

1 July 2019

*Submitted electronically to*

<https://www.ifac.org/publications-resources/submit-comment?exposure-draft=273191>

Mr Willie Botha  
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545 Fifth Avenue  
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Dear Willie

**Comments on the IAASB's Exposure Draft on proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements***

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.

We appreciate this opportunity to comment on the IAASB's Exposure Draft on proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, developed by the International Auditing and Assurance Standards Board (IAASB). We draw your attention to paragraph 5(a),(e) and (h) our letter, also dated today, which addresses our comments on ED-ISQM 2, *Engagement Quality Reviews*, as it is relevant to the subject covered by this letter.

In the compilation of this letter we have sought the inputs of representatives from large and medium-sized firms, academics, the Auditor-General South Africa, quality management consultants, the Johannesburg Stock Exchange and the South African Institute of Chartered Accountants. Internal IRBA consultations with our Inspections and Investigations departments, brought regulatory perspectives such as an understanding of the expected impact of the proposed quality management standards on regulatory processes, and existing inspections and

investigations findings related to quality management.

The comments are presented under the following sections:

- A. Overall comments;
- B. Specific questions; and
- C. Other responses.

Kindly e-mail us at [creintjes@irba.co.za](mailto:creintjes@irba.co.za), or phone directly on +27 87 940 8828, if further clarity is required on any of our comments.

Yours faithfully,

***Signed electronically***

**Bernard Peter Agulhas**  
**Chief Executive Officer**

## A. OVERALL COMMENTS

- a) The IRBA welcomes and supports the IAASB's proposed revised ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, to ensure robust requirements and improved guidance to:
- i. Modernise the standards for an evolving and increasingly complex environment, including addressing the impact of technology, networks and use of external service providers;
  - ii. Increase firm leadership responsibilities and accountability, and improve firm governance;
  - iii. Ensure more rigorous monitoring of quality management systems, and remediate deficiencies;
  - iv. Enhance the engagement partner's responsibility for audit engagement leadership and audit quality; and
  - v. Address the robustness of engagement quality reviews, including engagement selection, documentation and performance.

## B. 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?*

- a) 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. Our inspections of audit files have often indicated that there is insufficient involvement by the engagement partner, both in terms of the quantity of time assigned to the engagement and the timing of the involvement throughout the engagement. For example, the engagement partner's involvement is often not evident at the planning stage of the audit.
- b) If the term "others to whom supervisory roles are assigned" in paragraph 12 of ED-ISA 220 refers to other senior members of the engagement team, including other partners, then we agree that ED-ISA 220 appropriately reflects their role. Large audits, particularly those of public interest entities such as banks, may have more than one partner assigned to an engagement. It could therefore be clarified that "others to whom supervisory roles are assigned" includes other partners.

## **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?*

- a) ED-ISA 220 has appropriate linkages with the two proposed ISQM standards. We 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. The firm's quality management policies and procedures, that comprise the system of quality management underpin quality management on the engagement.

## **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)*

- a) We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.
- b) We recommend that the importance of professional skepticism also be highlighted in the acceptance and continuance and the engagement performance sections of ISA 220, particularly in paragraph 29.

## **Question 4**

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

- a) ED-ISA 220 only partially addresses issues related to technology, at the firm. Insufficient emphasis is placed on evolving and disruptive technologies, and the resultant changes in audit delivery models, systems and technological resources. The constant change poses a high risk for many audits and we urge the IAASB to further highlight this risk. In doing so, the IAASB may be mindful of not referring to specific types of technologies or terminologies, as technology is pervasive to almost all audits, and technology and technical terms continue to evolve.
- b) Paragraph A57 of ED-ISA 220 states that the firm's policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology. The extent to which the engagement partner must satisfy himself as to the appropriateness (including reliability) of the technological resource for use on that engagement is not clear. We would prefer that this be made much clearer,. Also, if the engagement partner becomes aware of a problem with the firm supplied resource, (for example, that the IT programme has a security weakness), what is their responsibility in this regard?

### **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)*

- a) We support the revised requirements and guidance on direction, supervision and review.
- b) The importance of professional skepticism should also be highlighted in the acceptance and continuance and the engagement performance sections of ISA 220, particularly in the review paragraph 29.
- c) We request more clarification regarding the timeframe of the engagement partner's review.

### **Question 6**

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

- a) Other than the further clarifications sought hereunder, ED-ISA 220 appropriately addresses requirements and guidance on documentation.
- b) We recognise a need to document why a matter is not a significant matter or a significant judgment. Our inspection findings indicate differences in professional judgment between engagement partners and the audit regulator in expectations around such documentation. Documenting the reasoning of the engagement partner as to why a matter that was a "borderline" significant matter or significant judgment is not regarded as a significant matter or a significant judgment provides evidence that the issue was not accidentally omitted but was given professional consideration.
- c) We suggest that the documentation requirements include a record of the engagement partner's determination that the engagement partner has complied with paragraph 37 of ED-ISA 220 (the stand-back provision).
- d) ISA 220 could place more emphasis on professional skepticism by explaining that the engagement partner demonstrates his/her professional skepticism by documenting his/her considerations where he/she has applied professional skepticism.

### **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?*

- a) We believe that the requirements are not onerous and furthermore, that the standard is scalable.

## C. OTHER RESPONSES

a) Paragraph 8 of ED-ISQM 1 includes a list of the components of the firm's system of quality management. This also serves as an "index" or a list of the content/sub-headings in the standard. We found this list useful, and suggest that ISA 220 also include such a list, or a summary of the requirements (the sub-headings).

b) The definition of an engagement team is:

"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 a network firm. The engagement team excludes an auditor's external expert engaged by the firm or a network firm, and also excludes individuals within the client's internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)."

It is not clear whether, for instance, an administrative assistant or personal assistant performing bank reconciliations would be considered as part of the engagement team.

c) Regarding leadership responsibilities for managing and achieving quality on audits:

i. When communicating expected behaviours to the engagement team, engagement partners should be required to emphasise the public interest responsibilities of the engagement team, especially toward investors and other users.

ii. We recommend that a requirement to consider and assess threats (or risks) to audit quality and to design and implement responses to such threats (or risks) be included. We suggest that threats to audit quality be included as follows:

- Commercial pressures, both external and from within the firm; and
- Difficult and/or challenging audit clients.

d) Regarding relevant ethical requirements, including those related to independence:

i. "Relevant ethical requirements" are defined as "principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to audits of financial statements, together with national requirements that are more restrictive". Like some other audit regulators and standard setters, the IRBA has adopted Parts 1, 3, 4A and 4B of the IESBA Code. Part 2 of the IESBA Code has not been adopted. As a portion of the IESBA Code has not been adopted, a question arises regarding the suitability of the relevant ethical requirements definition. Can an engagement partner state that he/she has complied with all relevant ethical requirements if he/she has not complied with Part 2 of the IESBA Code (or equivalent local Code), as Part 2 is not a jurisdictional requirement for auditors? How would this adoption of only relevant aspects of the IESBA Code be referenced in an audit report?

ii. Paragraph 14 of ED-ISA 220 states that: "The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement." This requirement gives rise to some areas that require clarification, for the benefit of practitioners and regulators. It is not clear how the engagement partner's "understanding" is to be demonstrated and documented. What is the work effort that is required in order to obtain such an understanding? What is the threshold for achieving an understanding? What would an

audit regulator expect to inspect on the engagement file, and how could different interpretations of expectations be avoided?

- iii. Paragraph 30 of ED-ISA 220 states that prior to dating the auditor's report, and in order to determine that the report to be issued will be appropriate in the circumstances, the engagement partner shall review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation. We recommend that the depth (nature and extent of procedures) of the review of the financial statements and the auditor's report thereon be clarified. This is an area that currently poses challenges in practice and it is necessary to clarify whether the engagement partner needs to perform a detailed review of the financial statements to determine whether the reporting framework has been complied with, or review only the disclosure in the financial statements that relates to the significant judgments? As it relates to the audit report, does the engagement partner need to review the audit report in detail (each sentence) or just that the audit opinion paragraph (and key audit matters paragraphs if applicable) is correct?
  - iv. Paragraph A79 of ED-ISA 220 provides guidance to the engagement partner in exercising professional judgment when identifying the results of the procedures performed by the engagement team on *significant areas* of the engagement, for example, conclusions in respect of certain estimates, accounting policies, or going concern considerations. Clarity is needed on how the term "significant areas" relates to "significant judgments" and "other matters"?
- e) Regarding the assessment of acceptance and continuance of client relationships and audit engagements:
- i. We are aware that fee pressures, tight profit margins and audit fees that remain stagnant may have affected the quality of work of auditors. Economic pressures could lead some firms to accept engagements that they may not be competent to perform and to accept clients that may lack integrity; in turn, these instances may result in ethical breaches by the auditors.
  - ii. As an audit regulator, we have identified relevant issues, including of firms not sufficiently weighing up the risks in relation to the perceived benefits of taking on an audit client; commercial interests outweighing audit quality considerations; the risk of association with clients whose integrity may be lacking; and a general risk of damaging the reputation of the firm and also the profession as a whole. While firms may perform procedures to assess whether a client should be accepted, the procedures to assess continuance of client relationships are not sufficiently robust.
  - iii. This means there is limited or no reassessment of whether the firm remains competent to perform the audit, as clients evolve and grow; whether the firm remains compliant with relevant ethical and independence requirements after a client has been accepted; and whether the client continues to maintain and display integrity or information that suggests that the client lacks integrity may have emerged. Some deficiencies identified during inspections and recent audit failures can be attributed to a lack of regular, honest and robust assessment of competence, ethics and client integrity in the firm's client acceptance or continuance process, an indication that leadership has not obtained the required level of reasonable assurance in this regard<sup>1</sup>. The strengthening of client acceptance and continuance requirements is therefore strongly supported.
  - iv. In some circumstances the engagement partner might be less objective in his/her

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<sup>1</sup> Extracted from the IRBA's Public Inspections Report 2018, which is available at <https://www.irba.co.za/upload/IRBA%20Inspections%20Report%202018.pdf>.

assessment, for example, in order to safeguard fee income. Application material in this regard could be provided, or further precautions could be included in ISA 220 to address the risk that engagement partners do not timeously include all the adverse information in the client acceptance/continuance assessment.

- v. We recommend that a requirement that engagement partners with their firms terminate client relationships if there is sufficient evidence that the client (including management and, when appropriate, those charged with governance (TCWG)) lacks integrity be considered.
  - vi. We recommend that the IAASB consider including a requirement that when new negative reports regarding serious matters related to a client, its management or its major shareholders, and which may have an impact on the audit, are published in the media, a review of the client's most recent acceptance/continuance assessment by the engagement partner should be triggered.
- f) Regarding engagement resources:
- i. If a firm is not able to provide additional resources (paragraph 25 of ED-ISA 220), paragraph A66 provides a list of possible actions. We suggest that the list of actions should include coaching of team members in order to bring their skills up to the required level. This is applicable particularly to smaller firms.
  - ii. The use of network firms is referred to only in paragraph 36 of ED-ISA 220 in relation to monitoring and reviews. We suggest that both networks and service providers should be referred to in relation to the impact on the individual engagement.
- g) Regarding engagement performance:
- i. A description of "significant judgments" is included in paragraph A79 of ED-ISA 220. We strongly urge the IAASB to elevate the description of "significant judgments" to a definition in ISA 220.
  - ii. We recommend that the standard address the need for a discussion or similar action by the engagement partner with the audit team, before the signing of the audit report. This would be another example of the demonstration of the exercise of professional scepticism. Guidance could include that the debriefing take place at any time during the engagement partner's review of the audit file, if a significant deficiency in the audit is detected.
  - iii. Although paragraph 25 of ED-ISQM 2 states that it is the engagement quality reviewer's responsibility to document the engagement quality review, it is not clear whose responsibility it is to ensure that the documentation is included in the audit file. If documentation regarding the EQR is omitted from the file, the engagement partner may not be able to prove that the EQR was performed.
- h) Regarding monitoring and review:
- i. We suggest that it could be clarified that paragraph 36 of ED-ISA 220 refers to the results of both the firm's monitoring and remediation at the firm level and at the engagement level. Firm level deficiencies, which should have been addressed at the engagement level too by the engagement partner, may affect all or many engagements. Engagement level deficiencies should have been resolved by the engagement partner.
  - ii. Paragraph 36 of ED-ISA 220 uses the phrases "be satisfied that the engagement team has been made aware of results" and "remain alert throughout". How would this be documented on the engagement file? How would the engagement partner demonstrate this with documentation?



i) Regarding taking overall responsibility for managing and achieving quality:

- i. Paragraph A101 of ED-ISA 220 states that if the engagement partner's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 37. It may be unlikely that an engagement partner has either a) not determined this during the engagement and acted accordingly or b) documented that this is the case at the completion of the engagement. The IAASB may wish to therefore consider how this requirement and application material can be better operationalised.

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