



CA
PAKISTAN

ISQM 2

Engagement Quality Reviews

Auditing Standards & Ethics Committee

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Quality Management Standards



ISQM 1

Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement



ISQM 2

Engagement Quality Reviews

Overview of ISQM 2

What will change

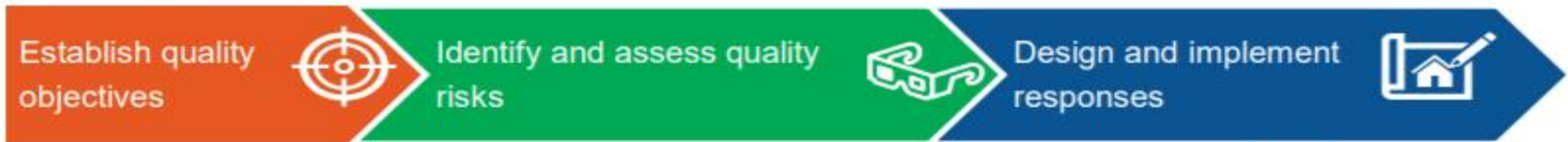
ISQM2 will replace ISQC 1 and ISA 220 requirements

Why a separate standard

- Emphasis on importance of the engagement quality review
- Clearly differentiate the responsibilities of the firm and the engagement quality reviewer
- Enhancing the robustness of the requirements for - eligibility, performance and documentation)
- Increasing the scalability of ISQM 1

Relationship Between ISQM 1 and ISQM 2

ISQM 1 requires firms to:



Categories of Engagements Requiring an Engagement Quality Review in ISQM 1, Paragraph 34(f)

Audits of financial statements of listed entities	Audits or other engagements for which an engagement quality review is required by law or regulation	Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s)
Are there engagements that fall under any of the categories above?		

The specified responses in ISQM 1 include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2, and requiring an engagement quality review for the following categories of engagements:



- Appointment and eligibility of the engagement quality reviewer
- Performance of the engagement quality review
- Documentation of the engagement quality review

NOTE: See changes to the scope of engagements subject to an engagement

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)

- Public interest entities as defined in a particular jurisdiction
 - Operate in the public sector or which are recipients of government funding, or entities with public accountability
 - Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds)
-
- Engagements that involve a high level of complexity or judgment - Audits of financial statements for entities having going concern uncertainties, Audits of financial statements for entities having high degree of estimations (e.g., certain large financial institutions or mining entities)
 - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria

What are the significant changes

ENHANCED ELIGIBILITY CRITERIA FOR EQ REVIEWERS

The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an EQR



External reviewer: Permits the use of suitably qualified external EQ reviewers and the use of assistants.

Paragraph 18 of ISQM 2

Cooling off : 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.

Paragraph 19 of ISQM 2

Sufficient time: Includes a new explicit requirement that the firm's policies or procedures require that the engagement quality reviewer has sufficient time to perform the review.

Paragraph 18(a) of ISQM 2

What are the significant changes

IMPAIRMENT OF EQR

Sets out requirements for firm and actions to be taken when the EQ reviewer becomes aware of circumstances that impair the EQ reviewer's eligibility to perform the EQ review

Firm

Shall **establish policies or procedures**

- that address circumstances in which the engagement quality reviewer's eligibility to perform the engagement quality review is impaired
- and the appropriate actions to be taken by the firm, including the process for identifying and appointing a replacement in such circumstances.

Paragraph 22 of ISQM 2

EQR

On becoming aware of circumstances shall

- **Notify** the appropriate individuals in the firm
- **Decline**, if the engagement quality review has not commenced
- **Discontinue**, if the engagement quality review has commenced

Paragraph 23 of ISQM 2

What are the significant changes

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



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.

Stand back




New requirement for EQR to stand back to determine whether the requirements of ISQM 2 with respect to performance of the engagement quality review have been fulfilled, and whether engagement quality review is complete.

Paragraph 27 of ISQM 2

What are the significant changes

NOTIFICATION OF REQUIREMENTS

EQR is required to comply with the new notification requirements in ISQM 2 under the following circumstances:

Reference in ISQM 2	Circumstances Requiring Notification	Party(ies) to be Notified
Para. 23, A24	 Impairment of the engagement quality reviewer's eligibility to perform the engagement quality review	Appropriate individual(s) in the firm
Para. 26, A49	 Unresolved concerns of the engagement quality reviewer	Engagement partner and appropriate individual(s) in the firm
Para. 27	 Completion of the engagement quality review	Engagement partner



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

Effective date



- 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.

Implementation support

Implementation support materials are available on the IAASB website.

<https://www.iaasb.org/publications/international-standard-quality-management-isqm-2-enhancing-quality-reviews>