

# GUIDANCE 8: OVERVIEW OF THE ENGAGEMENT QUALITY REVIEW



## What is Engagement Quality Review?

Engagement quality review is an objective evaluation of the **significant judgments made** by the engagement team and the **conclusions reached**, performed by the engagement quality reviewer and completed **on or before** the date of the engagement report. Engagement Quality Review is previously known as “Engagement Quality Control Review”.

Engagement quality review may be identified as part of responses to quality risk. This is in addition to the mandatory engagement quality review on listed entities and other entities where engagement quality review is required by law or regulation. SAIs with audits requiring exercise of significant professional judgments (e.g., significant valuation procedures in audits of financial institutions) are more likely to identify quality risks on such audits, and thus, use engagement quality review as risk response.

To operationalise engagement quality reviews, the SAI should have policies and procedures covering the following:

- Scope of engagement quality review
- Appointment and eligibility of engagement quality reviewer(s)
- Performance and documentation of engagement quality review

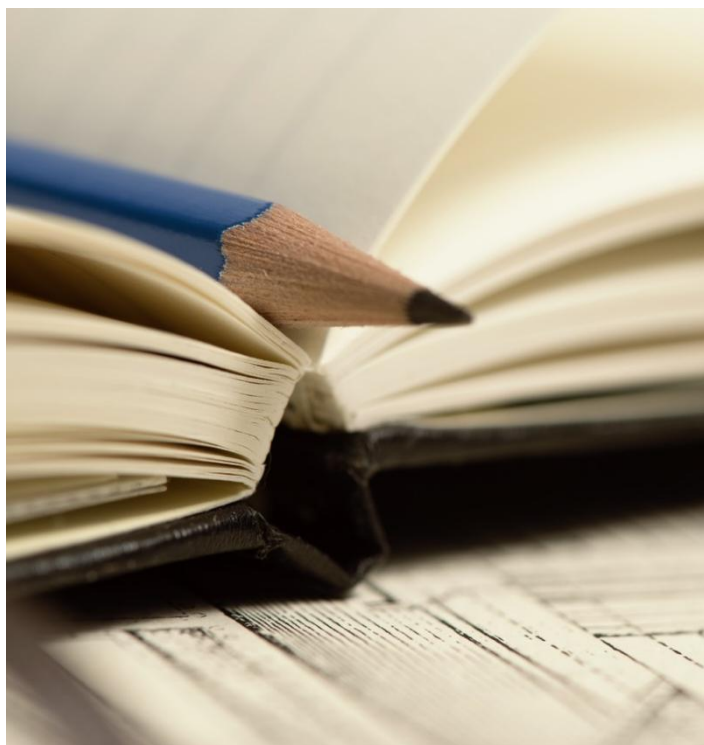
These areas are further expounded in the succeeding discussions.

## Scope of Engagement Quality Review

Engagement quality review is **NOT mandatory for each audit engagement of the SAI**. The main considerations that determine the need for engagement quality review are as follows:

- 1 There are audits of listed entities;
- 2 There are other audits where engagement quality review is required by law and regulation; and/or
- 3 There are audits or other engagements for which the SAI determines that an EQR is an appropriate response to address one or more quality risk(s)

The audits referred to include **financial audit, performance audit and compliance audit**.



### What areas are outside the scope of Engagement Quality Review?

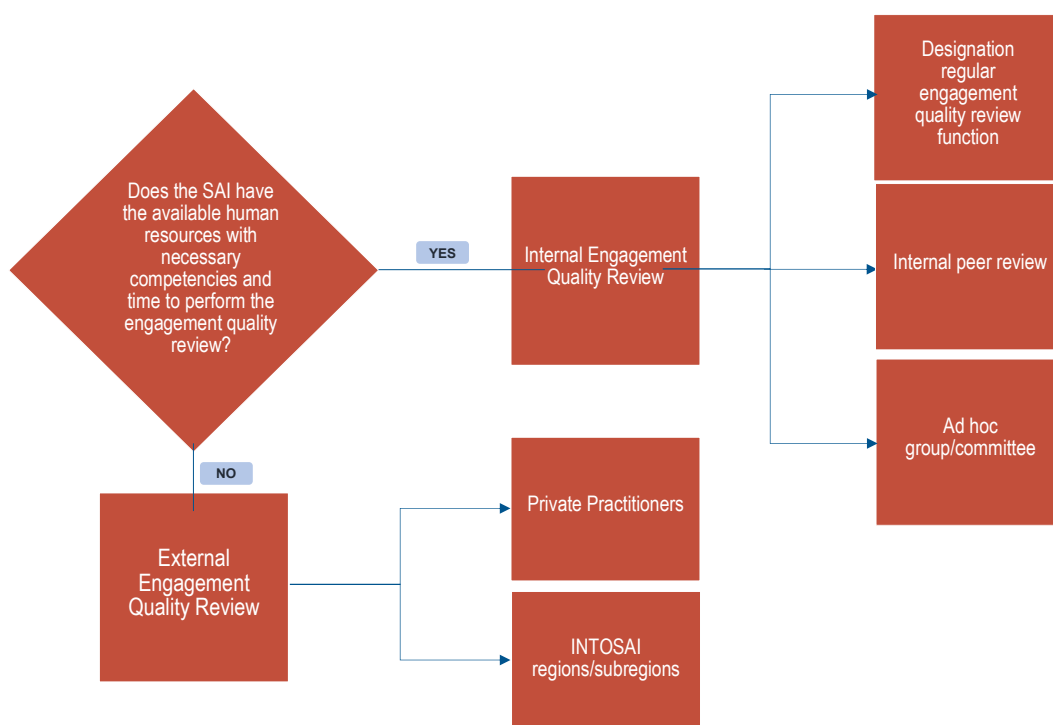
The focus of the engagement quality review is on 'significant judgments made' and 'conclusion reached' by the audit team. Thus, the engagement quality review is not intended to be an evaluation of whether the entire engagement complies with professional standards and applicable legal and regulatory requirements, or with the SAI's policies or procedures. This is instead part of the review objectives of monitoring function.

## Appointment and Eligibility of Engagement Quality Reviewer



### Who will perform the engagement quality review?

Engagement quality review is performed by individual(s) or group who meets the eligibility criteria discussed in the succeeding pages. In determining the approach that will work best for the SAI, the SAI needs to consider its available human resources and extent of audit engagements that need engagement quality reviews.



As depicted in the illustration, SAI's with limited human resources may resort to engagement of external engagement quality review. The external review may involve private practitioners when the SAI has financial resources, or through the INTOSAI regions/subregions. For such arrangement, the SAI needs to ensure that such external parties are bound to comply with SAI's code of ethics, especially on the aspect of confidentiality. The SAI also needs to consider whether the qualified individual(s) or group has the sufficient time to perform the review, otherwise the SAI may still decide to engage external parties despite the existence of competent individual(s) or group within the SAI.

For internal engagement quality review, the SAI may identify the option that will suit the SAI's needs for regular engagement quality reviews.

1

For instance, the SAI has a large number of listed entities on its audit universe, and/or there is a large number of audited entities that requires audit teams to exercise significant professional judgement (e.g. audited entities with complex asset valuations) on which the SAI usually identifies quality risks, then the SAI may consider it appropriate to appoint on a full-time basis individual(s) or group with regular function of engagement quality reviews to meet the demand.

2

When the SAI is not faced with a big demand for engagement quality reviews, the SAI may adopt internal peer review strategy. This strategy allows engagement supervisors/audit directors to exchange works, but the SAI should have controls in place to ensure that objectivity of each reviewer is preserved, especially when peers are auditing different entities with related party relationships, and thus, may affect their views considering that the application of audit teams' significant judgment is related to the prospective peer reviewer's own audit.

3

Another option for the SAI is to create an ad-hoc group or committee. This set up may be used when there is low demand for engagement quality reviews and allows flexibility as the eligibility criteria may be customised based on the needs of the specific audit engagements requiring engagement quality review.

On any option, the engagement quality reviewer has the same review objective and follows the same process and documentation requirements.



## SAI's Safeguards Against Impairment on Engagement Quality Reviewers' Eligibility

After the SAI has appointed qualified individual(s) or group as engagement quality reviewer, there may be instances when the eligibility is compromised due to certain circumstances that may be beyond the control of the SAI and the individual(s). For instance, availability of time is a common issue for internal engagement quality reviews particularly when internal peer review or an ad-hoc committee/group is used. It is possible that after the engagement quality reviewers are appointed, the work demand in SAI may result in changes that the appointed reviewers no longer have sufficient time to do the review, or, the SAI may have inadvertently assigned reviewers for their audit engagements within the cooling-off period due to weaknesses in monitoring. There may also be cases wherein discussions between audit team and the reviewer become significant affecting the objectivity of the latter. In such instances, the SAI's policies and procedures need to include safeguards to ensure an effective engagement quality review, which may include:



Responsibility of the concerned individual(s) or group to notify the SAI for any perceived impairment.

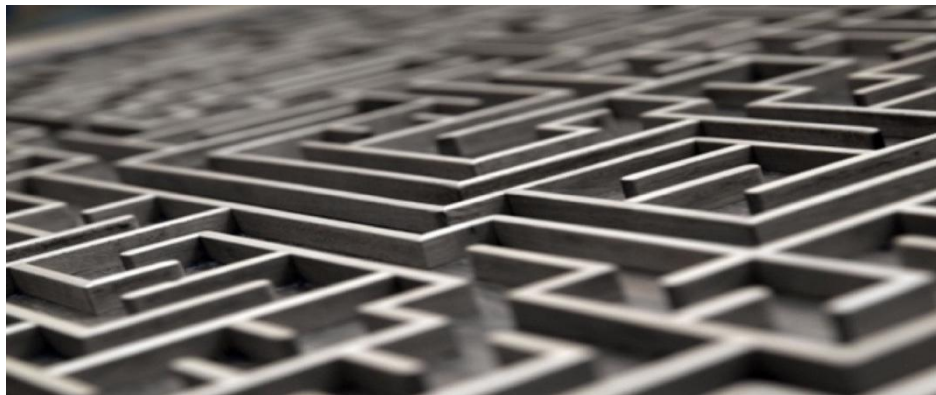


Guidelines in withdrawal or replacement of the appointed engagement quality reviewer. These include considerations when the actual review has commenced or yet to commence.



Support mechanism such as training to supplement the competency needs of the reviewer.





## Criteria in the Selection of Engagement Quality Reviewer

In general, the individual(s) who will be appointed as engagement quality reviewer need(s) to:

- have the competence, capabilities, including sufficient time, and appropriate authority
- comply with relevant ethical requirements, including in relation to threats to their objectivity and independence and, if applicable, the provisions of law and regulation

The SAI's policy and procedures need to set the specific eligibility the engagement quality reviewer needs to possess, which may include the following:



**Objectivity and independence.** The engagement quality reviewer needs to be objective and independent from the audit teams. Given that qualified engagement quality reviewer may come from SAI's pool of engagement supervisors/audit directors, when internal engagement quality review approach is selected, the SAI may set a cooling-off period (e.g. say 2 years or longer) before an engagement supervisor/audit director of the same audited entities in prior years can assume the role of engagement quality reviewer. The cooling-off period of the engagement supervisor/audit directors is not applicable when he/she handled different audit engagements.



**Relevant experience.** The SAI may set minimum number of years of meaningful experiences in auditing, or if appropriate, experiences in engagement quality review.



**Knowledge on professional pronouncements, legal and regulatory framework, and SAI's policies and procedures including the SAI's code of ethics.** The SAI may specify pronouncements that the engagement quality reviewer needs to have good exposure on.

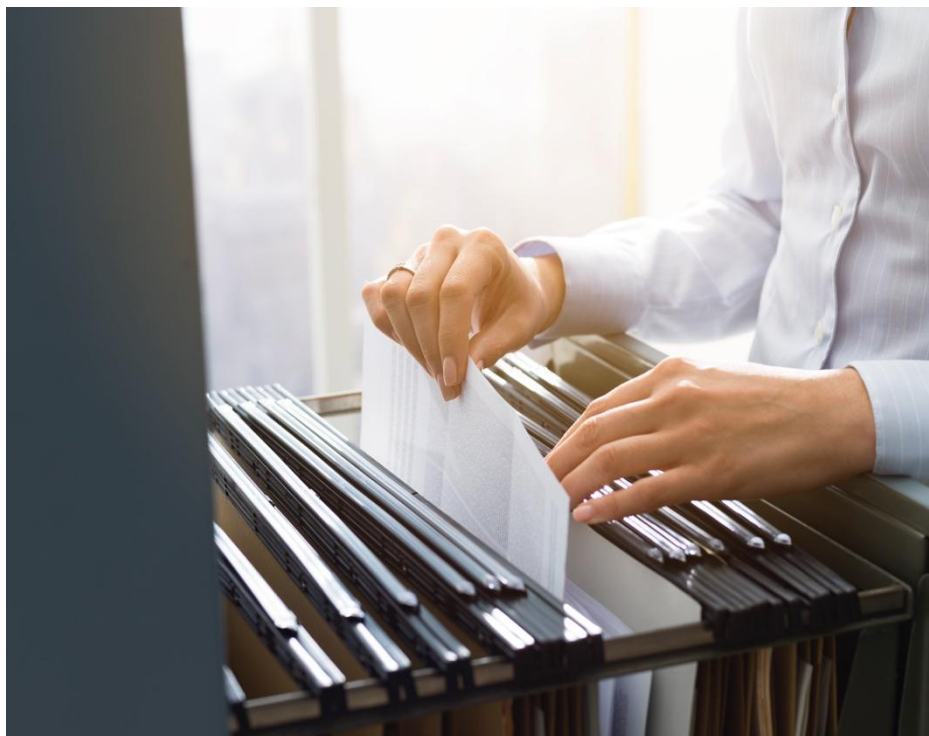


**Knowledge on audited entity's industry and engagements of a similar nature and complexity.** As the subjects of engagement quality review are significant judgements made and conclusions reached in the audit, the knowledge in the subject matter plays a significant role in assessing the reasonableness of audit team's judgement and conclusion.

In addition, it is of equal importance that the SAI considers whether the selected individual(s) or group **has sufficient time to perform the engagement quality review**.

When the SAI's policy allows other individuals to assist the engagement quality reviewer in conducting the review, the SAI also needs to set eligibility criteria for these individuals which are expected to at least similar with the engagement quality reviewer.

## Conducting Engagement Quality Review



The engagement quality review needs to be completed, and all issues between the reviewer and the audit team need to be resolved BEFORE the audit report is issued. Take note that *resolving differences of opinion* mentioned in the policies and procedures for “Performing Audit Engagements” component includes those between engagement quality reviewer and the audit team. It is important that prior to issuance of audit report, all differences of opinion need to be resolved and documented.

The review procedures are performed at appropriate points in time during the audit process, and should not be performed all at once to ensure that issues are resolved in a timely manner. In doing the review procedures, the SAI may develop its own tools, adopt or customise the suggested tools in the Playbook. Take note that the standards do not provide tools or checklists in performing the engagement quality review, as these are influenced by the SAI’s audit methodologies. The standards only provided general procedures of the review, as such, this resource material only provides suggested tools based on key requirements and procedures for the three audit streams.



# General Procedures in Engagement Quality Review

1



**Obtain understanding of information communicated by the audit team regarding the nature and circumstances of the engagement and the audited entity.** While the knowledge on the industry of audited entity, being the subject of review, is part of the eligibility criteria, the engagement quality reviewer still needs to obtain understanding of the information communicated by the audit team regarding the specific nature and circumstances in the audited entity (e.g. operations) and the audit engagement (e.g. areas where audit team encountered difficulties). This allows the engagement quality reviewer to set expectation or identify potential focus of the review.

2



**Read the result of SAI's monitoring and remediation process.** The SAI's monitoring function, provides a very useful information for identifying potential deficiencies in the application of significant professional judgment of other audit teams subjected to the monitoring (e.g. there were deficiencies raised by the monitoring function in auditing the reasonableness of the application of expected credit loss model for financial institutions in financial audit, or in identifying the most appropriate criteria for performance audit based on best practices, or in applying the concepts of qualitative materiality in the evaluation for compliance audit).

3



**Discuss with the audit team about the significant matters and significant judgments made in audit planning, performing and reporting.** Through discussion with the audit team, the engagement quality reviewer will be able to confirm potential areas where significant judgments were applied based on steps 1 and 2, and will be able to identify additional areas specifically communicated by the audit team.

4



**Review selected audit documentation relating to the significant judgments made by the audit team.** The engagement quality reviewer is not expected to review the entire audit documentation. The review focuses on (a) the basis for making significant judgments, including, when applicable to the type of engagement, the exercise of professional scepticism by the audit team, (b) whether the engagement documentation supports the conclusions reached; and (c) whether the conclusions reached are appropriate.

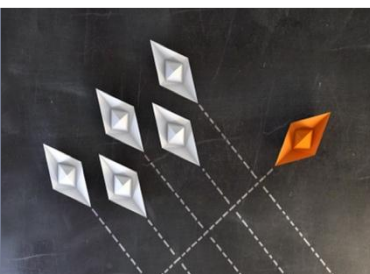
In reviewing the audit working papers, the SAI may adopt or customise the suggested tools in this Playbook covering the three audit streams:

Tool 5: EQR Tool (FA)

Tool 6: EQR Tool (PA)

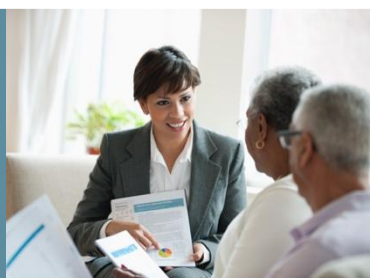
Tool 7: EQR Tool (CA)

5



**Evaluate the basis for the audit team's determination that relevant ethical requirements relating to independence have been fulfilled.** The engagement quality reviewer evaluates the adequacy of support upon which the audit supervisor or audit director acting as the engagement supervisor/audit director evaluates (and conclude on) the engagement's compliance with relevant ethical requirements.

6



**Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations.** The evaluation needs to consider SAI's policies and procedures on consultation and resolution of differences of opinion, and whether sufficient documentation was prepared for the result of such consultation.

7



**Evaluate the basis for the audit team's determination that the audit supervisor's/director's involvement has been sufficient and appropriate throughout the audit engagement such that the audit team has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement.** The engagement quality reviewer checks for the evidence of the involvement of the audit supervisor/director in the working papers (e.g., through signoffs and actual inputs in the audit).

8



**Review the subject matter/subject matter information and the related auditor's report.** Review of the subject matter/subject matter information (e.g., financial statements in case of financial audit) and auditor's report thereon may include consideration of whether matters relating to the significant judgments made by the audit team are consistent with the engagement quality reviewer's understanding of those matters based on the review of selected engagement documentation, and discussions with the audit team. The engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made for which further information may be needed about the audit team's procedures or conclusions.

The engagement quality reviewer needs to notify the audit team about concerns on significant judgments/conclusions of the audit team, as well as the completion of the review.

# Documentation of Engagement Quality Review



The engagement quality reviewer needs to prepare documentation to the extent that 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.

The minimum contents of documentation can be fulfilled by using the suggested engagement quality review tools, which cover:

- The names of the engagement quality reviewer and individuals who assisted with the engagement quality review
- An identification of the engagement documentation reviewed
- The basis for the engagement quality reviewer's determination on whether the engagement quality review conforms with the related standards and SAI's policies and procedures
- The date of completion of the engagement quality review

The engagement quality reviewer also needs to include in the documentation the evidence of the communications to the audit team about: (a) concerns noted on significant judgments and conclusions reached of the audit team; and (b) completion of the engagement quality review. As such, the EQR tool should be accompanied by documentation about the communication with the audit team.



Take note that the completed documentation of the engagement quality review will form part of the documentation for the audit engagement being subjected to EQR.