INSTITUT DER WIRTSCHAFTSPRÜFER

1 July 2019

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE119353203

Mr. Willie Botha
Technical Director
International Auditing and
Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IAASB website

Re.: Exposure Draft: International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the IAASB Exposure Draft “International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements” of February 2019, hereinafter referred to as “the draft”.

We have provided our responses to the questions posed in the Consultation Paper in the Appendix to this comment letter.

However, we would like to make the following overall observations about the draft.

The engagement team is responsible for implementing applicable firm responses to quality risks. However, the team should remain alert to situations where those responses are inappropriate or do not suffice.

In this draft the IAASB is moving from the current presumption in extant ISA 220, in which the engagement team may rely on the firm’s quality control unless information provided by the firm or other parties suggests otherwise, to requiring the engagement team to determine in every case whether to design and implement responses beyond those set forth in the firm’s policies and procedures (paragraph 4 (b)). In contrast, paragraph A8 does suggest that the engagement partner may depend upon the firm’s policies and procedures in certain circumstances similar to those contemplated in extant ISA 220.

In our view, imposing a responsibility on the engagement team "to determine" in every case whether to design and implement responses beyond those set forth in the firm's policies and procedures is disproportionate. In our view, engagement teams should not be placed into a position in which they need to question the appropriateness of applicable firm responses to quality risks in every case. Rather, the general presumption in extant ISA 220 should be retained, but strengthened, in that the engagement team may rely on the applicable firm responses unless the team becomes aware that those responses are inappropriate or do not suffice. The engagement team may become aware of such situations through, for example, information provided by the firm or other parties, the team's experience with the responses, or the team's consideration of the responses needed to address quality risks.

The objective of the auditor should be to manage quality so as to achieve the objective of the audit

The current objective in extant ISA 220 and the proposed objective in the draft is to obtain reasonable assurance that the audit complies with professional standards and applicable legal and other requirements and that the auditor's report is appropriate in the circumstances.

Asking auditors to obtain reasonable assurance that the audit complies with professional standards and applicable legal and other requirements and that the auditor's report is appropriate in the circumstances would mean that the auditor would need to perform a detailed assessment of quality risks at engagement level and respond to those risks. Neither is required in ISA 220. Furthermore, the objective in ISA 220 is inappropriately linked to the objective of a firm's quality management and therefore to compliance with professional standards, and legal and regulatory requirements, which suggests the quality objective is compliance rather than achieving the objective of an audit engagement.

Consequently, the quality objective in ISA 220 should be linked to achieving the objective of an audit engagement as follows:

"The objective of the auditor is to manage quality at the engagement level so as to achieve the objective of an audit":

The definition of engagement team

We note that the definition of engagement team has been changed from "all partners and staff performing the audit engagement, and any individuals

engaged by the firm or a network firm who perform audit procedures on the engagement" in extant ISA 220 to "all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or network firm" in the draft. The change to "any other individual who performs audit procedures on the engagement" will automatically include individuals engaged by components to perform audit procedures for the purposes of a group audit, regardless of whether those individuals are a part of the firm, network firm or another firm or network. Hence, this change in the definition would include all component auditors within the definition of an engagement team for a group audit.

We do not believe this change in the definition, with far-reaching consequences to the composition of an engagement team on a group audit, to be appropriate. First, we note that the change would have an impact on the independence requirements applicable to component auditors. ISA 700.A39 recognizes that the ISAs do not require that component auditors in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. While major regulators from large countries, such as the PCAOB in the USA, may be able to enforce some extraterritorial application of their particular independence requirements to component auditors, requiring this for the 130 different jurisdictions around the world is simply not a viable proposition and would inevitably involve conflicts of laws between jurisdictions. There may be cases where no component auditors with the appropriate competence in a particular jurisdiction may be able to comply with the same independence requirements applicable to the group engagement team and individuals from the group engagement team may not be able to legally enter into that jurisdiction to perform work on the component needed. Furthermore, all of the members of a component auditor would need to be subject to the same quality management policies and procedures applicable to the group engagement team (recognizing that the actual policies and procedures applicable in a particular case depend upon the role within the team). When the component auditors are not from the same firm, or even the same network, as the group engagement team, seeking the application of the same quality management policies and procedures would be impracticable.

Hence, the nature, timing and extent of supervision and review of the work of component auditors will be fundamentally different compared to that of group engagement team members, but this does not imply that the quality would be different.

For these reasons, we believe that this change in the definition of “engagement team” is inappropriate.

Treatment of professional skepticism

We believe that the treatment of professional skepticism in the draft is not in line with the IESBA Code of Ethics (the Code), where the Code reflects the work done on professional skepticism by the Professional Skepticism Joint Working Group of the IAASB, IAESB, and IESBA. In particular, paragraphs 120.13 A1 and 120.13 A2 in the Code clarify the relationships between the fundamental principles of the Code and professional skepticism by clarifying that compliance with fundamental principles supports the exercise of professional skepticism. Conversely, non-compliance with the fundamental principles results in the primary impediments to the appropriate exercise of appropriate professional skepticism. The current draft fails to appropriately recognize this by drawing direct links between the impediments and professional skepticism without linking these impediments to non-compliance with the fundamental principles in the Code. The importance of improving the links between the Code and professional skepticism was one of the main conclusions drawn by the Joint Working Group.

Instances of not drawing the required links to the fundamental principles in the Code are included in our response to Question 3 in the Appendix to this comment letter.

Listed entity

We note that in contrast to extant ISA 220, the draft does not include a definition of “listed entity”. Although that term defined in extant ISQC 1 and in the draft of ISQM 1, we note that the term is used in other ISAs. Since not all jurisdictions that use the ISAs also directly adopt ISQM 1, we recommend that the definition of “listed entity” be reinstated, or be placed in another ISA. We have substantive comments on the definition of “listed entity”, which we will address in our comment letter on ISQM 1.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Executive Director

Wolfgang Böhm
Director Assurance Standards,
International Affairs

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Appendix:

Response to Questions Posed in the Exposure Draft

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 that an engagement partner be *appropriately* involved in the engagement. However, we take issue with the use of the term "sufficient and appropriate involvement" because the word "appropriate" in English covers both amount and kind. The use of "sufficient and appropriate" in this context inappropriately extends the usage in relation to audit evidence and documentation to procedures (since involvement takes place through performing procedures) and will thereby lead to a proliferation of "sufficient an appropriate" in the ISAs in the long run and lead regulators to assume that the definitions of "sufficient" and "appropriate" in ISA 500 apply in this case too. In particular, it may lead to the view among some regulators that requirements might be needed to define the quantitative sufficiency of involvement like there are requirements for the quantitative sufficiency of evidence (e.g., selection and sampling). Furthermore, this usage neglects the important issue of timing of involvement. For these reasons, we suggest that the requirements be revised to require the engagement partner's nature, timing and extent of involvement in the engagement to be appropriate.

While paragraph 13 essentially permits the engagement partner to assign procedures, tasks or actions to other members of the engagement team, unless the requirements relate to an engagement partner taking responsibility, it is unclear which of the requirements thereafter must be performed in their entirety by the engagement partner personally and which can be at least partially assigned. In some cases, it seems to us that all of the members of the engagement team have certain responsibilities. This lack of clarity might cause some regulators to overburden the requirements that engagement partners might need to seek to fulfill personally. We suggest that wording similar to that used in the introduction to paragraph 12 might be used to make the distinction for requirements that need not be fulfilled by the engagement partner personally. Paragraphs where there is

some uncertainty about the degree of possible assignment or where other engagement team members have responsibilities too include: 15, 16, 17, 18, 21, 22, 24, 25, 27 (for the determination only), 32 (b), and 36 (c).

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 refer to the section in the body of our comment letter entitled "*The engagement team is responsible for implementing applicable firm responses to quality risks. However, the team should remain alert to situations where those responses are inappropriate or do not suffice*".

We therefore do not agree with the requirement and application material as written in the draft regarding when the engagement team may depend upon firm policies and procedures.

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 refer to the section in the body of our comment letter entitled "Treatment of professional skepticism", in which we explain why we do not support the material on the appropriate exercise of professional skepticism in managing quality at engagement level because the material is not in line with the Code due to not drawing the required links to the fundamental principles in the Code.

Instances of not drawing the required links to the fundamental principles in the Code include:

- Paragraph 7, in which reference is made to bias without linking this to lack of objectivity, and reference is made to resource constraints without linking this to lack of competence and due care
- Paragraph A27, in which the first three bullet points are not linked to lack of due care, the fourth bullet is not linked to lack of competence and due care, and the last two bullet points are not linked to lack of objectivity
- Paragraph A28, in which biases are not linked to lack of objectivity

- Paragraph A29, in which the first, sixth, seventh and eighth bullet points are not linked to supporting due care, the second bullet point is not linked to supporting objectivity, and the third, fourth and fifth bullet points are not linked to supporting competence.

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

We believe that the draft deals adequately with the modern auditing environment, including the use of different audit delivery models and technology.

5) 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 the revised requirements and guidance on direction, supervision and review in the paragraphs noted.

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

We believe that together with the overarching documentation requirements in ISA 230, the requirements and guidance on documentation are appropriate.

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?

The draft appears to be scalable but for sole practitioners. For sole practitioners (including those with a very small audit team, such as the engagement partner and one member of staff), the requirements for direction, supervision and review are not or only partly relevant. We are concerned that sole practitioners without or with only very small audit teams cannot easily navigate within the standard to ascertain which requirements are not relevant to their circumstances. It would be preferable if all such

requirements could be reworded so that it is clear that they are conditional (i.e., for teams over a certain size).