

Thomas R. Seidenstein

IAASB Chair
International Auditing and Assurance Standards
Board
529 5th Avenue, 6th floor
10017, New York
US

Paris, 1st July 2019

Ref: JBO.BNB.CBO.20190241

Subject : IAASB Consultation on Proposed International Standard on Quality Management 2

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the proposed International Standard on Quality Management 2 (ED-ISQM2).

We support a separate standard for engagement quality reviews.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Jean Bouquot
President of CNCC



Charles-René Tandé
President of CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

COMPAGNIE NATIONALE
DES COMMISSAIRES AUX COMPTES
CNCC - 16, avenue de Messine - 75008 Paris
Tél. : 01 44 77 82 82 - Fax : 01 44 77 82 28

CONSEIL SUPÉRIEUR
DE L'ORDRE DES EXPERTS-COMPTABLES
CSOEC - 19, rue Cognacq-Jay - 75341 Paris cedex 07
Tél. : 01 44 15 60 00 - Fax : 01 44 15 90 05

Questions

Question 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?

We support a separate standard for engagement quality reviews.

We also agree that ED-ISQM1 should deal with the engagements for which an engagement quality review is to be performed and ED-ISQM2 should deal with the remaining aspects of engagement quality review.

We have however, the following comments: paragraph 37 (e) (i) of ISQM1 that refers to ISQM2 and the scope for engagement quality review, should also mention the reviews of interim financial information in addition to the audits of financial statements of listed entities. As mentioned in paragraph 1 of ISQM1, this ISQM deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

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

As far as the linkages between ISQM1 and ISQM2 are concerned, we suggest moving up footnote 7 into the text of the standard, i.e. *Proposed ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph 37(e)*.

Question 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?

We support the change from "engagement quality control review /reviewer" to "engagement quality review/reviewer". We do not think that there will be any adverse consequences of changing the terminology in respondents' jurisdictions.

Question 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 support the eligibility requirements. We do not have any comments concerning the guidance in proposed ISQM2 regarding the "cooling-off" period for that individual before being able to act as the engagement quality reviewer.

We also agree that such guidance should be located in proposed ISQM2 as it is not dealt with in the IESBA Code.

However, we have the following comments on paragraph 17 that deals with the policies or procedures that set forth the criteria for eligibility of individuals who assist the engagement quality reviewer:

- The first sentence of paragraph A18, i.e. "In certain circumstances, it may be appropriate for the engagement quality reviewer to be assisted by an individual or team of individuals, either internal or external, with the relevant expertise", should be moved into paragraph 17.

- The IAASB should further clarify the role of individuals who can assist the engagement quality reviewer. We encourage the IAASB to ring-fence the tasks that can be performed by such individuals.

Question 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 have the following comments concerning the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures:

- We suggest moving the last sentence of paragraph 6 (part of the introduction) to the end of paragraph 11 (a) (definition of engagement quality review).
Paragraph 11 (a) would become:
"Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report. However, an engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the firm's policies or procedures."
- Moreover, concerning paragraph 22 that deals with the procedures that the engagement quality reviewer has to perform for the engagement quality review, we consider that the paragraph 22 (f), i.e. "for audits of financial statements, evaluate the basis for the engagement partner's conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement", is too wide and goes beyond the role of EQR who has to focus on the significant judgments (cf. Paragraph 11(a))¹.

Question 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 consider difficult to challenge professional skepticism on the basis of the audit documentation. We therefore suggest amending paragraph 22(d) as follows to further clarify the objective and the understandability of the paragraph:

"Review selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and **evaluate consider, based on the documentation reviewed:**

- (i) The engagement team's basis for making the significant judgments, including **when applicable in case of assurance engagements**, the appropriate exercise of professional skepticism;
- ~~(ii) Whether the engagement documentation supports the conclusions reached; and~~
- (iii) Whether the conclusions reached **on the significant judgment** are appropriate."

Moreover, we think that this is sufficient and that there is no need to further address the exercise of professional skepticism by the engagement quality reviewer.

¹ Paragraph 11(a) ISQM2: "Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report."

Question 7 - Do you agree with the enhanced documentation requirements?

Concerning the enhanced documentation requirements, we have the following comment. We consider that the term “completed” in the last sentence of paragraph A39² should be replaced by “assembled” or “gathered”.

Question 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?

Scalability is less of an issue as ED-ISQM2 is intended to be applied in listed entities or entities that are of significant public interest (cf. paragraph 37e ISQM1).

However, we have the following comments that should improve scalability. It would be relevant to create appendix to the proposed standard to include the tables of pages 14 and 15 of the exposure draft that deal with scalability for firms of different sizes and for engagements where nature and circumstances differ.

² Paragraph A39 of ISQM2: “Paragraph 21(b) requires that the firm’s policies or procedures preclude the engagement partner from dating the engagement report until the completion of the engagement quality review, which includes resolving matters raised by the engagement quality reviewer. The documentation of the engagement quality review may be completed after the date of the engagement report, but before the assembly of the final engagement file.”