

# Response Template: Proposed ISA 220 (Revised)

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## General Comments on Proposed ISA 220 (Revised)

*[Please include here comments of a general nature and matters not covered by the questions below.]*

### Questions

- 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: Yes.

- 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: We do not support removing the concept that engagement teams are entitled to rely on the firm's system of quality control, unless information suggests otherwise. The risk of "blind reliance" on this is probably overstated, or simply should be evaluated as a risk itself under ISQM. Engagement partners by virtue of being a partner at a firm have decided that the firm is an entity they want to be associated with, and can depend upon. The new application material implies that each partner should also do their own "ISQM" with respect to whether they can depend upon the firm, which is too much to impose on a partner and fundamentally inconsistent with their decision to join and remain at a particular firm. The phrase "shall be satisfied" is problematic in that it could imply each engagement leader should individually evaluate the firm's entire ISQM, always and continually.

It is good that application guidance A9 and A10 encourages engagement leaders to consider if there are particular risks to a specific engagement that should be responded to, but these paragraphs can also be taken as encouraging engagement leaders to override firm policies in particular circumstances. The key concept in 4 (b) is "beyond those set forth" but A9 and A10 do not provide any explanation of what "beyond" means and this is perhaps too important to leave to an informal judgment by each engagement leader. It would be useful if A9 or A10 said that the engagement leader must evaluate and document how "going beyond" clearly improves quality, and also explain that "going beyond" is something that further reduces the risk of professional standards and applicable legal and regulatory requirements not being met and/or reduces the risk of the inappropriate audit report being issued in the firm. In other words, it should be clear that "going beyond" cannot increase any risk(s) of non-compliance with standards or the report being inappropriate.

- 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: We disagree with A27’s comment on overreliance on tools and templates as undermining professional skepticism. Tools and templates are developed by a firm’s professional practice or equivalent and are independent of a particular engagement. The development of firm tools and templates are among the strongest means a firm has to ensure quality and overcome biases of engagement teams. Tool and templates should be re-characterized from something problematic in A27 to something under A29 as among the most important actions to overcoming biases and ensuring quality. Engagement leaders should ensure that the firm’s methodologies, tools and templates are followed, and to be very skeptical when departing from them.

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

Response: We note that IAASB has a project to consider ISA 600. Nevertheless, paragraph A18 that engagement teams may include individuals attending an inventory count is inconsistent with ISA 600.02. It is not clear when ED-ISA 220 and ISA 600 are taken together if someone asked to attend an inventory count is part of the engagement team or not. It is also not clear whether ISA 600 “adapted as necessary” means that ISA 700.39 (c) is trigger “when ISA 600 applies...” and therefore group audit should be included in the auditor’s report.

Since ISA 220 is redefining what the engagement team is, the IAASB has an opportunity to fix ISA 600’s dual focus on auditing of a group (a characteristic of the client) and how the audit is done (by a single audit team or multiple audit teams). Component auditors are most likely members of the audit team because they are performing procedures for the audit. IAASB should make it clearer via ISA 600 what an auditor should do when asking another auditor to do something on their behalf, whether it is an engagement leader asking someone on their team to do something, or using a shared service center, or a consultation, or attending an inventory count. We propose the IAASB move guidance from ISA 600 to ISA 220. The point is these are all part of the resources that are used to complete the audit, and because ED ISA 220.A1 is clear that it applies to group audits, IAASB should move the component auditor concept into ISA 220.

- 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: We note IAASB’s concern that perhaps too much emphasis has been placed on the role of the engagement partner and are not sure if the public interest is best served by this emphasis. Issues such as project management or reviewing detailed use of IrT seem onerous and out of place, specifically on large audits. To concentrate all the responsibility onto one person makes the standard not scalable for large audits. Alternatively, the ED should recognize a “scalability up” issue and that a firm may decide to appoint more than one engagement leader on large and complex audits who are jointly responsible for the audit. It is in intellectual shortcut to simply resort to “the engagement leader is responsible and accountable for everything” that ignores that the audit is done within the context of a firm, with the firm’s policies, methodology, practices and culture, with a variety of support resources and consultations that arrive at the auditor’s conclusion.

We support the requirements for the engagement partner to review the financial statements and auditor’s report prior to dating the auditor’s report and review the communications.

We are skeptical about the engagement leader requirements on evaluation of human, technological and intellectual resources. ISA 220 seems to be making engagement leaders more like project managers on the audit, which is a different skill and which itself can be delegated. What seems to be needed is a descriptive list of engagement leader competencies in ISA 220. Such a description

would make it clearer whether ISA 220 contemplates an engagement leader as someone who has deep knowledge and insights about an industry and auditee and so can evaluate risks and issues appropriately, or whether the engagement leader is a kind of “master in project management” who brings together various expertise, or something else. It is becoming less feasible for the profession to continue to say “all of the above.” This is not a reasonable expectation of any single person in any profession, or general endeavor, anymore.

We are encouraged by ISA 220.04 and other areas where the responsibility is collective and on the engagement team, an important concept in achieving quality along with the “firm” and “engagement leader.”

In paragraph 32, we agree with the engagement partner taking responsibility for consultation. However, we note that difficult contentious matters, including ethical matters, could result for where staff feel they need to consult and the engagement leader has not consulted adequately. This could include research undertaken by staff or in unfortunate circumstances, whistleblower consultations. It is difficult to see how an engagement partner could take responsibility, following ISA 220.32, for determining engagement team members have taken appropriate whistleblowing consultations. We suggest that application guidance or specific paragraph in ISA 220.32 should recognize that notwithstanding paragraph 32, the engagement leader should communicate to staff that they can consult on their own, if appropriate, and these communications would be outside what the engagement partner would take responsibility for.

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

Response: We agree.

- 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: As noted above, we are concerned that there are too many specific responsibilities added to one person and therefore the ED is not “upwards” scalable – it is difficult to apply to large complex audits. These may be common in the public sector where the entities have billions of dollars in assets, liabilities, revenues and expenses; consolidate hundreds of entities; involve several GAAPs (public sector, IFRS for government businesses, pension plans), thousands of applications, etc.

One unintended consequence of these more detailed requirements may be engagement leaders having fewer clients, so they can meet these additional requirements. However, that makes the engagement leader more dependent upon those clients, which in turn impacts their independence, in terms of economic dependence and fee concentration but also familiarity threats and diminished ability to “stand back” and be skeptical. In essence, one person (the engagement leader) will be expected to know more about large entities than any one person at that entity itself, which is a problematic situation. There is some optimal number of clients for an engagement partner which is not too few and not too many, and these more detailed requirements may tip the scale towards too few.

### **Editorial Comments on Proposed ISA 220 (Revised)**

In our view, the term “engagement partner” and “partner” should be changed to “engagement leader.” The term “engagement partner” is not applicable to the public sector, although we note that a footnote mentions to use public sector equivalents. We think the term “engagement leader” is better because it is generic to all organizations that do audits and more importantly conveys that there is someone who leads

the engagement, reinforcing the main point of ISA 220 as there is someone who leads and is ultimately responsible and accountable for achieving quality, which is descriptive of the term “leader.”