

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

EXPOSURE DRAFT

PROPOSED INTERNATIONAL STANDARD ON AUDITING 220 (REVISED) QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

RESPONSE FROM ICAS TO THE IAASB

1 JULY 2019

Background

ICAS is a professional body for more than 22,000 world class businessmen and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Key comments

ICAS welcomes the opportunity to respond to the 'International Auditing and Assurance Standards Board's (IAASB) Exposure draft Proposed International Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements'.

In particular, we support the focus on the sufficient and appropriate involvement of the engagement partner as part of taking overall responsibility for managing quality on the engagement.

However, the revised definition of the engagement team may lead to inconsistencies with ISA 600 regarding component auditors. We would welcome clarification as to whether or not component auditors are expected to be considered part of the engagement team.

There does appear to be some overlap between ED 220, ISQM 1 and ISQM 2 and question if this is necessary. We believe that a useful exercise would be to identify and then review the various instances of overlaps in the standards for necessity and consistency.

We are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more-principles based standards where the requirements focus on the objectives of the standard with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating proportionate application of the standards.

We also welcome the reference to the use of technology in ED-220 but believe that there is scope for further guidance on the use of different audit delivery models. We agree that ED-220 is not necessarily the appropriate location for such guidance but some supplementary guidance, for example in a separate Practice Note, would be helpful.

Our responses to the specific questions are included below.

Specific questions

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?

Response 1

We support the focus on the sufficient and appropriate involvement of the engagement partner specifically paragraphs 11–13 and 37 of ED 220, as part of taking overall responsibility for managing quality on the engagement. In our opinion, the proposed ISA appropriately reflects the role of other senior members of the engagement team, including other partners.

However, the revised definition of the engagement team may lead to inconsistencies with ISA 600 regarding component auditors. We would welcome clarification as to whether or not component auditors are expected to be considered part of the engagement team.

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?

Response 2

ED-220 appears to place a lot of the responsibility for quality management on the engagement partner and the team which could be seen as undermining and indeed contradictory to what is currently proposed in ED-ISQM 1. A possible solution could be that the engagement partner and the engagement team can generally rely on the quality management system of the firm and should apply the relevant quality management's responses to the engagement. This principle does not contradict the fact that the engagement partner and the engagement team should remain alert of any gaps. This might include whether or not the engagement team has sufficient resources (especially with regard to personnel and IT systems) and the necessary capabilities (especially expertise and specialist skills), to carry out the engagement in accordance with legal requirements, professional standards and the expectations of stakeholders.

There does appear to be some overlap between ED 220, ISQM 1 and ISQM 2 and wonder if this is necessary. We believe that a useful exercise would be to identify the various instances of overlaps in the standards and determine whether they are necessary or indeed, might create uncertainty and confusion over the responsibilities of all involved in the performance of the engagement. There may also be situations where the linkages could be improved as we have highlighted in our response to ED-ISQM2.

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)

Response 3

We are supportive of the material on the appropriate exercise of professional skepticism in managing quality at the engagement level and believe that this is helpful.

Question 4

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

Response 4

The engagement partner has overall responsibility for the appropriate use of all the resources required to perform the engagement, including technological resources. However, the

engagement partner depends on the technological resources provided by the firm. This may create some tension in circumstances where not all the technological resources needed are approved or available. It is stated in paragraph A58 that the engagement partner may apply professional judgement in such situations. We believe that additional guidance in this area would be welcome as a number of issues could arise.

We welcome the reference to the use of technology in ED-220 but believe that there is scope for further guidance on the use of different audit delivery models. We agree that ED-220 is not necessarily the appropriate location for such guidance but some supplementary guidance, for example in a separate Practice Note, would be helpful.

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).

Response 5

We are supportive of the revised requirements and guidance on direction, supervision and review.

Question 6

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

Response 6

We agree that, when taking the requirements from ED 220 together with the overarching documentation requirements in ISA 230, that the requirements and guidance on documentation are sufficient, but there is a need to address the references and interaction with ISA 230 for consistency.

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?

Response 7

We note from paragraph 15 in the Explanatory Memorandum to ED 220 that it is intended to be applied by firms of all sizes and circumstances and it is intended to be scalable based on the nature and circumstances of the audit engagement. This paragraph also refers to the Appendix to the Explanatory Memorandum which lists paragraphs that highlight how the proposed ISA can be applied in different circumstances. This information will be a useful source of reference for smaller firms when applying the requirements of ISA 220. We also note that the IAASB propose to develop supporting materials to show how certain aspects of proposed ISA 220 (Revised) and ISQM 1 (Revised) can be applied together in a scalable manner by smaller firms. We believe that this material will be key to facilitating the application of a scalable approach by those firms.

We are aware of earlier discussions by the IAASB on a new approach to the revision of ISA 315 which signified a move back to more-principles based standards where the requirements focus on the objectives of the standard with any supporting or implementation material located in another document or in an appendix to the standard. We would be supportive of the IAASB exploring such an approach in relation to its suite of Quality Management Standards as we believe this would be key to facilitating proportionate application of the standards.