

Appendix 3: EYG Response to ED-ISA 220

Our responses to the specific questions on which the IAASB is seeking feedback from Proposed International Standard on Auditing 220 *Quality Management for an Audit of Financial Statements* are set out below. We have also added an 'Other matters' section, which includes comments on other matters within the standard for which we are suggesting enhancements or clarifications and drafting and editorial suggestions in the 'Editorial and typographical suggestions' section.

Proposed International Standard on Auditing 220 *Quality Management for an Audit of Financial Statements*

Q1. *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?*

Yes, we support the focus of ED-ISA 220 on the sufficient and appropriate involvement of the engagement partner as part of taking overall responsibility for managing quality on the engagement. As stated in paragraph 17 of the explanatory memorandum, the sufficient and appropriate involvement of the engagement partner is fundamental to providing the engagement leadership required to achieve high quality audits.

We also believe that ED-ISA 220 appropriately reflects the role of other senior members of the engagement team and we understand that even when the engagement partner assigns procedures, tasks, or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of the standard, the engagement partner continues to take overall responsibility for managing and achieving quality on the audit engagement.

Our analysis of ED-ISA 220 was from the perspective of a non-group audit, but we recognize that this standard also applies in the context of group audits. Given that the IAASB is currently undertaking a project to revise ISA 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*, we expect ISA 600 (Revised) will include specific considerations for applying ISA 220 to group audits. However, ISA 600 (Revised) will not be effective until after ISA 220 (Revised) is required to be implemented. To bridge this timing gap between the effective dates of the two standards, we recommend the IAASB create non-authoritative guidance in the interim that includes the IAASB's expectations or direction for implementing revised ISA 220 in the context of group audits. Guidance is specifically needed on the roles and responsibilities of the engagement partner at the component level in comparison to those of the group engagement partner for ISA 220 requirements related to relevant ethical requirements, engagement resources, and engagement performance. Without such interim direction or guidance from the IAASB, we believe there is a high risk of differing interpretations of how ISA 220 is intended to apply to group audits.

Q2. 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?

Yes, we agree that ED-ISA 220 has the appropriate linkages with the ISQMs and fully support the requirements to follow the firm's policies or procedures. We also support the removal of the material from extant ISA 220, which states that engagement teams are entitled to rely on the firm's system of quality control, and replacing it with the guidance in paragraph A8 that states that the engagement partner may depend on the firm's policies or procedures and should take into account the engagement partner's knowledge or understanding of such policies and procedures and the information obtained from the firm about the effectiveness of such policies or procedures. We agree that this approach will assist the engagement partner when making his or her own determination as to whether the firm's policies or procedures are appropriate in the specific circumstances of the engagement.

Q3. 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)

We support the inclusion of responsibilities of the engagement partner and the engagement team to exercise professional skepticism in the introduction of ED-ISA 220. Specifically, we support the possible actions that the engagement partner may take to deal with the impediments to the exercise of professional skepticism at the engagement level. We believe these actions assist in managing and achieving quality on the audit engagement. However, we recommend that the IAASB consider clarifying that the impediments to the exercise of professional skepticism described in paragraph A27 are examples of impediments or potential impediments to the exercise of professional skepticism. That is, the presence of these items does not necessarily mean that professional skepticism cannot be exercised.

Further, we recommend that the IAASB consider including an explanation of what it means to exercise appropriate professional skepticism in the application material of ISA 220 (Revised). This could be achieved by providing a direct cross-reference to paragraphs A20 through A24 in ISA 200. Including a balance explanation of what professional skepticism is, together with impediments to professional skepticism, would be useful to support the expected behavior by engagement partners and engagement teams.

Q4. Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

We believe ED-ISA 220 adequately deals with different the audit delivery models and that the definition of "engagement team" and its supporting application material in paragraphs A16 through A19 have been appropriately updated. We support the specific inclusion of individuals from service delivery centers as members of the engagement team.

We support the expansion of the resources assigned, allocated or made available by the firm to support the performance of audit engagements to include technological resources, which reflects the important role of technology in audits of financial statements. However, we believe that paragraph 26 should be further enhanced to more clearly state that technological resources that are not in the scope

of the firm's system of quality management are the responsibility of the engagement partner. For such technological resources, the engagement partner should have a responsibility to determine that such technological resources have been designed, implemented, and maintained properly, taking into account how the resources are intended to be used on the engagement.

Q5. *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. Specifically, we believe that the enhanced requirements for the engagement partner to review audit documentation at appropriate points in time during the audit engagement as included in paragraph 29 will support the performance of a quality audit. We also believe that the detailed discussion of how an engagement partner can provide direction and supervision of engagement teams and review of their work in paragraphs A72-A76 will be helpful to the implementation of the requirements of ED-ISA 220.

Q6. *Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?*

Yes, we believe that ED-ISA 220 together with the overarching documentation requirements in ISA 230 include sufficient requirements and guidance on documentation.

Q7. *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, we believe that ED-ISA 220 is appropriately scalable to engagements of different sizes and complexity, with the exception of group audits for which we believe further guidance is needed (refer to our response to Q1).

The information included in the appendix in the explanatory memorandum appropriately explains how ED-ISA 220 is scalable for firms of different sizes and for engagements where nature and circumstances differ and we recommend that the IAASB leverage this content for implementation materials.

Other matters

Objective

In reviewing the updated objective in ED-ISA 220, it is unclear how we would determine that an auditor has "managed quality at the engagement level to obtain reasonable assurance that quality has been achieved." It is our recommendation that the objective of the extant standard be retained as it is more concise and measurable, with the minor change of updating "control" to "management." Specifically, we propose the following wording for the objective of the standard:

The objective of the auditor is to implement quality management procedures at the engagement level that provide the auditor with reasonable assurance that:

(a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and

(b) The auditor's report issued is appropriate in the circumstances.

We believe retaining the extant objective with the minor wording change is clearer and will be better understood by auditors, while still being consistent with the enhancements to ISA 220 to address the engagement partner's responsibility for managing quality on the engagement.

Satisfied vs. determined

The explanatory memorandum for ED-ISA 220 clarifies the meaning of the phrases "shall be satisfied" and "shall determine;" however, this clarification is not included within the standard. We recommend that this be clarified within the standard as the phrase "shall be satisfied" is used in several requirements, and without a clear description, can be open to interpretation and may result in inconsistent application.

Editorial and typographical suggestions

Paragraph 26

- ▶ Remove the number "4" from "appropriately."

Paragraph 36

- ▶ The application material reference should be A95 - A98.

Paragraph A24

- ▶ We suggest rewriting this paragraph as follows to remove the first bullet as the first bullet repeats the text included in paragraph 27: Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including varying the nature, timing and extent of such direction, supervision, and review in the context of the nature and circumstances of the engagement.

Paragraphs A22, A33, A34, A50, A53, A100 and A101

- ▶ We think that the readability of the application material would be improved if the references to the requirement paragraphs such as 'in accordance with paragraphs 14 - 19' or 'in addressing the requirements in paragraphs 11 and 12' were removed. It is redundant to refer to the requirement paragraphs when the sub-headings in the application and explanatory materials sections include the cross reference to the requirement paragraphs.