



International Auditing and Assurance Standards Board
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Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Quality Management suite of Exposure Drafts.

Overall, we are supportive of the development of a suite of quality management standards. We see this as a positive step towards improving the quality of firms' systems of quality management leading to higher quality engagements performed by firms. We are cognizant that the proposed requirements for a system of quality management are a large step change for most firms but are of the view that this will solidify changes that some firms have been progressing over the past few years. For example, many firms have already implemented policies and procedures including those related to performing root cause analysis, developing an appropriate firm culture and developing mechanisms to handle complaints and allegations. The development of the proposed standards will expand such best practices into other firms that have not commenced this process and will provide a mechanism by which firms can more proactively manage quality rather than reactively control quality.

We do however have several concerns, highlighted below, on which we elaborate further in our detailed responses.

Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews

We are significantly concerned that the proposed effective date of the suite of quality management standards of 18 months from approval will not allow sufficient time for the standards to be properly implemented and will lead to firms not being able to take the time to properly address the new requirements. Such a short implementation period may lead to policies and procedures being implemented that do not fully address the proposed new requirements and may be detrimental to quality in the short term.

ED-ISQM 1

We are supportive of the introduction of a quality management approach for firms in developing their processes, policies and procedures. Overall, we are of the view that the proposed standard has been developed in a scalable manner, however, there are a few areas that we believe warrant further consideration from a scalability perspective. Specifically, we believe that the requirements may be overwhelming for those firms that only perform compilation engagements or agreed-upon procedures engagements and have recommended further consideration of this area; including whether the proposed standard should apply at all to these firms, or whether consideration should be given to identifying a subset of requirements with which these firms are required to comply. We are also of the view that the requirements in relation to service providers and to firms that are part of a network could prove to be burdensome absent more defined boundaries to these requirements.

We have highlighted a number of areas in our detailed response where we are of the view that further application material is warranted. In particular, we would highlight the requirement for firms to identify and assess risk. Specifically, how the identification and assessment of risks actually differs and how this can be evidenced by firms. Further, in respect of the assessment of the possibility of the risk occurring, guidance on how a "significant effect" should be measured or determined would be helpful. Absent this additional application material, there is the potential that firms may interpret this inconsistently and may experience difficulties in supporting their risk assessments should they be subject to challenge by regulators or through other inspection mechanisms.

We would also like to highlight the requirement for an annual evaluation of the system of quality management. As explained in our response to question 12, we are of the view that such an evaluation is redundant in a properly developed system of quality management, as such a system should promote continuous improvement.

ED-ISQM 2

We are of the view that the ED-ISQM 2 should not include a requirement for firms to develop a 'cooling off' period between an individual acting as an engagement partner and subsequently an engagement quality reviewer on the same engagement. We are of the view that this is in the purview of the International Ethics Standards Board for Accountants (IESBA) not the IAASB and accordingly should be addressed by IESBA.

In respect of the scalability of the proposed new standard, we have highlighted concerns in relation to the practical operation for smaller firms of the requirement for the person appointing the engagement quality reviewer to always be independent of the engagement team and in relation to the extent of the procedures listed as required to be performed by the engagement quality reviewer.

ED-220

We have significant concerns regarding the extent of the engagement partners responsibilities proposed by the amendments, specifically in their application to large single entity engagements and to multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Absent further guidance on how to practically apply these responsibilities in such engagements, we are of the view that these proposed amendments could be detrimental to quality. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

We are also concerned with the proposed definition of an engagement team. We have heard conflicting views on whether the definition of engagement team includes the component auditor and secondly, we are unclear about what constitutes an 'audit procedure' in this definition. An incorrect interpretation of this could result in individuals based at off-shore centres or those engaged in data mining activities being incorrectly included or excluded. Absent further clarity of these issues, we are of the view that this may have unintended consequences on who is considered a member of the engagement team and for the procedures that become required in relation to those individuals.

We respectfully submit our detailed responses to the Quality Management Exposure Drafts, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at sara.hm.ashton@uk.gt.com or at +1 646 825 8468.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

Antony Nettleton
Global Leader – Quality and Risk Management
Grant Thornton International Ltd

Enc: Appendix D: Response to Exposure Draft – Proposed International Standard on Auditing 220
(Revised)

Responses to IAASB's Exposure Draft – Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*

The following provides our detailed response to the IAASB's request for comments to Exposure Draft – Proposed International Standard on Auditing (ISA) 220 (Revised), *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?

We agree that to take overall responsibility for managing and achieving quality on the audit engagement, the involvement of the engagement partner needs to be both sufficient and appropriate. However, there is a level of prescription to the requirements that is not consistent with a principles-based approach. For example, paragraph 12 lists a number of actions the engagement partner and others to whom supervisory roles are assigned are to take. In a principles-based approach, these are actions that we would expect to be included in application material providing guidance on how the engagement partner would achieve the desired outcome of paragraph 11.

Further, paragraph 12 introduces a requirement addressed to “others to whom supervisory roles are assigned” (rather than the term “senior members of the engagement team” as included in the question). There is no definition or guidance indicating the members of the engagement team this would encompass. For example, a second-year staff person on an engagement may be assigned to coach the first-year staff person and review their work product. This is essentially a supervisory role. It is not clear if this requirement is expected to extend to such a person. If so, we are of the view that this would create an onerous burden to evidence how each of the team members with a supervisory role, however small, has fulfilled the specific requirements of paragraph 12.

Paragraph 13 allows the engagement partner to assign procedures, tasks or actions to other members of the engagement team to assist in complying with the requirements of the ISA. However, 13(b) requires that, when making such an assignment, the engagement partner reviews selected related documentation to evaluate the conclusions reached. Guidance concerning the extent of the review to be performed by the engagement partner would be helpful. If the intention is that the engagement partner is required to review selected documentation of all team members to whom work is assigned, we are of the view that this requirement will be unduly onerous.

Q2. Does ED-220 have appropriate linkages to 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 note that the explanatory memorandum indicates that the term “shall be satisfied” is used in the proposed requirements that refer to the engagement partner's responsibility in relation to actions that occur at the firm level but which are relevant to managing and achieving quality at the engagement level and “shall determine” is used in relation to actions that refer directly to actions that the engagement partner is required to take. The distinction between these two phrases is not clear, nor is it consistent with the use of “shall be satisfied” in other ISAs. Further, given that this distinction is only referenced in the explanatory memorandum, the nuance will become lost over time.

We are of the view that extant ISA 220 paragraph 4, which included a statement that “engagement teams are entitled to rely on the firm’s system of quality control, unless information provided by the firm or other parties suggests otherwise” is clearer than what is currently proposed in ED-220. In our view, it is not clear that paragraph 4(a) of ED-220 is addressing the reliance by the engagement partner on the firm’s policies and procedures. This only becomes apparent when read in conjunction with paragraph A8. We would therefore recommend that a similar statement be incorporated into paragraph 4(a) ED-220, appropriately amended to address the issue of ‘blind reliance.’ This would then be supported by application material paragraphs A7 and A8 of ED-220, which would reinforce that action was expected on behalf of the engagement partner to determine whether it was appropriate to place reliance on all of, or aspects of, the firm’s system of quality management.

Q3. Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level?

We acknowledge the proposed amendments to ED-220 to place further emphasis on the appropriate exercise of professional skepticism through expanded discussion of its application in the introductory section to ED-220 (paragraph 7), the impediments (paragraph A27) to its application at the engagement level and the effect of auditor biases on its application (paragraph A28). However, this is only solidifying the issues relating to professional skepticism of which we are already aware. We would recommend that the IAASB consider providing guidance through related application material as to how to address these issues in practice, especially in light of continued criticism from regulators in this area.

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

In addressing the use of different audit delivery models, we note that ED-220 proposes a new definition of engagement team with related application material, which indicates that engagement team members may be geographically dispersed, may be part of a service delivery centre, or may be sourced from the network or other firm. We are of the view that this appropriately deals with the different audit delivery models that are being employed. However, we are of the view that the proposed standard is ‘technologically agnostic.’ As such, it is not specifically embracing new technologies nor is it preventing new technologies from being employed on audit engagements.

Also, in relation to the definition of engagement team, we note that there are differing views on whether the amended definition results in a component auditor, in a group audit engagement, being considered a member of the engagement team. We recommend that clarity on this matter is provided in application guidance to definition, for example, in paragraph A18 of ED-220. We would also highlight this as another reason for aligning the effective dates of ED-220 and proposed ISA 600. If the effective dates cannot be aligned, we would strongly recommend that guidance is issued with proposed ISA 220 (Revised) on how it should be applied to group audit engagements.

In light of the evolving technology being employed in audits, we are, however, concerned with how the term ‘audit procedure’ may be interpreted and applied to an audit engagement. Absent a definition of what constitutes an audit procedure, this could result in personnel such as those that perform data mining, being considered members of the engagement team. This in turn may have the unintended consequence of requiring such individuals to comply with certain other ISA requirements, such as those pertaining to relevant ethical requirements including independence, or those pertaining to certain required engagement team communications. We would recommend that consideration be given to incorporating a description of “audit procedure” in ED-220. We understand that the American Institute of Certified Public Accountants, in its Audit Evidence Project, has proposed the view that audit data analytics is not an audit procedure under the classifications of risk assessment, test of controls and

substantive audit procedures, but that it is a technique that may be used in meeting the objective of an audit procedure, and would recommend the IAASB consider this proposal in incorporating a description of “audit procedure” into ED-220.

Q5. Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27-31 and A68-A80 of ED-220)

We support more robust guidance on the engagement partner’s direction supervision and review of an engagement. In particular, we are supportive of the explicit requirement for the engagement partner to be involved at appropriate points in time during the audit engagement. However, we do have concerns over the extent of review that may be required by paragraph 31 of ED-220. In particular, this requires the engagement partner to review communications to regulatory authorities. For many regulated engagements, there may be routine communications with regulators for which there would be no benefit derived from the engagement partner reviewing such communication and which also may be outside of the scope of the audit engagement. We recommend that application material be included in ED-220 to indicate that only communications that relate to the financial statement audit are required to be reviewed by the engagement partner and that of those, the engagement partner may exercise professional judgment in determining which it is appropriate to review. Also see our response to question 7 below regarding the scalability of the proposed requirements.

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

We are generally of the view that there are sufficient requirements and guidance on documentation in ISA 230 and ED-220 combined. However, we note that there is no specific documentation requirement in relation to evidencing the engagement partner’s involvement in the engagement. In particular, we note that paragraph 37 of ED-220 requires the engagement partner to determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. There is no guidance on how the engagement partner evidences the basis for the conclusion reached. We would recommend the incorporation of guidance on the documentation expected to demonstrate compliance with this requirement.

Q7. Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstance of the engagement in the requirements?

We are concerned that the extent of the requirements and the resulting responsibilities that lay with the engagement partner may make this standard too onerous to apply to large single entity engagements or large multi-national engagements. We would recommend that the application of the requirements in these circumstances be considered as part of ED-220. Whilst we understand that from a group perspective, the IAASB has indicated that the responsibilities of the group engagement partner will be considered in the current project on ISA 600,¹ there will be a period of time when ED-220 has become effective and the revision to ISA 600 will still be in development. We are of the view that this would be detrimental to quality and would recommend that if these requirements are to remain in a revised standard, guidance is provided by the IAASB on how to apply these requirements to large single entity engagements or multi-national engagements at the same time that the revised standard is approved. If these requirements are not considered as part of the ED-220 project, we would recommend that the effective dates of proposed ISA 220 (Revised) and proposed ISA 600 (Revised) be aligned.

¹ ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*