

DECEMBER 2020

# INTRODUCTION TO ISQM 2

## Engagement Quality Reviews



**FACT SHEET**

**IAASB**

International Auditing  
and Assurance  
Standards Board

# BACKGROUND

## WHAT?



Since an engagement quality (EQ) review is a specified response designed and implemented by the firm to address quality risks, **International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements**, addresses the scope of engagements subject to an EQ review.

The performance of an EQ review is undertaken at the engagement level by the EQ reviewer on behalf of the firm. Accordingly, **ISQM 2, Engagement Quality Reviews**, addresses:

- The appointment and eligibility of the EQ reviewer; and
- The EQ reviewer's responsibilities relating to the performance and documentation of an EQ review.

## WHEN?



ISQM 2 is effective for:

- Audits and reviews of financial statements for periods beginning on or after December 15, 2022; and
- Other assurance and related services engagements beginning on or after December 15, 2022.

## HOW?

The new standard aims to respond to issues and challenges with the requirements relating to EQ reviews in extant 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*, and International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, by making changes that clarify and strengthen aspects of the relevant requirements for a more robust EQ review. The revised requirements focus on the objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.

## WHAT OUTCOME IS THE NEW STANDARD SEEKING TO ACHIEVE?



### The changes in ISQM 2 are intended to:

- Extend the scope of engagements subject to an EQ review (in addition to audits of financial statements of listed entities).
- Strengthen the eligibility criteria for an individual to be appointed as an EQ reviewer.
- Enhance the EQ reviewer's responsibilities relating to the performance (including the nature, timing and extent of procedures) and documentation of the EQ review.

## WHAT ARE THE SIGNIFICANT CHANGES?



### EXTENDED SCOPE OF ENGAGEMENTS SUBJECT TO EQ REVIEWS



Audits of financial statements of listed entities



Audits or other engagements for which an **EQ review is required by law or regulation**



Audits or other engagements for which the **firm determines that an EQ review is an appropriate response** to address one or more quality risk(s)

### ENHANCED ELIGIBILITY CRITERIA FOR EQ REVIEWERS



- Requires a **cooling-off period** of 2 years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of EQ reviewer.
- Includes having **sufficient time** to perform the EQ review.



Permits the use of suitably qualified **external EQ reviewers** and the use of **assistants**.



Sets out actions to be taken when the EQ reviewer **becomes aware of circumstances that impair the EQ reviewer's eligibility** to perform the EQ review.

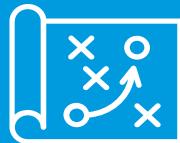
**! ATTENTION**  
Requires the EQ reviewer to be responsible for the **overall performance of the EQ review**, and determining the nature, timing and extent of the **direction and supervision of assistants, and the review of their work**.

## WHAT ARE THE SIGNIFICANT CHANGES? (cont.)



### MORE ROBUST PERFORMANCE AND DOCUMENTATION REQUIREMENTS

Addresses the EQ reviewer's responsibilities to perform the EQ review at **appropriate points in time** during the engagement.



**PLANNING**



**PERFORMING**



**REPORTING**



Focuses on **significant judgments** and **significant matters**, including, when applicable to the type of engagement, the **exercise of professional skepticism** by the engagement team.



Requires the EQ reviewer to "**stand-back**" to determine whether the performance requirements in ISQM 2 have been fulfilled.



**Precludes the engagement partner from dating the engagement report** until notification has been received from the EQ reviewer that the EQ review is complete.



**Requires the firm to establish policies or procedures for:**

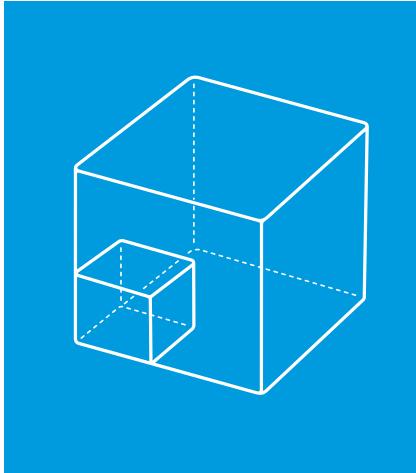
- The EQ reviewer to take responsibility for documentation of the EQ review.
- The documentation of the EQ review to be included with the engagement documentation.



**Principles-based documentation requirements but clarified that firm's policies and procedures may:**

- Specify engagement documentation to be reviewed by EQ reviewer.
- Indicate that the EQ reviewer exercises professional judgment in reviewing additional engagement documentation relating to the significant judgments.

## HOW IS SCALABILITY ADDRESSED?



The nature, timing and extent of the EQ reviewer's procedures vary depending on the **nature and circumstances of the engagement or the entity** (e.g., likely to be less extensive for engagements involving fewer significant judgments).



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