



**The Japanese Institute of
Certified Public Accountants**

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July 1, 2019
Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017 USA

Dear Mr. Botha,

Re: JICPA Response to the Proposed International Standard on Quality Management 2, *Engagement Quality Reviews*

The Japanese Institute of Certified Public Accountants (JICPA) is grateful for the opportunity to comment on the Proposed ISQM 2, *Engagement Quality Reviews* (ED-ISQM 2).

Major Points

Our major points are as follows:

- ***Relationship between ED-ISQM 1 and ED-ISQM 2:*** We believe that it is unclear in ED-ISQM 1 that ISQM 2 is on the premise that the firm applies ISQM 1. It is necessary to clarify in ED-ISQM 1 the relationship between ED-ISQM 1 and ED-ISQM 2, and to simplify the standards by avoiding duplication of the descriptions. (Question 2)
- ***Consistency between ED-ISQM 1 (paragraph 20) and ED-ISQM 2 (paragraph 12):*** We believe that it is necessary to consider consistency between paragraph 20 of ED-ISQM 1 and paragraph 12 of ED-ISQM 2 with regard to who is required to have an understanding of the standards. (Question 2)

The attached are our comments on “Request for Comments”, and other matters that we consider to be addressed.

We hope that our views will be of assistance to the IAASB.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards
The Japanese Institute of Certified Public Accountants

Request for Comments

- 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?**

(Our Comment)

We support a separate standard for engagement quality reviews.

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

(Our Comment)

We believe that it is clear ED-ISQM 1 deals with requirements relating to the scope of engagements subject to an engagement quality review, and ED-ISQM 2 deals with requirements relating to the appointment and eligibility of engagement quality reviewers and the performance of the engagement quality review. However, we have the following comments regarding the linkages between ED-ISQM 1 and ED-ISQM 2.

- Duplicated descriptions in the Introduction section (paragraphs 4, 5 and 8)

The following paragraphs overlap with paragraphs in ED-ISQM 1. Given that ED-ISQM 2 addresses the requirements for the engagement quality review with respect with the engagement for which an engagement quality review is required to be performed in accordance with ED-ISQM 1, we believe that the matters described in ED-ISQM 1 do not necessarily need to be repeated in ED-ISQM 2. In ISAs, the authority of ISAs is only described in ISA200 to avoid duplicated descriptions in other ISAs. ISQMs should be structured in the same way. To simplify the standards, we suggest the following:

- Paragraphs 4 and 5: We suggest deleting them because they overlap with paragraphs 7 and 18 of ED-ISQM 1.
- Paragraph 8: This is duplicated with paragraph 16 of ED-ISQM 1. In our comment letter to ED-ISQM 1, we suggest amending paragraph 16 of ED-ISQM 1 as follows and deleting paragraph 8 of ED-ISQM 2 (see our comments to ED-ISQM 1).

(ED-ISQM 1)

"Authority of ~~this~~ ISQMs

16. ~~This~~ ISQMs contains the objective of the firm in following ~~this~~ ISQMs, and requirements designed to enable the firm and the engagement quality reviewer (in the context of ISQM 2) to meet that stated objective...."

In this regard, we believe that it is unclear in ED-ISQM 1 that ED-ISQM 2 applies to the engagements for which the firm determines that the engagement quality review is required to be performed in accordance with ED-ISQM 1, and therefore ED-ISQM 2 is on the premise that the firm applies ISQM 1. In order to clarify the relationship between ED-ISQM 1 and ED-ISQM 2 and avoid duplication of

descriptions so that the standards can be shortened, we suggest the following amendments in our comment on ED-ISQM 1.

(ED-ISQM 1)

"1. This International Standard on Quality Management (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. ISQM 2, which applies to all engagements for which an engagement quality review is required to be performed in accordance with proposed ISQM 1, deals with the responsibility of the firm and engagement quality reviewers relating to engagement quality reviews. This ISQM is to be read in conjunction with relevant ethical requirements."

- Consistency between paragraph 20 of ED-ISQM 1 and paragraph 12 of ED-ISQM 2

We believe that consistency between paragraph 20 of ED-ISQM 1 and paragraph 12 of ED-ISQM 2 needs to be reconsidered. Paragraph 12 of ED-ISQM 2 requires the firm as well as engagement quality reviewer to have an understanding of ISQM 2, while paragraph 20 of ED-ISQM 1 requires the individual(s) assigned ultimate responsibility and accountability, and the individual(s) assigned operational responsibility, for the firm's system of quality management to have an understanding of ISQM 1. Therefore, there is inconsistency between those requirements with regard to the treatment of "the firm."

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?

(Our Comment)

We do not oppose terminology changes, but we believe that the terminology changes are not indispensable and there will be no issue even if we do not change the current terminology. Rather, we believe there are some concerns that the change to "engagement quality review/reviewer" will make it difficult to distinguish whether the term refers to the various types of "review" conducted by the firm to ensure consistency of quality, or "engagement quality review" performed in accordance with ED-ISQM 2.

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 the 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 the proposed ISQM 2 as opposed to the IESBA Code?

(Our Comments to (a))

We agree to the need for the guidance.

(Our comments to (b))

We agree that ED-ISQM 2 deals with a “cooling-off” period for individuals before being able to act as the engagement quality reviewer. We believe that IESBA Code requirements deal primarily with independence of the engagement team and engagement quality reviewer from the entity. Therefore, the “cooling-off” period for engagement partners and engagement quality reviewers should be dealt with in ED-ISQM 2 as a matter of the eligibility of engagement quality reviewers. However, we have the following comments:

- Paragraph 16 requires the firm to establish policies or procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner, and paragraph A5 states that “accordingly, this ISQM requires the firm to establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.” However, other than the establishment of a “cooling-off” period, we believe that there is no alternative for the policies or procedures for such limitations. In order to clarify what is required, we believe that the requirement should clearly state that the firm is required to establish a suitable cooling-off period.
- We believe that flexibility should be allowed for the firm in determining the suitable cooling-off period in light of the circumstances of the engagements, and we agree with the statement in paragraph 28 of the Explanatory Memorandum of ED-ISQM 2 (“the IAASB recognizes that circumstances may differ for engagements other than audits of listed entities and therefore the firm may determine that no cooling-off period is necessary for certain types of engagements, or the firm’s policies or procedures may specify a different cooling-off period”). In this regard, the engagements that fall under the category of “the firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks” as described in paragraph 37(e)(iii)b of ED-ISQM 1, are those for which the firm voluntarily requires an engagement quality review, and it should be permissible to establish no cooling-off period for such engagements. We believe this flexibility will encourage the performance of the engagement quality review in a small firm where a cooling-off period is difficult to set.

Based on the above, we suggest the following amendments to paragraphs 16 and A5:

"16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an

individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner by establishing a suitable cooling-off period

A5. An individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual's objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level...Accordingly, this ISQM requires the firm to establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a suitable-specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation or relevant ethical requirements. The firm's policies or procedures may specify a different cooling-off period depending on the facts and circumstances of the engagement. In the case of an audit of financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted. In the case of the audit or other engagement for which the firm determines that an engagement quality review is an appropriate response to assessed risks based on the reasons for the assessments given to those risks (see paragraph 37(e)(iii)b of ISQM 1), the firm may determine that a cooling-off period is not necessary."

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 the proposed ISA 220 (Revised)?

(Our Comment)

We agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures. However, regarding the description in the Introduction section that explains the responsibilities of the engagement quality reviewer and engagement partner (paragraph 7), we have the following comments:

- We believe that it is critical that the engagement partner takes overall responsibility for managing and achieving quality on the engagement to distinguish the responsibilities of engagement quality reviewers and engagement partners, and this perspective should be added to paragraph 7.
- The latter part of the second sentence, "nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team" should be deleted because it causes misunderstanding. We believe that the engagement team may change the nature, timing and extent of procedures in response to the engagement quality reviewer's comments.
- The third sentence states that the engagement quality reviewer is not required to obtain evidence, which is obvious and therefore this sentence is not helpful.

In order to make the description in paragraph 7 concise and clear, we suggest the following amendments:

"7. The engagement quality reviewer is not a member of the engagement team. The engagement partner takes overall responsibility for managing and achieving quality on the engagement. Therefore, †The performance of an engagement quality review does not reduce the responsibilities of the engagement partner for managing and achieving quality on the engagement, ~~nor does it change the nature, timing and extent of procedures that need to be performed by the engagement team.~~ The engagement quality reviewer is not required to obtain evidence to support the opinion or conclusion on the engagement, but the engagement team may obtain further evidence through its responses to matters raised in the engagement quality review."

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?

(Our Comment)

We 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.

We do not believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer. We believe that ED-ISQM 2 sufficiently addresses the exercise of professional skepticism by the engagement quality reviewer by enhancing the requirements for the eligibility of engagement quality reviewers and the performance of the engagement quality review.

7) Do you agree with the enhanced documentation requirements?

(Our Comment)

We agree with the enhanced documentation requirements. However, we believe that paragraph 27(d) is not intended to require that the engagement quality reviewer and engagement partner discussion processes be documented in detail when the engagement quality reviewer's concerns are finally resolved, but this is not clear from the requirements. Therefore, we believe that it is beneficial to explain this in the application material.

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?

(Our Comment)

We believe that the requirements for engagement quality reviews in ED-ISQM 2 are scalable. However, for a cooling-off period, see our comment on question 4.

Other Comments on Individual Paragraphs of ED-ISQM 2

- Paragraph 10 (objective)

We believe that paragraph 10 is not adequate as an objective of the standard, as it only states that “the objective of the firm is to perform an engagement quality review for the engagement,” but does not state the objective of the engagement quality review. We believe that the description of the definition in the engagement quality review should be included as below. It is critical that the objective of the engagement quality review is “an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon,” and therefore even though the description overlaps with the definition of engagement quality review, it should be clearly stated in the objective of ED-ISQM 2.

"10. The objective of the firm is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon engagement quality review for the engagement through the engagement quality review."

- Paragraph 11(b)

The definitions of “engagement quality reviewer” in ED-ISQM 1 (paragraph 19(e)) and ED-ISQM 2 (paragraph 11(b)) differ from the definition in ED-220 (paragraph 10(c)); they should be aligned.

- Paragraph 11(c)

The definitions of “relevant ethical requirements” differ in ED-ISQM 1 (paragraph 19(s)), ED-ISQM 2 (paragraph 11(c)), and ED-220 (paragraph 10(k)), respectively. However, there is no need for the definition specific to the engagement quality review, and we believe that the same definition in ED-ISQM 1 should be used in ED-ISQM 2, in order to have one definition in the glossary of terms. In addition, relevant ethical requirements should be complied with not only by professionals but also by the firm. Accordingly, we suggest the following amendments to paragraph 11(c) of ED-ISQM 2 (see our comments to ED-ISQM 1):

"Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to a professional accountants and firms when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements ~~an engagement quality review~~. Relevant ethical requirements ordinarily comprise..."

- Last sentence of paragraph A4

We believe that amendments to the number of the referenced paragraphs of ED-ISQM 1 are necessary as follows:

"When using such an external individual, the firm is subject to the requirements for network requirements or network services in paragraphs ~~59-60~~ ~~58-63~~ of proposed ISQM 1, or the requirements for service providers in paragraphs ~~64-65~~ of proposed ISQM 1, respectively."

- Second sentence of paragraph A5

We believe that the second sentence of paragraph A5 ("in recurring engagements, the matters on which significant judgments are made and the facts and circumstances around those significant judgments are not likely to vary to a degree such that an objective evaluation of those judgments can be made by the individual who served as the engagement partner in the immediate previous period") needs deletion or clarification, as it is difficult to understand.

- Paragraphs A22 (Footnote 10) and A23 (Footnote 11)

Footnote 10 of paragraph A22 and footnote 11 of paragraph A23 are both referenced to paragraph 36 of ISAE 3000, which is duplicative. We believe one of these should be deleted.

- Paragraphs A30 (Footnote 14) and A31 (Footnote 15)

Footnote 14 and footnote 15 are referenced to paragraph A80 of ED-220, but we believe the references should be amended to paragraph A79 of ED-220.

- Paragraph A32 (Footnote 16 and Footnote 17)

Footnotes 16 and 17 are referenced to paragraphs 40(c) and (d) of ED-ISQM 1 respectively, but we believe that the references should be amended to paragraphs 37(c) and (d) of ED-ISQM 1.