

IAASB
International Auditing and Assurance Standards Board

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Subject: Response from FSR – danske revisorer (FSR – Danish Auditors) to the IAASB Consultation Paper on the Exposure Draft, International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements.

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Dear Sir or Madam,

FSR – Danish Auditors is pleased to provide you with our response to IAASB's Consultation Paper on the Exposure Draft, International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements.

Please refer to appendix 1 for our detailed answers to the questions stated in the invitation to comment.

Moreover, we refer to FSR - Danish Auditors' response to the overall explanatory memorandum.

For further elaboration of our comments, please contact Louise Nellemann at lne@fsr.dk

Yours sincerely,

Tom Vile Jensen
Director

Louise Nellemann
Head of Technical Audit,
State Authorized Public Accountant

Appendix 1

Side 2

Question 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?

We support the intent of the revisions to promote consideration of risks in relation to quality at the engagement level. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement and that the engagement partner takes overall responsibility for the quality of the engagement. We also support the proposed “stand-back” determination by the engagement partner.

However, an engagement partner cannot practically be expected to be able to oversee every aspect of quality on a large and complex engagement, including when alternative delivery models are used. Accountability for different aspects of audit quality in an engagement can, in our view, be shared with others when all participants understand their role and how it interrelates with those of others.

We are concerned that the proposed requirements addressing the responsibilities of the engagement partner when assigning procedures, tasks or actions to others may impose practical implications that may not lead to audit quality in larger and more complex audits. Requiring the partner to review documentation of all those to whom responsibility for aspects of quality have been assigned may be impractical and may, in fact, unduly divert the engagement partner’s attention and time from aspects of the audit that most directly warrant the engagement partner’s attention.

Furthermore, when applied to group audits, paragraph 13(b) would require that the engagement partner monitors the work, and reviews documentation, of all component auditor partners across the group. On a large, complex group, this is simply not practical.

In Denmark it is not uncommon on larger engagements to have two partners signing the auditor’s report. The revised ISA 220 should address such situations.

The exposure draft does not directly include the role of an engagement manager. The revised ISA 220 should address such situations.

Question 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?

We believe that the linkages with the ISQMs are sufficiently clear. However, we do not support guidance in paragraph A8 that appears to call into question whether or not the engagement partner can in fact rely on the firm’s policies and procedures and system of quality management, as determined in accordance with ISQM 1. The use of the words “whether, and the degree to which” the partner may depend on such policies and procedures implies that a firm has not adequately complied with ISQM 1.

Question 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)

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

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

We support recognising evolving audit delivery models and providing guidance on how principles-based requirements may be applied in various engagement circumstances. However, we believe that the related application material is limited, which may give rise to inconsistent application.

Especially, we believe more guidance is needed to recognise the potential impact of technology on the execution and review of audit work and the importance of the firm’s system of quality management in supporting the use of approved technology. For example, if the firm has developed a tool for identifying higher risk transactions, the engagement team would likely need to place reliance on the firm’s processes for developing and maintaining tools that are reliable and fit for purpose. We think it would be helpful to specifically recognise this linkage with the firm’s system of quality management in the application material in this section.

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

Side 4

In our view, it is important that the revised requirements are principles-based and recognise that the way in which compliance with these requirements is achieved may vary depending on the structure of the engagement team. For example, the approach to direction, supervision and review may vary depending on whether an audit delivery model or a component auditor is being used.

In the context of a single entity audit, we consider the requirements addressing direction, supervision and review to be reasonable. However, we are concerned that the standard may not be capable of appropriate application to various engagement circumstances that may arise, and in particular group audits, which is a consequence of the expansion of the definition of engagement team to include all staff of component auditors. We recommend that an assessment of all requirements be performed to determine whether they are capable of being applied in the context of a group audit.

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

We believe that ED-220 together with the overarching documentation requirements in ISA 230 includes sufficient requirements and guidance on documentation.

Question 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?

We suggest making scalability options more clear. For larger and more complex group audits, and audits of standalone entities with cross-border shared service centers, etc., there are challenges in articulating the nature and extent of the engagement partner's responsibilities for the day-to-day supervision and review of the work of the extended engagement team resulting from the change in definition to include all staff working on a group audit.