

## Documenting second partner review (Lecture A650–14.45 minutes)

### Second partner review v Engagement Quality Control Reviews (EQCR)

EQCR is a very specific type of second partner review that is required by the International Standard on Quality Control (UK) 1 (Revised June 2016) (ISQC 1) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements*.

A second partner review, is a more general term for a review by a second independent partner.

EQCR	Second partner reviews other than EQCRs
Required by ISQC 1 for all listed audits.	Often used as a safeguard to address threats to independence.
Firms should have policies and procedures when EQCRs are required where certain criteria are met.	Can be used where the audit is higher risk, there are specific problems or where modified or other non-standard reports are to be issued.
The nature of the review is set out in ISQC 1.	A second partner review other than an EQCR can be carried out in any way that the firm thinks necessary.
ISQCs are currently being revised which will almost certainly result in more specific requirements relating to the content and nature of the review.	

In light of the impending changes to ISQCs, some firms are revising their policies away from requiring EQCRs (unless they are required by an ISA or ISQC) towards more tailored reviews.

This section does not consider EQCRs in any detail. Instead it looks at how firms could refine their second partner review procedures to better serve their specific needs.

### Second partner review as a safeguard addressing threats to independence

Second partner review can be a very effective safeguard addressing certain threats to independence. It is particularly effective in addressing familiarity and self-interest threats as it provides a fresh pair of eyes.

It can also work with self-review, intimidation, advocacy and management threats. However, whatever the threat, it is only effective if the review is tailored to address that particular threat.

**Example – Threats arising from the provision of non-audit services**

**The auditor of A Ltd assists with the preparation of the financial statements and provides Corporation Tax compliance services to the company as non-audit services. The safeguard used to address these threats is second partner review. What should the second partner review include?**

There is little point in doing a full file review as the purpose of the review is very specific.

The review should consider how the auditor's independence might have been affected by providing the non-audit services. The review should look at any issues that might arise from self review threats, which would include looking at the financial statements and the tax computations.

The reviewer should also consider whether there were any management decisions required in these areas that the auditor might have advised on, in order to identify the effect of management threats. This would involve looking through the completion section of the audit file and carefully considering accounting policies and accounting estimates.

**Example – Threats arising from long association**

**The audit engagement partner of B Ltd has been doing the audit of the company for 15 years. A second partner review is being used as a safeguard against the threats to independence arising from long association. What should the second partner review include?**

The reviewer will need to carefully tailor their review to focus on the areas where audit quality might suffer due to long association.

The reviewer will start with a review of the financial statements, using their professional judgment to identify any interesting transactions, balances, accounting polies and disclosures. The reviewer might look into the audit file in more detail in these specific areas and may have discussions with the audit partner to confirm how the issues were addressed.

**Note:** the scope of these second partner reviews will be very specific to that audit and will change as the review progresses. The use of the reviewer's professional judgment is critical in ensuring an effective review.

**Second partner review for other reasons**

Firms should have policies and procedures that set out criteria for when second partner reviews (including EQCRs) are required. This criteria might include when:

- the auditor's report has a modified opinion, emphasis of matter or material uncertainty relating to going concern paragraph;

- there are particular risks on the audit; or
- the firm considers there to be a public interest in the audit. This may be different to a Public Interest Entity (PIE) audit, which is very tightly defined.

The second partner review needs to be tailored to address the relevant issues that drove the need for the review.

### **Documentation**

A checklist might be needed for an EQCR on a listed audit but for other second partner reviews it is of limited use.

The documentation of the review should cover:

- the scope of the review;
- the key issues considered; and
- how any questions were resolved.

Reviewers often raise written notes/questions, and the engagement partner of the audit team record a response. Some firms have a policy of destroying such documents for legal reasons, but it is important that any useful documentation created as part of the second partner review process is retained.

### **Example – essential documentation of the results of a second partner review**

#### **Extract from audit file:**

#### **Second partner review note**

Why is annual subscription income recognised on a cash basis rather than on an accruals basis? The file does mention this unusual accounting policy.

#### **Response from engagement partner**

This was considered when we first did the audit. It is an odd situation that members are under no legal obligation to pay the annual fees, so the company can only recognise the income when it is paid.

*Note: If this query is destroyed an important bit of evidence on this year's file will be omitted. The note could be destroyed provided that the evidence is properly recorded elsewhere.*

*Note2: The auditors also should not forget to obtain corroborating evidence of this unusual situation. Verbal (or even written) representations from management are never sufficient on their own.*

**Example documentation**

**Second partner review**

**Why was a second partner review needed?**

As a safeguard addressing long association of the audit partner. (18 years – see PAF ref xxx)

**Scope of the second partner review**

A review of the financial statements and the auditors' approach to key audit areas to provide a fresh, independent view of the audit.

**Issues arising**

**Goodwill** – this is being amortised over 20 years. Is there enough evidence to support that?

**Investment property** – directors' valuations have been used and accepted for a number of years. Are the directors sufficiently knowledgeable and independent to produce these valuations? Is it possible to better corroborate the valuations?

**Conclusions**

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Second partner

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Date