a firm's quality management approach, and an engagement quality review is one of the responses that is designed and implemented by a firm to address assessed quality risks, ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed. The development of a separate standard for engagement quality reviews emphasizes the importance of the engagement quality review, and the value placed on a robust and independent engagement quality review by stakeholders. We therefore agree that ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews and we also agree with the basis for developing a separate standard for engagement quality reviews, as set out in the explanatory memorandum for ED-ISQM 2.

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

Yes, the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 are clear.

**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?**

Yes, the change supports the overall changes proposed in ED-ISQM 1 to promote the proactive management of audit quality at the firm level, and of audit quality being embedded within a firm’s culture versus a control process at a point in time. We do not anticipate that there will be any adverse consequences of changing the terminology.

**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?**

We generally support the requirements for the eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer. In certain jurisdictions there may be many smaller listed, or public interest, entities who engage the services of SMP’s. While proposed ISQM 2 does allow these practitioners to appoint external individuals to perform an engagement quality review, this may be onerous or difficult to achieve in practice because of inter-firm competition, insurance restrictions, remote communities, etc. Therefore, the requirements with respect to the eligibility to be appointed as an engagement quality reviewer may have the effect of limiting the audits of listed and public interest entities to larger firms and networks.

*“Cooling-off” periods*

We believe there is a need for guidance in proposed ISQM 2 regarding “cooling-off” periods. The contemplated threats to an engagement quality reviewer’s objectivity, specifically the self-review and self-interest threats, may not be addressed by the relevant ethical and independence requirements in specific jurisdictions. Therefore, including guidance in the proposed ISQM 2 regarding “cooling-off” periods with respect to the audit of financial statements of a listed entity will assist in achieving consistent application in practice. We believe that continuity of knowledge can contribute to the overall quality of an audit engagement. Proposed ISQM 2 should include guidance regarding the appropriate level of involvement of an individual who previously served as the engagement partner on future engagements, recognizing that there may be unforeseen circumstances where the previous engagement partner serves as the only level of continuity on an audit engagement.

Further guidance regarding the eligibility of “key audit partners” to perform the role of the engagement quality reviewer immediately after serving as a key audit partner on an engagement may be useful in implementing the proposed standards. We believe that providing such guidance is necessary to ensure

there is clarity on the eligibility of key audit partners to perform the role of the engagement quality reviewer in such circumstances and to achieve consistency in practice.

We agree that the guidance regarding a cooling off period should be located in proposed ISQM 2. We also support continued efforts to ensure consistency between the requirements of proposed ISQM 2 and the IESBA Code, including the incorporation of additional guidance in the IESBA Code relating to cooling off periods.

**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)?**

We generally agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures. Paragraph 22(a)(ii) of ED-ISQM 2 requires the engagement quality reviewer to read and understand information provided by the firm about the results of its monitoring and remediation. Paragraph 27 of the application guidance states that the nature and extent of the engagement quality reviewer's procedures may depend on factors such as the findings from the firm's monitoring activities. We agree that an understanding of such findings can provide useful information in assisting the engagement quality reviewer in determining the nature and extent of their procedures, but we do not believe that the engagement quality reviewer should be required to read and understand such information. A high-quality review can be performed by an engagement quality reviewer based on current accounting and auditing standards without prior knowledge of the firm's specific history or current monitoring and remediation plans. By introducing a "shall" statement to paragraph 22(a)(ii), proposed ISQM-2 would treat the failure to know the firm's specific remediation plans as a deficiency across all engagements for which the engagement quality reviewer performed a review, notwithstanding the fact that the engagement quality reviewer has knowledge of audit quality issues in their relevant jurisdiction and beyond. This recommendation is consistent with the application guidance noting that the results of inspections undertaken by an external oversight authority may affect the nature and extent of the engagement quality reviewer's procedures but does not require the engagement quality reviewer to obtain this understanding.

Proposed ISQM 2 does not address circumstances where the engagement quality reviewer changes during an audit. Paragraph 26 of the application guidance states that a timely review of engagement documentation should be performed by the engagement quality reviewer at appropriate points in time throughout all stages of the engagement. In circumstances where the engagement quality reviewer changes, the timing of the review may only occur near the end of the engagement. The guidance should clarify whether, in such circumstances, the engagement quality reviewer still complies with the requirements of ED-ISQM 2.

The responsibilities of the engagement quality reviewer are appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised). As noted below, additional guidance should be included in ED-ISQM 2 regarding the exercise of professional skepticism by the engagement partner.

**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?**

We 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. Professional skepticism supports the quality of judgments made, is necessary to the critical assessment of audit evidence and includes consideration of the sufficiency and appropriateness of audit evidence obtained in the circumstances of the audit engagement. The engagement quality reviewer will inherently apply professional skepticism in evaluating whether this has been applied by the engagement team. The engagement quality reviewer will also need to apply professional skepticism in critically assessing the audit evidence the engagement team has obtained to support the conclusions made regarding significant judgments, and whether these are appropriate (Ref: ED-ISQM 2 Par 22(d) (i)-(iii)). Therefore, ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. The procedures required to be performed by the engagement quality reviewer in paragraph 22 of ED-ISQM 2 should be expanded to require that the engagement quality reviewer apply professional skepticism in order to critically assess the audit evidence obtained, including the sufficiency and appropriateness thereof, by the engagement team to support the conclusions reached regarding significant judgments. We note that ED-220 contains significant guidance regarding the exercise of professional skepticism by the engagement team and that it would be beneficial to include similar guidance in ED-ISQM 2, as well as appropriate linkages between these two standards.

If ED-ISQM 2 further addresses the exercise of professional skepticism by the engagement quality reviewer, additional guidance should also be included, outlining how the engagement quality reviewer documents how they have applied professional skepticism. We believe that there should be a requirement for the engagement quality reviewer to determine that there is adequate documentation to evidence how he or she applied professional skepticism, but the form of this documentation can be determined based on the nature and circumstances of the engagement.

**7) Do you agree with the enhanced documentation requirements?**

We generally agree with the enhanced documentation requirements. Paragraph 22(b) of ED-ISQM 2 requires the engagement quality reviewer to discuss significant matters with the engagement partner and, if applicable, other members of the engagement team. Paragraph 27 of ED-ISQM 2 sets out the minimum required documentation related to the performance of the engagement quality review but does not include a specific requirement to document discussions held with the engagement partner and or engagement team. Similarly, paragraph 22(f) requires the engagement quality reviewer to evaluate the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving audit quality, but there is no requirement to specifically document this conclusion in paragraph 27.

To meet the overall objective of the documentation to be sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the nature, timing and extent of the engagement quality review procedures performed, and the conclusions reached, the minimum documentation required in paragraph 27 of ED-ISQM 2 should include documentation of discussions with the engagement team, as well as the conclusions reached with respect to the requirements of

paragraph 22(f). Including these as part of the minimum documentation requirements will also assist in achieving consistency in the documentation of the procedures performed by the engagement quality reviewer.

We note that paragraph A39 of the application guidance states that the documentation of the engagement quality review may be completed after the date of the engagement report. This appears to be inconsistent with the requirements in paragraph A22 of the application guidance which notes that the engagement partner may not date the auditor's report until the completion of the engagement quality review. The proposed ED-ISQM 2 does not define when the engagement quality review is complete. We believe that the proposed ED-ISQM 2 should define when an engagement quality review is complete and should require the documentation of the engagement quality review to be performed on a timely basis, as documentation prepared after the date of the engagement report is likely to be less precise than documentation prepared concurrently with the review.

**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?**

The requirements for engagement quality reviews in ED-ISQM 2 are generally scalable for firms of varying size and complexity. It may be more onerous for small-and medium-sized practices ("SMP's") to establish policies or procedures to address differences of opinion that arise between the engagement team and the engagement quality reviewer, as required by paragraph 22(e) and A32 of the application guidance in ED-ISQM 2. To comply with the "cooling off", and other eligibility, requirements in ED-ISQM 2, SMP's may have to obtain the services of external individuals to perform the engagement quality review as well as consult on differences in opinions that arise. In such circumstances, SMP's may find it difficult to find suitable individuals and they may have to incur additional costs, making the requirements more onerous.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

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