

June 28, 2019

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
585 Fifth Avenue – 14th Floor  
New York, NY 10017  
U.S.A.

Dear Mr. Botha,

**Re. IAASB Exposure Draft for Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements**

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB’s Exposure Draft for Proposed International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements* (ED-220).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB’s Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB’s ED. In our response, “Canadian stakeholders” refers to those who provided us with input. Also, “we” refers to the AASB.

Our comments are set out under the following main headings:

- A. Overall Comments;
- B. Request for Comments; and
- C. Other Comments on Specific Paragraphs.

Editorial comments on ED-220 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at [kcharbonneau@asbcanada.ca](mailto:kcharbonneau@asbcanada.ca).

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D  
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members  
Julie Corden, CPA, CA, IAASB Member  
Eric Turner, CPA, CA, IAASB Member

## A. Overall Comments

Overall, we and Canadian stakeholders agree that the proposed changes are an improvement over the extant ISA. The changes bring clarity to issues, such as understanding that the engagement partner can assign tasks to other engagement team members and emphasizing that the engagement partner is responsible for the overall quality of the engagement.

## B. Request for Comments

- 1) ***Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?***

In part.

We support the revisions emphasizing that the engagement partner is to be sufficiently and appropriately involved throughout the engagement to provide leadership to achieve a high-quality audit. We are supportive of the engagement partner having to take overall responsibility for the engagement.

Canadian stakeholders support the requirement in paragraph 13 allowing the engagement partner to assign procedures, tasks or other actions to members of the engagement team.

We believe ED-220 appropriately reflects the role of other senior members of the engagement team. Paragraph 12 of ED-220 explicitly references supervisory roles, which we believe is adequate in reflecting the role of other senior members of the engagement team, which could include a partner, manager or senior staff member. Canadian stakeholders raised concerns that having a separate standard for an engagement quality reviewer (EQR) may have the unintended consequence of appearing to elevate the role of the EQR above that of the engagement partner because the engagement partner's role and responsibilities are not reflected in a separate standard. We recommend that non-authoritative guidance address this possible misperception.

We believe that the use of the terms “effective”, “emphasizing” and “encouraging” in paragraph 12 are difficult to document and demonstrate. We believe this requirement can only be met by taking a checklist approach. We recommend including application material to assist practitioners in meeting this requirement.

We are supportive of the overall concept of the stand back requirement in paragraph 37 but have proposed a change in wording in Section C of this letter. We believe this suggested wording clarifies the requirement.

**2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm's policies and procedures and the material referring to when the engagement partner may depend on the firm's policies or procedures?**

No.

ED-ISQM 2 paragraph 22 sets out a number of procedures that the EQR is required to perform. Further, paragraph 23 requires the EQR to notify the engagement partner of any concerns related to significant judgments. However, ED-ISA 220 paragraph 33(c) only deals with discussing significant matters arising during the engagement with the EQR. The remaining requirements in paragraph 33 address ensuring an EQR has been appointed, cooperating with the EQR and not dating the auditor's report until the completion of the review. There is no requirement for the engagement partner to respond to issues raised by the EQR. We believe ED-ISA 220 should require the partner to respond to issues raised by the EQR to establish a stronger linkage to the requirement in ED-ISQM 2. We do not believe any changes are necessary to ED-ISQM 2.

Canadian stakeholders are supportive of paragraphs A7 and A8 that indicate the engagement partner may rely on firm level responses to quality risks that are not performed at the engagement level. For example, if the engagement team is relying upon employees in a service delivery center to perform certain audit procedures, the engagement team will be relying on firm level procedures to assess the competence and capabilities of these engagement team members.

**3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)**

In part.

We support the inclusion of paragraph 7 to emphasize at the outset, the importance of the application of professional skepticism by the auditor. However, we believe that the paragraph is duplicative and repetitive. We recommend either deleting the third sentence and onward as it is redundant or moving it to paragraph A27-A29. Canadian stakeholders believe the stand back requirement also strengthens professional skepticism.

We do not support the fourth bullet in paragraph A27. ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, requires the auditor to obtain a sufficient understanding of the entity and its environment. We do not believe this bullet is appropriate as it relates to another ISA, unlike the remaining bullets.

**4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?**

In part.

Canadian stakeholders agree with the revisions to the standard to reflect the modern-day auditing environment, including recognizing that engagement team members can be in different geographic areas and the use of technological tools for audit evidence. However, as technology continues to evolve, ED-220 may become outdated.

To recognize the modern-day auditing environment, the definition of engagement team has been revised in ED-220. We do not support the changes that were made to broaden the definition to include any individual who performs an audit procedure on the engagement. We understand that the IAASB has broadened the definition to encompass evolving team structures, for example, individuals who perform audit procedures from a service delivery center. However, we believe broadening the definition of engagement team could lead to unintended consequences. Paragraphs 11 and 12 require the engagement partner to take responsibility for creating an environment that emphasizes the firm's culture and expected behavior of the engagement team members. We foresee practical challenges with implementing this requirement if, for example, some engagement team members are located offsite at a service delivery center, potentially in another country. Paragraph A22 provides guidance that this requirement may be achieved through the engagement partner's conduct and action (e.g., leading by example). This will not be possible if all engagement team members are not in the same location. We recognize that in a group audit, engagement team members are located in different geographic regions, but they work together as an engagement team. In a service delivery center, an individual typically does not work with other members of the engagement team. Rather, the individual performs procedures and provides the results to the engagement team to be used as audit evidence. We recommend keeping the definition of engagement team consistent with the extant standard.

**5) Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)**

Yes.

We support the revised requirements and guidance on direction, supervision and review. Canadian stakeholders support paragraph A57, which recognizes that the engagement partner may rely on the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output from technological tools.

**6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?**

In part.

Canadian stakeholders raised concerns about the difficulty in documenting that the engagement partner has performed the stand back requirement. Questions were raised as to what constitutes sufficient audit documentation for this requirement. Paragraph A102 provides a list of items indicating how the engagement partner can document the engagement partner's involvement in the audit engagement. As the objective of ED-220 is to issue an auditor's report that is appropriate in the circumstances, it seems appropriate that evidence of the overall stand back requirement be the signing of the audit report. We recommend adding application material to address this.

We support the requirement in paragraph 29 that emphasizes that the engagement partner should be reviewing audit documentation at appropriate points in time throughout the engagement.

**7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?**

Yes.

Canadian stakeholders believe the requirements in the standard are scalable to engagements of differing sizes. We support paragraph A14 that provides guidance for smaller firms on how many of the responses may be most effectively dealt with by the engagement partner at the engagement level. We support application material in paragraph A15 indicating that some of the requirements in the standard may not be applicable if the engagement is carried out entirely by the engagement partner, as it would be in a sole proprietorship.

ED-220 contains the section "Considerations Specific to Smaller Firms" whereas ED-ISQM 1 and ED-ISQM 2 do not. We suggest consistency amongst the three standards as small practitioners will be looking for this "signposting" and will locate it in ED-220, while not in the ISQM standards. We suggest the IAASB consider adopting the same approach as ISA 315 (Revised) to highlight paragraphs that relate to scalability.

### C. Other Comments on Specific Paragraphs

We are proposing the following changes to paragraph 37 (the stand back requirement):

#### **Taking Overall Responsibility for Managing and Achieving Quality**

37. Paragraph 11 requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement. Prior to dating the auditor's report, the engagement partner shall determine whether the requirement in paragraph 11 has been met ~~that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.~~ In doing so, the engagement partner shall determine that: (Ref: para. A99-A101)
- a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
  - b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ISA.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> <li>• 19 practitioners from SMPs/Sole Practitioners</li> <li>• Some perform audits, reviews and compilations, while others are compilation-only</li> </ul>
Video roundtable consultation – CPA British Columbia	May 2	<ul style="list-style-type: none"> <li>• 17 practitioners from SMPs/Sole Practitioners</li> <li>• 2 CPA Quebec staff members</li> </ul>
Virtual roundtable Consultations – CPA Quebec	May 6	<ul style="list-style-type: none"> <li>• 7 practitioners from SMPs</li> <li>• 1 academic</li> <li>• 1 AASB board member</li> <li>• 3 CPA Quebec staff members</li> <li>• 1 member from the public sector</li> </ul>
In-person roundtable consultation – CPA Ontario SMP Committee	May 10	<ul style="list-style-type: none"> <li>• 11 practitioners from SMPs/Sole Practitioners</li> <li>• 4 staff of CPA Ontario</li> </ul>
Video roundtable consultation – Compilation Engagements Task Force	May 21	<ul style="list-style-type: none"> <li>• 4 practitioners from SMPs/Sole Practitioners</li> <li>• 2 staff of provincial bodies of CPAs</li> </ul>
In-person workshop to field test the proposals (note: report to be included in June 25 meeting agenda papers)	May 15	<ul style="list-style-type: none"> <li>• 5 practitioners from practices ranging from SMP to larger firms</li> </ul>

We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector