



# INTRODUCTION TO ISQM 2 - ENGAGEMENT QUALITY REVIEWS

ICAP SEMINAR - 25 MAY 2022

ZULFIKAR CAUSER

# WHAT IS QUALITY?

QUALITY MEANS **DOING IT RIGHT**  
WHEN **NO ONE IS LOOKING.**

-HENRY FORD

DESKTOPCAL.COM



Quality is not an act, it is a habit.

- Aristotle

AZ QUOTES

HOW MANY DO YOU NEED TO GET THE JOB DONE?



# LEARNING OBJECTIVES - INTRODUCTION TO ENGAGEMENT QUALITY REVIEWS (EQ REVIEWS)

Explain the purpose of an EQ Review

Describe the appointment and eligibility of EQ Reviewers

Describe the role and responsibilities of an EQ Reviewer

Identify the procedures performed during an EQ Review

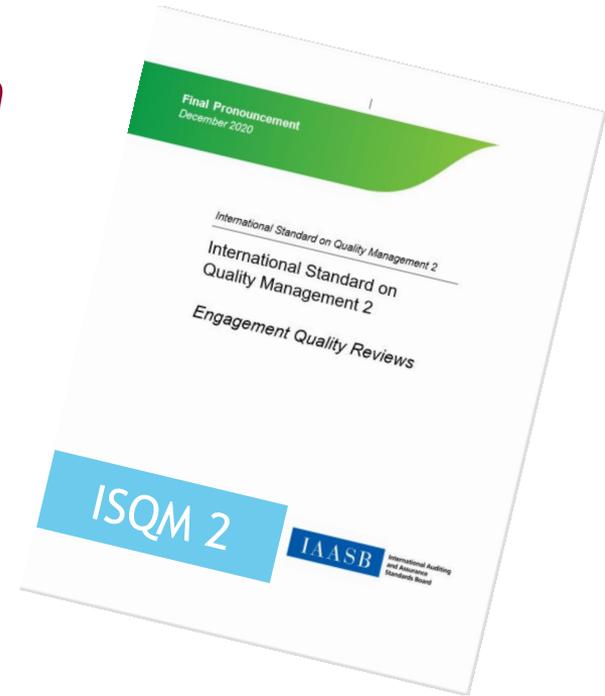
Identify the potential threats to EQ Reviewer objectivity

Describe additional EQ Reviewer responsibilities

Explain the documentation requirements for an EQ Review

## WHAT IS THE PURPOSE OF AN EQ REVIEW?

*“The objective of the firm, through appointing an eligible engagement quality reviewer, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.”*



## WHICH ENGAGEMENTS REQUIRE AN EQ REVIEW?

- 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 risks.



## WHO APPOINTS THE EQ REVIEWERS?



Whoever 'appoints' must have necessary competence, capabilities, appropriate authority in the firm

Ideally, not a member of the engagement team

May be more than one individual, a panel/committee, etc.

Appointment is determined by the firm (not the engagement team)

Documentation (including rationale)

## Criteria and sources of information?

### Potential Criteria

- Awareness of standards, concepts and facts, including understanding the role of EQ Reviewer
- Whether there are specific legal and regulatory requirements or firm policies (i.e., only certain individuals can be appointed to be an EQ Reviewer on specified engagements)
- Awareness about firm's policies and procedures, Audit Approach
- Entity's industry - prior experience, likely significant judgmental areas
- Prior involvement/long association with the engagement, seniority vs. engagement partner
- No reporting line to engagement partner
- Meets the relevant ethical requirements, including independence

### Potential sources of information

- Attendance and completion of EQ Reviewer training
- Evidence of their Continuing Professional Development
- Findings or performance in quality reviews, internal inspections or external inspections
- Prior engagement experience
- Approved EQ Reviewer listing (internal)
- Results from any accreditation program
- Likely nature of the EQ Review engagement (complexity, extent) could answer 'time' question; EQ Reviewer's upcoming client and other commitments

## ROLE AND RESPONSIBILITY OF THE EQ REVIEWER

- ▶ To **perform the EQ Review** on behalf of the firm
- ▶ To **understand the nature of their role**, including chapter 45 of the Audit Manual, and have an **understanding about the entity/nature of the engagement**
- ▶ To take **overall responsibility** for the performance of the EQ Review, including when the EQ Reviewer uses assistants
- ▶ To have **timely involvement** during all stages of the engagement
- ▶ Able to perform an **objective evaluation** of significant judgments made by the engagement team and the conclusions reached thereon
- ▶ Able to obtain evidence to support the **evaluation** of such significant judgments
- ▶ Able to **notify the engagement partner** of concerns that the significant judgments or the conclusions reached thereon are not appropriate
- ▶ Ability to **avoid threats to their objectivity**
- ▶ Ability to **notify** an appropriate individual in **the Firm** when the EQ Review cannot be completed (if applicable) or when significant audit quality deficiencies are identified
- ▶ Ability to **direct, supervise and review** the work performed by the **EQ Reviewer's assistant**
- ▶ Ability to **complete the APT EQ Review checklists** (planning, completion).

## EQ REVIEWER vs. ENGAGEMENT PARTNER - DIFFERENCES?

- ▶ Engagement partner - the partner or other individual, appointed by the firm, **who is responsible for the audit engagement and its performance**, and for the **auditor's report** that is issued on behalf of the firm, and who, where required, **has the appropriate authority from a professional, legal or regulatory body**.

- ▶ Engagement quality reviewer - A partner, other individual in the firm, or an external individual, appointed by the firm **to perform the engagement quality review**.
- ▶ 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.

## TIMELY EQ REVIEW

Participation in the EQ Review by the EQ reviewer is during all stages of the engagement

Scoping

Identifying and  
assessing audit risks

Designing the audit  
response

Documenting audit  
evidence

Reporting

Reinforces the exercise of professional judgment and professional skepticism by the engagement team

Allows for matters to be promptly resolved to the EQ Reviewer's satisfaction before the report date

Engagement partner cannot sign off auditor's report UNTIL EQ Reviewer has completed their review

# WHAT HAS CHANGED?

## What's 'new' in ISQM 2?

- ▶ Expanded requirements for review of **significant judgments** and **significant matters**
- ▶ New requirement to evaluate **professional skepticism** applied by engagement team
- ▶ New requirement to evaluate the sufficiency of **engagement partner's involvement**
- ▶ Evaluate basis of determination by the Engagement Partner that **independence requirements** have been met
- ▶ Evaluate whether **appropriate consultation** has taken place
- ▶ New **standback** requirement



# PROCEDURES PERFORMED BY THE EQ REVIEWER

1 Understand the nature and circumstances of the engagement

2 Discuss significant matters and significant judgments made

3 Review selected engagement documentation and evaluate the basis for making significant judgments

6 Evaluate if Engagement Partner's involvement has been sufficient and appropriate throughout

5 Evaluate consultations or how differences of opinion have been concluded

4 Evaluate Engagement Partner's determination about whether relevant ethical requirements have been fulfilled

7 Review the auditor's or other reports

8 To notify Engagement Partner if the EQ Reviewer has concerns

**Reporting obligation to the firm if 'pattern of significant audit quality deficiencies'**

# 1. PROCEDURES PERFORMED BY THE EQ REVIEWER

Understand the nature and circumstances of the engagement

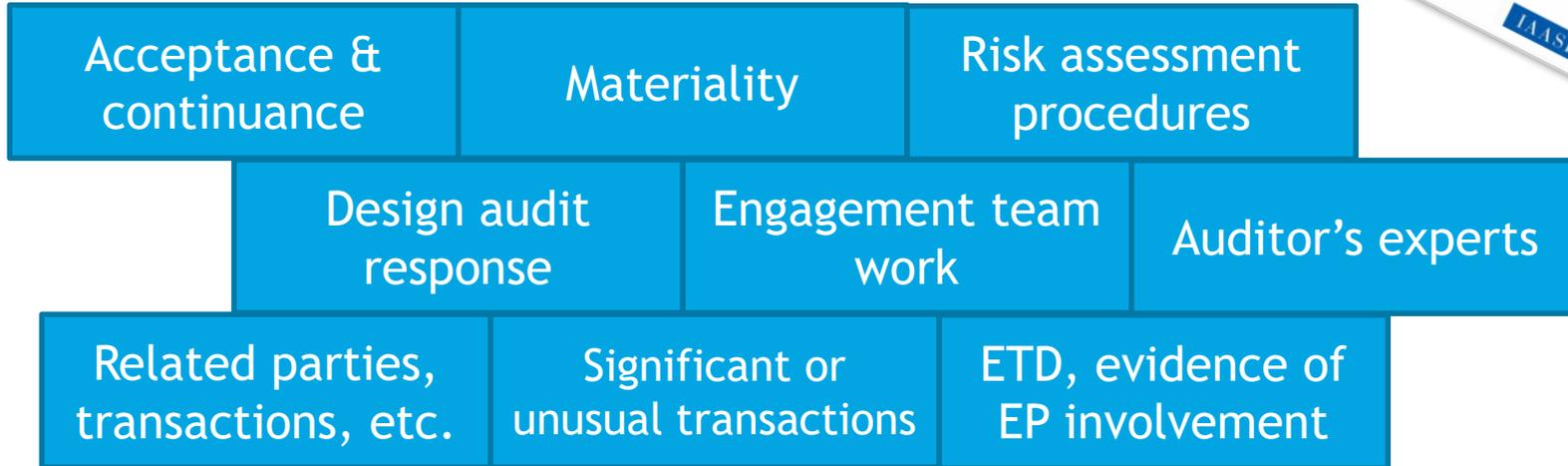
- Obtaining an understanding of **information communicated** by the engagement team and by the firm may assist the EQ Reviewer in **understanding the significant judgments** that may be expected during the engagement.
- EQ Reviewer's understanding **provides a basis for discussions** with the engagement team about the significant matters and significant judgments made in planning, performing, concluding and reporting on the engagement.
- If EQ Reviewer is **newly assigned** to an engagement, the **prior year files** could be reviewed and identified points discussed with the engagement team.

Additional APT questions if a 'new' EQ Reviewer on an engagement

## 2. PROCEDURES PERFORMED BY THE EQ REVIEWER

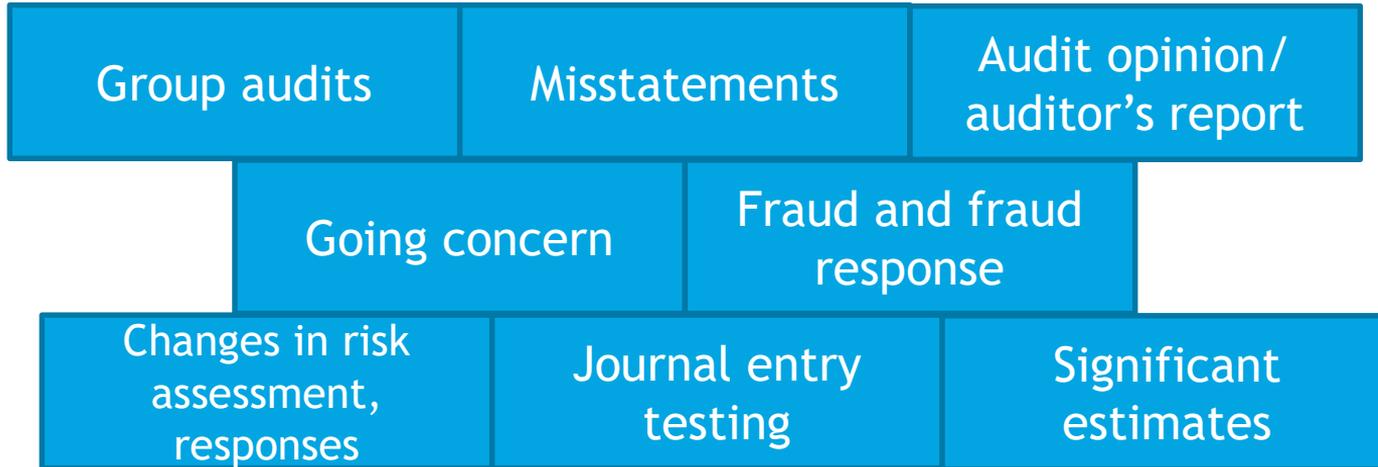
Discuss significant matters and significant judgments made

EQ Reviewer evaluates significant matters and significant judgments made by the engagement team in all stages of the engagement, such as during:



## 2. PROCEDURES PERFORMED BY THE EQ REVIEWER

Discuss significant matters and significant judgments made (contd.)



### 3. PROCEDURES PERFORMED BY THE EQ REVIEWER

EQ Reviewer evaluation of significant judgments

Remaining alert,  
unbiased and  
inquisitive

Areas of likely  
professional skepticism  
focus

Actions as evidence of  
professional skepticism

### 3. ISSUES WITH ENGAGEMENT TEAM PROFESSIONAL SKEPTICISM

What could cause poor professional skepticism (and faulty judgments) by the engagement team?

#### Impediments to professional skepticism

- ❑ Budget constraints, tight deadlines
- ❑ Lack of cooperation or pressures by entity management
- ❑ Insufficient understanding of the entity, less experienced engagement team
- ❑ Difficulties in obtaining access to entity information or personnel
- ❑ Overreliance on automated tools and techniques, prior year understanding

#### Unconscious or conscious engagement team bias

- ❑ Availability bias, weight on immediate events or experiences
- ❑ Confirmation bias, more weight on evidence that corroborates than contradicts
- ❑ Groupthink, think or make decisions as a group
- ❑ Overconfidence bias, overestimate ability to assess risks or take on certain items of work
- ❑ Anchoring bias, anchored to initial information
- ❑ Automation bias, overreliance on output generated from automated systems

## 4. EVALUATION OF RELEVANT ETHICAL REQUIREMENTS



### Engagement Partner

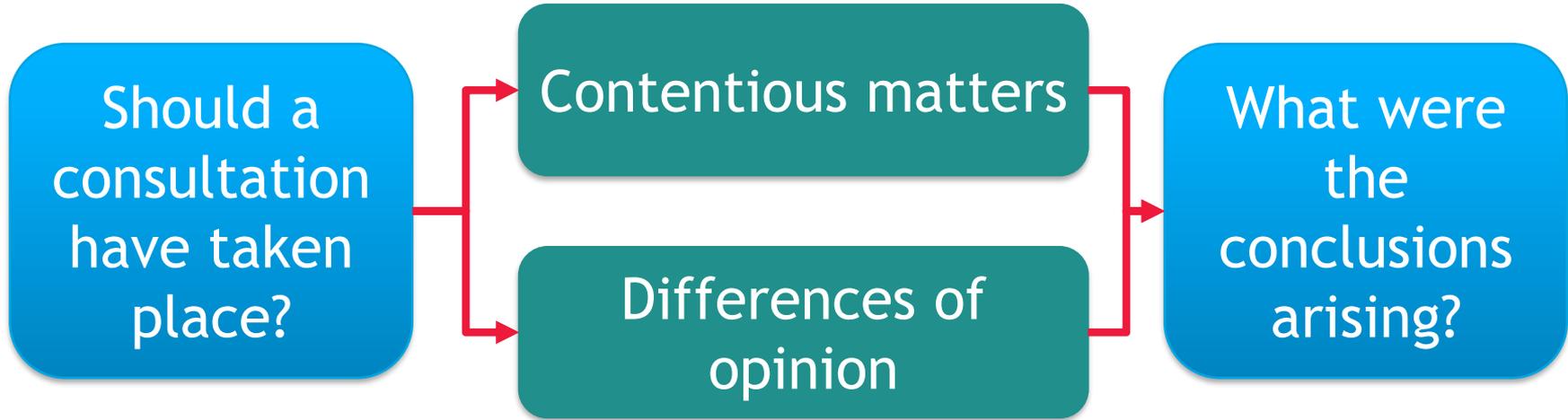
Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled.

VS.

### EQ Reviewer

For audits of financial statements, evaluate the basis for the engagement partner's determination that relevant ethical requirements relating to independence have been fulfilled.

## 5. EVALUATION OF APPROPRIATE CONSULTATIONS



## 6. EVALUATION OF ENGAGEMENT PARTNER INVOLVEMENT

**EQ Reviewer evaluates whether the engagement partner's involvement has been sufficient and appropriate**

Increased area of focus under Quality Management standards



Indicators of lack of engagement partner involvement



Engagement partner's self assessment about involvement



## 7. REVIEW THE AUDITOR'S (OR OTHER REPORTS)

Audits of financial statements



Financial statements and auditor's report  
(including Key Audit Matters if applicable)



- Assesses presentation and disclosures of significant judgments/matters
- Aware of other expected significant judgments for inclusion

# NATURE, TIMING AND EXTENT OF EQ REVIEW PROCEDURES

...may depend on...

The complexity of the engagement



Information obtained from the acceptance and continuance of client relationships and specific engagements



Findings relevant to the engagement by an external oversight authority in a prior period (if applicable)



The nature and size of the entity (or whether the entity is listed)



Deficiencies and the remedial actions related to the firm's IIP, network's QR or external inspections (if applicable)



Assessment of, and responses to, risks of material misstatement by the engagement team



## THREATS TO EQ REVIEWER OBJECTIVITY

- ▶ Do not compromise professional judgment because of bias, conflict of interest or undue influence of others
- ▶ Do not undertake a professional activity if a circumstance or relationship unduly influences the professional judgment regarding that activity



## WHAT COULD CAUSE A THREAT TO OCCUR?



**Self-review:** EQ Reviewer previously was involved in forming the significant judgments continued by the current engagement team



**Familiarity or self-interest:** EQ Reviewer is a close or immediate family member or has close personal relationships with engagement partner or members of engagement team



**Intimidation:** Actual or perceived pressure is exerted on the EQ Reviewer

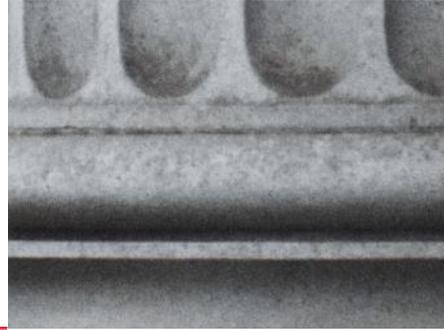


**Decisions:** Making decisions on behalf of the engagement team/in the absence of the engagement partner

# ACTIONS TO ADDRESS THREATS TO THE EQ REVIEWER'S OBJECTIVITY



Cooling-off period

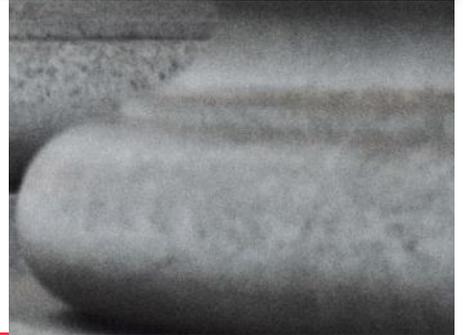


Replacement of EQ Reviewer

Period serving in EQ Reviewer role



Report threats to objectivity



# EQ REVIEW DOCUMENTATION

## WHAT THE STANDARDS SAY...

- ▶ EQ Reviewer is **responsible for documentation** of the EQ Review
- ▶ EQ Reviewer shall determine that the **documentation of the engagement quality review is sufficient to 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 and, when applicable, individuals who assisted the reviewer, and the conclusions reached in performing the review**

+ ISQM 1 requirements

- ▶ Name of EQ Reviewer(s)
- ▶ Identification of documentation reviewed
- ▶ Basis for completion of the EQ Review
- ▶ Notifications (to the engagement partner or to the firm)
- ▶ Date of completion of the EQ Review

## WHAT CIRCUMSTANCES MAY LEAD TO AN INCREASE IN EQ REVIEWER DOCUMENTATION?



1

The nature and complexity of the engagement

2

The nature of the entity

3

The nature and complexity of the matters subject to the EQ Review

4

The extent of the engagement documentation reviewed



**THANK YOU**