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Date	Re	Our ref	Attachment
5 July 2019 (extended deadline)	ED for Quality Management ISQM 2	KvH	-

Direct dial nr  
020-3010281

Dear Mr. Seidenstein,

The NBA appreciates the opportunity to share our views and provide input on the *Quality Management Standards*. In this letter our responses to *Proposed International Standard on Quality Management 2* (hereafter: ISQM 2) are included.

Royal Netherlands  
Institute of Chartered  
Accountants

For our general remarks we refer to the cover letter.



## **ISQM 2**

*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?*

Engagement quality reviews are an important tool in managing audit quality from a firm perspective. In practice reviewers and teams struggle with the work to be performed by the reviewer and therefore we welcome a separate standard.

We would like to remark that in Europe and probably in other jurisdictions there are developed specific requirements for engagement quality reviews at public interest entities. These requirements are often a reflection of the need to perform quality audits in the public interest. In Europe for example, the engagement quality reviewer should assess the independence of the statutory auditor or the audit firm. We recommend the IAASB to consider the requirements set in different jurisdictions and use the basis for conclusions to explain the rationale for major differences between the IAASB requirements and requirements set in relevant jurisdictions.

We support the concept that ED-ISQM 1 deals with “when to perform” an EQR and ED-ISQM 2 with “how to perform” the EQR. To us this reflects the responsibilities of firm management and the EQR reviewer.

The objective of the standard could be enhanced. Why is the review performed? In our opinion, the underlying purposes are to improve the quality of individual engagements as well as a measure of the system of quality management at the firm level. We recommend making this clear.

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

The linkages 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?*

We have some doubts. We understand that this better links to the changed name of the standard. But we feel that it is also important to recognize in the terminology that the quality review plays an important role in the system of quality management for the firm. For instance the firm decides which other engagements, apart from audits of listed entities will be and that it is a firm responsibility to decide which engagements are subject to an EQR.

In the EU regulation the terminology engagement quality control review/reviewer is used. For the Netherlands we use a term that can be used as a translation of both terms.

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?*

We support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

We support the inclusion of paragraph 16c of the ED where it is stated that the engagement quality reviewer complies with the requirement of law and regulation. This section is necessary since in the EU regulation it is stated that the engagement quality reviewer for a PIE audit should be a statutory auditor that is not involved in the performance of the statutory audit to which the review relates.

We support that the engagement quality reviewer can be an external individual appointed by the firm to perform the engagement quality review as stated in paragraphs 11b and A4.

(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?*

To us this seems a bit of a precedent. The cooling-off period is a matter of independence and therefore we feel that the primary role for setting a cooling-off period lies with IESBA. In reality IESBA has set cooling-off periods for engagement partners and other key audit partners of PIEs during which they cannot act as an engagement quality reviewer. We wonder whether it is necessary for the IAASB to mention as an example that policies and procedures could be established to set an cooling-off period for other engagements.

(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 do not agree. We think that it is more appropriate to deal with this matter in the IESBA Code.

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)?*

In general we agree with the requirements, but we feel that the standard should be more explicit on the role of an engagement quality reviewer in a group audit. .  
In our opinion this is even more important since the definition of engagement team includes the members of component engagement teams.



It is mentioned that the engagement quality reviewer should avoid situations in which he is making decisions on behalf of the team in paragraphs 21c and A24.

We support these paragraphs. However, it could be mentioned that in practice the boundaries may not always be clear. It is also mentioned in paragraph A26 that timing of the procedures is important. We support this paragraph.

In paragraph 22a ii is mentioned that the engagement quality reviewer will read and understand information about the results of its monitoring and remediation, in particular identified deficiencies. We support this paragraph as this is part of the 'learning cycle'.

*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. The engagement quality reviewer should evaluate the engagement's team exercise of professional skepticism. Some concrete examples such as in ISA 220 paragraphs A27-A29 could help to further clarify how this could be done.

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

We agree with the enhanced documentation requirements.

*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?*

Engagement quality reviews are required for audits of listed entities and for other engagements for which the firm has decided that such a review is necessary. This is a first step in making engagement quality reviews scalable and proportionate.

The fact that the engagement quality reviewer may be an external individual, which is supported by us, helps to apply the standard by smaller firms that might not have the capabilities, for instance due to resource constraints to perform a review themselves.

Furthermore, the requirements in paragraphs 21-23 are focused on understanding in which areas there are significant judgements and whether these judgements are made with sufficient care. This drives the performance of such reviews and makes them scalable for less as well as more complex engagements.

In this respect we refer to paragraphs A25-A28 (especially A27) that describe that procedures are dependent upon the circumstances.

### **Closing Remarks**

For further information, please contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,

*Signed by*

Anton Dieleman  
Chair of the Dutch Assurance and Ethics Standards Board  
NBA

