

### ED-ISA 220 – Comments on Question 7

Question 7 asked:

*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?*

#### **Q7 – Agree**

#### **2. Regulators and Oversight Authorities**

##### **NASBA**

Yes, we believe that the ED-220 is scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements.

#### **3. National Standard Setters**

##### **CAASB**

Yes.

Canadian stakeholders believe the requirements in the standard are scalable to engagements of differing sizes. We support paragraph A14 that provides guidance for smaller firms on how many of the responses may be most effectively dealt with by the engagement partner at the engagement level. We support application material in paragraph A15 indicating that some of the requirements in the standard may not be applicable if the engagement is carried out entirely by the engagement partner, as it would be in a sole proprietorship.

ED-220 contains the section “Considerations Specific to Smaller Firms” whereas ED-ISQM 1 and ED-ISQM 2 do not. We suggest consistency amongst the three standards as small practitioners will be looking for this “signposting” and will locate it in ED-220, while not in the ISQM standards. We suggest the IAASB consider adopting the same approach as ISA 315 (Revised) to highlight paragraphs that relate to scalability.

#### **4. Accounting Firms**

##### **ETY**

Yes ED 220, in our view is appropriately scalable.

##### **HM**

Yes

##### **KI**

The standard is appropriately scalable.

##### **KPMG**

We believe ED ISA 220 (Revised) is appropriately scalable to engagements of different sizes and/or complexity, in particular because requirements are responsive to the “nature and circumstances of the engagement” and because they link to and/or build on the firm’s policies and procedures, if applicable, which are themselves scalable.

#### **MNP**

Yes, the requirements in proposed ISA 220 are scalable to engagements of varying size and complexity.

#### **NI**

YES

#### **NSW**

Yes, we believe that ED-220 is appropriately scalable.

#### **PKFI**

In our view, ED-220 is appropriately scalable to engagements of different sizes and complexity.

#### **PKFSA**

ED-220 is appropriately scalable to engagements of different sizes and complexity.

### **5. Public Sector Organizations**

#### **ACAG**

Yes, ACAG believes ED-220 is appropriately scalable to engagements of different sizes and complexity.

#### **AGSA**

The ED-220 is appropriately scalable to engagements of different sizes and complexity. For example, this is illustrated by the material indicating that in smaller engagements where the engagement team consists of a few team members, the engagement partner's actions can influence the desired culture through direct interactions whereas in larger engagements, there may be a need for more formal communication between the engagement partner and the team.

#### **GAO**

We believe that ED-220 is appropriately scalable to engagements of different sizes and complexity, including through focusing on the nature and circumstances of the engagement in the requirements.

#### **NAOM**

Yes.

#### **OAGC**

Yes the requirements are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.

#### **PAS**

Yes, ED-220 is appropriately scalable to engagements of different sizes

### **6. Member Bodies and Other Professional Organizations**

#### **ICAP**

We believe that the ED-220 is appropriately scalable to engagements of varying sizes, complexity and circumstances.

#### **ICPAU**

ICPAU agrees that the ED- 220 is appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagements. This is appropriately shown in the appendix to the standard.

## NYSSCPA

Subject to the Board's adoption of our relevant recommendations in the foregoing responses, we believe the final standard will be appropriately scalable to engagements of different sizes and complexity.

### 9. Individuals and Others

#### CAA-TAS

Yes, the appendix on scalability is comprehensive.

#### VM

Yes

## Q7 – Agree But With Further Comments

### 1. Monitoring Group

#### BCBS

The Committee would welcome further guidance on the application of the requirements to component auditors, as we find the current exposures drafts unclear. Additional material that sets out the interaction of the group and component auditor regarding quality management would also be helpful.

The firm responsible for the group engagement and the firm responsible for the component audit will each have their own quality risk management process. This is in the case, applying ED-ISQM1, the two firms are in the same network.

#### IAIS

Insurance groups may have several audit firms that contribute to a group audit, particularly where an insurer has international operations. In these cases, the audit firms used may or may not be part of the same audit network. There is currently no explicit text in the exposure drafts which set out the interaction of the group and component auditor in relation to quality management. As a result, it may be unclear how quality management arrangements should operate where component auditors are used. The IAASB should consider providing some additional clarity in this area.

### 2. Regulators and Oversight Authorities

#### FRC

In addition, we encourage the IAASB to develop implementation guidance and support materials as soon as possible, and not wait until the standard is finalised by the PIOB (as implied in paragraph 24 of the explanatory memorandum). As noted in our response to the SWP, in finalising the proposals we recommend that the IAASB adopts an implementation programme that offers transition support prior to the effective date. A formal pre-implementation programme will be reassuring to those stakeholders who perceive the standards to be complex and will help improve the consistency and quality of implementation.

We agree with the approach of the IAASB in respect of scalability. ED-220 clarifies that the engagement partner applies professional judgment in addressing the requirements in light of the nature and circumstances of the audit engagement. Therefore, in our view, ED-220 is adaptable to audits of different sizes and complexity, and also appropriately takes into account different structures of engagement resources or audit delivery models.

#### IRBA

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

Like the current "Guide to Quality Control for Small- and Medium-Sized Practices" issued by IFAC, a guide on the new quality management standards could be developed. Such a guide could include guidance on

establishing quality objectives, risks and responses, and other aspects that are relevant to SMPs. In this way, the IAASB could demonstrate how the requirements are applicable to SMPs and encourage consistent application.

Non-authoritative implementation guidance delivered at the same time as the quality management standards are published will be helpful.

### **3. National Standard Setters**

#### **AICPA**

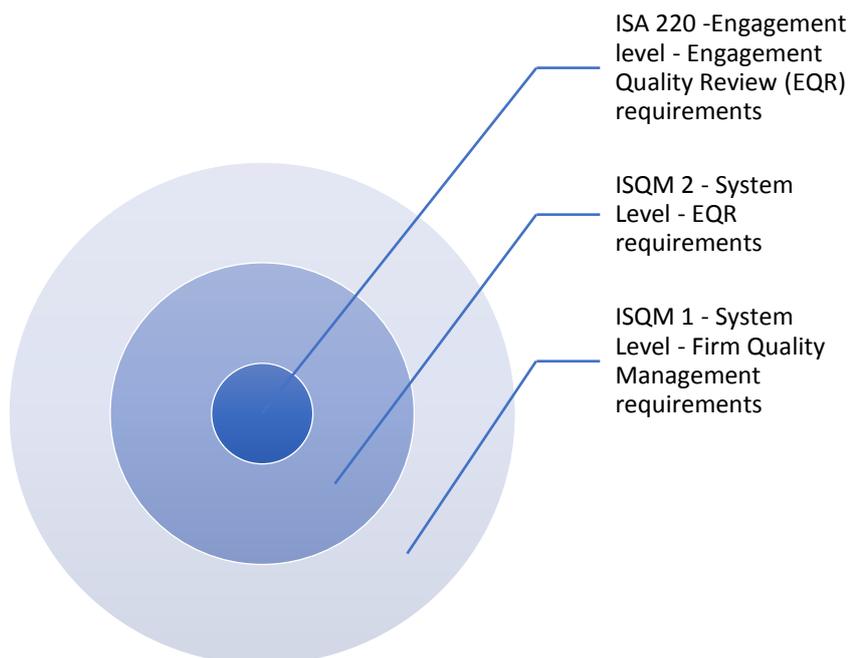
Equally essential to the effective implementation of the Proposed Standards as an appropriately long implementation period is the availability of implementation support materials when the Proposed Standards are issued. We are concerned that many firms will delay starting their implementation efforts until such materials are made available, thus negating portions of the implementation period if such guidance is not available when the Proposed Standards are issued. We applaud the IAASB for planning to develop materials to accompany the Proposed Standards, when finalized, to facilitate a proper understanding of the standards. The IAASB has provided an impressive number of resources explaining what the Proposed Standards require: four explanatory memos, six hours of webcasts, and videos on its website. As described in more detail below, we recommend that the IAASB's excellent work in developing materials to accompany the Proposed Standards be further enhanced through the creation of additional non-authoritative illustrative tools and further development of its current FAQ document. Such implementation support materials will continue to be useful once the Proposed Standards are effective, to assist firms in maintaining and continuously improving their system of quality management.

Implementation support materials could be provided in the following ways:

#### Overview of the Proposed Standards (Executive Summary)

The Explanatory Memorandums in the Exposure Drafts present an excellent high-level overview of the Proposed Standards. They also explain the IAASB's thought process behind the requirements, and the wording of the requirements. We found the graphics in the explanatory memorandums helpful. Accordingly, we recommend that when the Proposed Standards are approved, the Explanatory Memorandums, appropriately updated, be issued as implementation support material, perhaps in a document akin to the Executive Summary included in the four-part Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework (2013) (the "COSO Framework").

We further suggest that a graphic such as the following be included in this overview to explain the relationship between the three Proposed Standards.



### *Illustrative Tools*

Because quality risks and responses are dependent on the facts and circumstances of each firm, we believe the most useful implementation support materials would provide focus on the thought process for proper implementation. Understanding the answers to the following questions will help firms overcome the most challenging aspects of adopting the Proposed Standards:

Why were these particular quality objectives chosen?

How should firms think about risks (nature, timing and extent of documentation of risk assessment processes would seem to be an area where inconsistent understanding and application could occur)?

How are appropriate responses developed and documented?

What are the most effective and efficient ways to measure and monitor the successful implementation of the Proposed Standards?

Materials such as case studies, practice aids, and webinars that provide best practices and other considerations regarding applying the quality management process would be helpful. Additional illustrative tools could be similar to those provided in the four-part COSO Framework, *Illustrative Tools for Assessing Effectiveness of a System of Internal Control*.

We found the current Draft Examples confusing. For instance, the likelihood of occurrence of the quality risks seems to be assessed twice. This appears to result in a ranking of the risks, which is not required by the Proposed Standards. The examples do not demonstrate how to correlate the risk, the ranking of the risk, and the response. We note that example 2 focuses on only one sub-objective and identifies three quality risks “among the quality risks identified”. This example is quite long. Extrapolating to the entire system of quality management could and probably would be interpreted to indicate that firms should produce hundreds of pages of detailed documentation. This may not be an accurate representation of what is required for all firms and may overwhelm a firm as they attempt to implement the Proposed Standard. However, we recognize the draft nature of this example and encourage the IAASB’s further development of examples further demonstrating the intended scalability and application of the standards.

We urge the IAASB to work with National Standard-setters (NSS) to identify areas where additional implementation support material may be needed. In addition, the IAASB is well-positioned to facilitate coordination and sharing of resources among NSS.

We also encourage the IAASB to reach out to large network firms to understand implementation issues that may be arising and to develop non-authoritative guidance including examples relating to firm networks and affiliations.

Finally, we believe that implementation support material aimed at helping regulators gain a consistent understanding of the Proposed Standards would be extremely helpful. Clearly stating that the Illustrative Tools are additional references or resources that are not part of the Proposed Standards, but merely practical approaches and examples illustrating application, would be important in this regard.

#### Frequently Asked Questions

We found the draft Frequently Asked Questions (FAQs) helpful. We encourage the IAASB to consider the comments received on the Proposed Standard and expand the FAQ document based on additional insights received. We find that the FAQ format is incredibly helpful to practitioners and is a useful mechanism for the IAASB to provide additional insight into the thought process and intent behind the written words of the standards.

We are supportive of the IAASB's project to improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and the performance of engagement quality reviews. We support the risk-assessment approach to quality management and believe that the Proposed Standards are by and large scalable to firms of different sizes and complexities.

Yes.

#### AUASB

In general the AUASB is supportive of the IAASB clarifying the engagement partner's responsibilities and emphasising that the engagement partner has ultimate responsibility for the engagement. However, the AUASB considers that it may be difficult to practically meet the requirements in paragraphs 11-13 on a larger audit engagement (such as a multinational or group audit), particularly allowing for the broader Engagement Team definition now contained in the proposed standard. The AUASB specifically draws attention to the requirement in paragraph 13(b) outlining the engagement partner's responsibility to monitor and review the work of assignees, which we consider may be difficult to achieve with this expanded engagement team definition in place.

#### CFC

Yes. We believe that the Appendix to the Explanatory Memorandum should be added to the Implementation Material. Therefore, other implementation material and guidance are appreciated, especially for SMPs.

#### CICPA\_Final

The 2 questions below are from ED-ISQM 1. However, we believe it is also relevant to EDISQM 2 and ED-ISA 220. Thus we put forward here as our overall comment.

5) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?

The scalability has been improved, meanwhile the ability to understand and implement the standards also need to be enhanced (e.g., greater exercise of professional judgment), which brings great challenges,

especially to SMPs. While the standards provide flexibility in terms of size, complexity and circumstances, SMPs may not be able to accurately understand and apply these requirements in practice. Thus they may be hesitant or may not know how to apply scalability as allowed in the standards. We fully understand and support the principle based approach. However, we still recommend that IAASB continue to improve the ability of the standards to be implemented in practice, such as developing more guidelines and implementation aids.

In order to improve the scalability, the length of the standard has been substantially increased, which further increases difficulties in reading. It may be harder for SMPs to accurately identify the provisions specifically designed for them in terms of scalability. Besides, business in SMPs is much more diverse compared to that in large firms. It may not be enough to address SMPs' demand only by simplifying and lowering the requirements which are more applicable to large firms in extant standards. Therefore, we think that one set of standards may be difficult to achieve real scalability for SMPs.

6) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

The application material is helpful in supporting understanding of the requirements by providing more specific explanation. However, we found some contents in the application materials may not need to be given lengthy explanation and repetition, such as paragraph A45 and examples in A82 of ISA 220. Meanwhile, there is not enough explanation for some factors critical to firm's quality management and audit quality, such as profit sharing arrangements, performance evaluation, network service, inspection of in-process engagement, etc. For another example, some firms are still confused about how to effectively deal with differences of opinion. Guidance in this regard is too simple (paragraphs A93-A94 of ISA 220). We suggest that more practical guidance is needed.

ED-ISQM 1 requires that evaluation of the quality management system shall be undertaken at least annually. However, there is not sufficient guidance. How far should firms go? Is it required to be done like self-assessment of internal control? Is it allowed to evaluate the system based on monitoring results rather than undertaking a separate formal process? Suggest further explanation.

The proposed standards do not provide clear explanation on the relationship of engagement quality review and other quality management process such as monitoring and remediation,<sup>3</sup> inspection of in-process engagement, etc., what their responsibilities respectively are, and how they coordinate and collaborate. Suggest further explanation.

ED-ISQM 1 only indicates that risk assessments are both ongoing and periodic. The riskbased approach is a key concept of the standard, and risk assessment process is a significant component of the quality management system. Thus, we recommend more guidance. For example, is there any further guidance on the frequency of risk assessment? Should firms take any additional and specific risk assessment procedures with comprehensive consideration of factors such as frequency and severity of defects?

Overall, we recommend that standards should be reasonably detailed. We believe it's helpful if application materials could further focus on those critical issues that firms really need practical guidance on.

### CNCC-CSOEC

We do not think there is any overall issue linked to scalability in ED-220. In the case of a sole practitioner or a very small audit team, the requirements with regard to guidance on direction, supervision and review are not really relevant or partly only. As SMPs or very small audit teams will not easily navigate the standard, we consider it would be preferable if the requirements in question would be reworded in such a way that it is clear that they are conditional.

### HKICPA

We appreciate the effort made by IAASB in addressing the scalability for engagements of varying size and complexity. In particular, we find the Appendix helpful as it highlights how the proposed ED-220 is scalable to the nature and circumstances of engagements that the firm performs.

#### **IDW**

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).

#### **JICPA**

Unless we read the appendix to Explanatory Memorandum, we believe that it is unclear where guidance for smaller firms is included in ED-220. In order to ensure the scalability of application, we suggest that guidance for smaller firms be included in certain sections of the application material or in the appendix of ED-220. In this regard, in the ISA 315 revision project, the exposure draft published in July 2018 proposed deleting the "Considerations Specific to Smaller Entities" section that is included in the extant ISA 315, and moving matters previously included in these sections that aid in ensuring scalability into the relevant application material. However, our understanding is that IAASB is reconsidering the proposal in response to comments received on the exposure draft. We believe that the ISA 220 revision project needs to be aligned with the discussions of the ISA 315 revision project.

#### **MAASB**

We believe that ED-220 is scalable to engagements of different sizes and complexity. However, it should be noted that given the current audit environment, the timeline of the audit engagement may be stretched and further impede the audit progress due to additional requirements by the standard. Strategic ways and scenario based examples in the form of charts and videos on the application of the standard would be helpful to understand the benefit and importance of such requirements for an audit engagement.

We believe that ED-220 is scalable to engagements of different sizes and complexity. However, it should be noted that given the current audit environment, the timeline of the audit engagement may be stretched and further impede the audit progress due to additional requirements by the standard. Strategic ways and scenario based examples in the form of charts and videos on the application of the standard would be helpful to understand the benefit and importance of such requirements for an audit engagement.

#### **NBA**

This remains a difficult question and challenging especially for large and complex group audits where many component auditors are involved as well (according to us they are included in the definition of engagement team). In the standard itself, this aspect is less clear than in the appendix in the explanatory memorandum. We recommend incorporating the information in the appendix in a separate section in the introduction to the standard.

#### **NZAASB**

While the concepts in the ED appear scalable, it is not clear how compliance with the requirements would be demonstrated in the audit documentation. For example, how would the engagement partner document their direct involvement throughout the firm's acceptance and continuance process, as evidence of the engagement partner being aware of the information obtained, or used by the firm, in reaching the related conclusions? The examples of scalability would be significantly enhanced by including suggestions as to how such procedures might be documented.

The NZAuASB further considers that implementation guidance to demonstrate how compliance with the requirements of the various proposals might be documented, particularly for the sole practitioner or SMP, would be helpful.

#### 4. Accounting Firms

##### BDO

Yes, we support the inclusion of additional guidance relating to scalability in ED-220 in comparison to extant ISA 220 (Revised). For the most part, the guidance on scalability for smaller firms consists of the engagement partner having primary responsibility in performing the tasks to meet the requirements in ED-220 and may result practically in less formal requirements compared to larger firms.

The content outlined in the Appendix to the Explanatory Memorandum for ED-220 is helpful in providing a roadmap - particularly for sole practitioners and small and medium-sized practices (SMPs) – about potential scalability challenges and benefits for these types of firms. We recommend that this content continues to be included within further implementation materials to help decision-makers in these firms implement the ED-220 requirements when it becomes effective.

We believe that additional implementation guidance should be provided through examples that help illustrate how to apply the requirements in a smaller firm (whether sole practitioner or SMP) context as well as transnational and group audit situations. Areas of particular focus could include how firms of this size and nature can respond to quality risks on topics such as acceptance and continuance decisions (which include a range of factors such as portfolio management, firm revenue concerns alongside ethical and independence considerations) while also adhering to the stand-back requirement in paragraph 37.

BDO fully supports the IAASB's existing activities to develop video, webinar, Frequently Asked Questions (FAQs) and 'Draft Examples' implementation materials, as well as other content designed to support SMPs. We would encourage the IAASB to continue to seek views of members of the SMP Committee within IFAC to identify if there are additional implementation materials that would benefit this particular group. We also note and support the 'Theme A' strategic action set out in the IAASB's Proposed Strategy for 2020-2023.

While the EDs provide for scalability considerations, having implementation materials which look at these standards specifically through the lens of an SMP would be particularly helpful.

We encourage the IAASB – especially during the run up to the effective date – to consider sharing videos, scenarios and personal insights from SMP and sole practitioners to explain how they themselves plan to respond to the proposed requirements, in order to help inform this particular set of users. A specific area of focus for SMPs may be the extent to which they have or may need to develop additional quality objectives in certain areas. Having some sample FAQs which address SMP concerns in these areas may also be a helpful addition to the draft FAQs document (dated February 2019).

One further option could be to provide more transition-focused implementation support (such as developing example timelines, sharing how firms could plan or pilot different elements before full implementation, suggesting the types of resources that firms should start to identify) to encourage a planned approach to implementation.

We believe that additional implementation guidance should be provided through examples that help illustrate how to apply the requirements in a smaller firm (whether sole practitioner or SMP) context as well as transnational and group audit situations. Areas of particular focus could include how firms of this size and nature can respond to quality risks on topics such as acceptance and continuance decisions (which include a range of factors such as portfolio management, firm revenue concerns alongside ethical and independence considerations) while also adhering to the stand-back requirement in paragraph 37.

##### BTI

There is more limited scope for scalability in ED-ISA220 than there is in ISQM1 and ISQM2. As a result, subject to our comments set out above in response to other questions, we are satisfied that the proposals in ED-ISA220 are suitable for engagements of differing size and complexity. However, it is not always clear how the engagement partner will demonstrate their involvement in meeting the requirements of the standard without resorting to a checklist approach. For example, without simply signing off a checklist, how will the engagement partner demonstrate that the leadership and cultural elements of ED-220.11-12 have been met (see response to Question 1 above), that they have “determined whether relevant ethical requirements have been fulfilled (ED-220.19) and that they have determined that they have taken overall responsibility for quality as required by ED-220.37. It is not clear that a checklist approach to matters such as these would necessarily lead to improvements in engagement quality.

#### **BTVK**

We believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standards at firms of varying sizes would be most helpful to small- and medium-sized firms.

#### **CASI**

This is a very practical question and require implementation experience for feedback.

#### **CG**

The proposed standards are scalable and applicable to all firms, but practical implementation support is needed to illustrate how the standards can be scaled in practice.

We consider that the standard is scalable.

#### **DTL**

Help sheets provided clear, step-by-step instructions as to how to achieve full compliance with the new standards will be key. There has been a great deal of material provided relating to the new standards and a clear focussed response will be required from entities that must comply. To assist and to ensure time and costs are focussed in the correct way clear guidance is required.

Yes. As per ISQM1 & 2 it is clear that the depth of the response to the requirements of the updated standard shall be applied on a risk basis, dependent upon the size and complexity of the engagement.

#### **DTTL**

DTTL believes ED-220 is appropriately scalable for firms of different sizes and for engagements where nature and circumstances differ. Further, DTTL is supportive of the IAASB’s development of support materials to show how certain aspects of ED-220 and ED-ISQM 1 can be applied together in a scalable manner in smaller firms.

#### **EYG**

Yes, we believe that ED-ISA 220 is appropriately scalable to engagements of different sizes and complexity, with the exception of group audits for which we believe further guidance is needed (refer to our response to Q1).

The information included in the appendix in the explanatory memorandum appropriately explains how ED-ISA 220 is scalable for firms of different sizes and for engagements where nature and circumstances differ and we recommend that the IAASB leverage this content for implementation materials.

We do believe additional implementation materials would be beneficial for SMPs, including those that operate as part of a network. Specifically, the IAASB should consider implementation guidance for small network firms that geographically are clustered together from an operational perspective to clarify how the

clustered network firms would apply the requirement in paragraph 24(a)(iii) to identify personnel who have operational responsibility for the system of quality management, compliance with independence requirements and the monitoring and remediation process.

#### GTIL

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, 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.

#### KPMG

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed in ED ISA 220 (Revised) will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

We are supportive of the efforts to modernise the standard and, as part of this, to explicitly recognise broader engagement team structures, which may reach across borders and involve personnel from other member firms within a network, as well as from outside the firm/network altogether.

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

#### MGIW

Most of our member firms are small and medium-sized practitioners (SMPs) and this means that audit teams do not tend to be large or have complex management structures involving multiple partners. We welcome that the standard is scalable in this respect, considering those engagements where there may be elements of the review and supervision role that are delegated to other partners or senior staff and consider that the standard is very clear that, ultimately, the engagement partner is responsible for the quality of that audit.

Yes, the ED-220 is scalable and provides some useful guidance on audit situations in large, complex teams may differ from those where the engagement partner performs all the audit work. The Appendix to the Explanatory Memorandum is helpful here and could be used as the basis for further practical guidance for SMPs once the standard is issued.

#### **MSI**

The most important materials will be materials in peoples' own languages and the issue is more to do with time than content. Another key issue will be that whatever material is generated and made available should be very very clear as to the extent (or not) of its authority. There is a danger of creeping de-facto requirements being introduced as a result of implementation material...and where this happens, the material will swiftly cease to be useful and instead become onerous (particularly if the material has not even been translated into every language).

Due to the length of the standards, and application materials, the time it will require to translate the standards will decrease the implementation time left substantially. Differences between localized versions of languages, for example, French, Portuguese and Spanish, will require additional translations even if the standards are made available in these conventional languages. Besides, given the limited resources in the firms, especially those from the developing nations, the quality of the local translation could be an issue in developed jurisdictions where proficiency in English may be limited. If official translations are delayed this could be a challenge for smaller firms (which will be required to comply from the official start date if they are members of global networks), where it may be difficult for them to do an appropriate interpretation with accurate translation themselves.

We believe the standard is capable of being scaled to all types of engagement.

As some of the developing countries have limited support from their local professional institutes and service providers in the form of updates on developments, and training provision, there is a sense that firms will be very reliant on guidance and application material provided along with the QM standards. This will also require guidance on the practical implementation of the requirements and, as the majority of the firms in the developing countries are SMEs, how to apply the QM standards to smaller entities, on occasion firms with one or two partners only

#### **MZRS**

For scalability, we would suggest that examples and frequently asked questions are provided outside the standard.

We are not sure that a sole practitioner or a small and medium practitioner will easily understand how to scale the standard.

We suggest some reference to A16-A17 of the ISA 230.

We also believe that more guidance and examples should be given for implementation, especially for implementation in smaller firms or in firms operating in countries where ISA are not applicable. We are convinced that this is a key aspect of the scalability that is fostered by the standards.

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#### MZRSUS

Overall, we strongly support the Proposed Standards, individually and collectively, and recognize the intended improvements resulting from implementation will address the key public interest issues raised as it relates to firms' system of quality management and execution of engagements. We appreciate the Board's continuous efforts in extending this opportunity to comment, and we respectfully ask the Board for modification, clarification, and consideration of additional guidance in certain areas.

Response: ED-220 as written and noted in some of our prior comments, the engagement partner requirements for direction, review and supervision will be a challenge for group, multi-location, large and complex engagements.

#### PwC

See our responses to questions 1 and 5. In our view, the potential extent of direction, supervision and review needed by the engagement partner as contemplated by the ISA could inadvertently undermine the objective of the ISA – to achieve quality at the engagement level – by diverting the engagement partner's attention away from the most significant judgements that need to be taken. Increased impractical supervisory responsibilities placed on the engagement partner may reduce the time the engagement partner can devote to areas of heightened risk. In particular, for larger and more complex group audits, there are challenges in articulating the nature and extent of the engagement partner's responsibilities for the day-to-day supervision and review of the work of the extended engagement team resulting from the potential change in definition to include all staff working on a group audit.

In building a framework that best supports audit quality, it is important that the requirements in proposed ISA 220 (Revised) are grounded in a risk-based approach, and be sufficiently principles-based so that they can be appropriately applied across a variety of engagement team structures in a scalable manner. While we agree with many of the proposed changes, we do not believe this has been achieved in all of the proposed revisions.

#### Definition of engagement team and group audits

Although not explicitly stated, we understand, based on paragraph A1, that in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in auditing components of the group (i.e., component auditor teams, which would include individuals from network and non-network component auditors). For the reasons stated above, we believe this has significant implications for the expectations of a group engagement partner that we do not believe have been sufficiently evaluated. We also suggest that this potential change in the application of this definition has several significant consequences for the application of proposed requirements addressing compliance with ethical requirements and the involvement of the engagement partner, in particular with respect to direction, supervision and review. We provide further details in our responses to question 1 and question 5 in appendix 1.

It is important that, in finalising the ISA, the Task Force works closely with the ISA 600 Task Force and the IESBA to fully assess the potential implications of the foundational principles being established in proposed ISA 220 (Revised) when applied in the context of a group audit.

#### Definition of engagement team

Although not explicitly stated, based on paragraph A1, we understand that in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in auditing components of a group (i.e., component auditor teams, which would include individuals from network and

non-network component auditors). We believe that this potential change has several significant consequences:

We are aware that there have been initial discussions between the IAASB's and the IESBA's staff on the independence requirements that apply to component auditors and that clarity on this will be sought in the revisions to ISA 600. The Code does not currently address the independence requirements applicable to component auditors from outside the network in the context of a group audit. While practice has developed to address this issue, we believe that it is very important to have clarity on this point and that proposed ISA 220 (Revised) will need to be consistent with the outcome of further deliberations between the two Boards on this issue. The definition and the application material may need revisiting.

There are practical challenges in applying the foundational principles established in proposed ISA 220 (Revised) to group audits. For example, see the discussion of paragraph 13 above and our response to question 5 with respect to requirements addressing direction, supervision and review.

For example, requiring the partner to review selected documentation of all those to whom responsibility for aspects of quality have been assigned (paragraph 13(b)) is impractical in a large complex audit. In fact, doing so is likely to unduly divert the engagement partner's attention and time from aspects of the audit that most directly warrant their attention. Furthermore, we do not believe this takes account of a key reason why certain audit delivery models have been established - to drive higher quality through consistent performance - and the processes that firms will have put in place around those models with respect to direction, supervision and review of work, to support quality. In addition, when applied to group audits, we understand that paragraph 13(b) would require that the engagement partner monitor the work, and review selected documentation, of all component auditor partners across the group. On a large, complex group, which may involve hundreds of people in the audit of different components around the world, this is simply not practical. See also our comment on the revised definition of engagement team below, which we believe creates this significant practical impediment when applied to a group audit scenario.

#### **RSMI**

Response: Yes, we believe that ED-220 is appropriately scalable

Due to the comprehensive nature of the changes, significant practical implementation guidance and training will be required. Assistance with implementation through a comprehensive example or guidance will be particularly critical for smaller firms and will assist in setting a framework for regulators when they inspect firms for compliance.

## **5. Public Sector Organizations**

### **OAGA**

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 an 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.

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.

## **6. Member Bodies and Other Professional Organizations**

### **ACCA-CAANZ**

As stated above, changes to the engagement quality management process need to be evaluated in terms of cost versus benefit. For SMPs (and other firms) there will be significant work effort in implementing these changes and on an ongoing basis to produce the documentation required by the proposed standard. For the changes to deliver clear benefits and reduce the implementation costs, there needs to be implementation guidance addressing the documentation requirements and providing examples of appropriate documentation for firms of different levels of size and complexity.

While the concepts in the standard appear scalable, as stated above and in our submissions on proposed ISQM 1 and ISQM 2, preparing documentation in relation to these standards will represent a significant work effort, particularly for SMPs. Implementation guidance and examples of documentation would assist SMPs to reduce this effort. As discussed in our response to question 2, how would a partner document how they satisfied with the firm’s policies and procedures was one area where stakeholders expressed concern with the work effort and where guidance would be valuable.

### **AE**

We do not think there is any overall issue linked to scalability in ED-220. In the case of a sole practitioner or a very small audit team, the requirements with regard to guidance on direction, supervision and review are not always relevant. As SMPs or very small audit teams will not easily navigate the standard, it would be preferable if the requirements in question could be reworded in such a way that it is clear that they are conditional.

### **CAI**

We feel that requirements of ED ISA 220 are scalable to audit engagements of less complex/smaller entities.

As discussed below in our responses to the questions posed we would welcome the timely issue of application guidance and case studies/FAQs. The scope and authority of any such material needs to be clearly defined

### **CaICPA**

In order to support implementation of the standards in accordance with the IAASB’s proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

Publishers of practice aids will need to prepare sample quality management documents and software to facilitate the required quality management system documentation.

While it appears the IAASB elected to remove the sections relating to “Considerations Specific to Smaller Firms”, development of an Appendix or paragraphs providing guidance specific to smaller firms’

implementation of the contemplated quality management would be important in demonstrating and supporting the scalability of the standards' requirements. Furthermore, absent such guidance, SMPs may be inappropriately held to a higher standard with respect to the implementation and operation of a system of quality management. For example, an appendix could include:

Limitations and Practicability Considerations - ICQM1 provides various examples of what a smaller firm may do in certain circumstances, including for example, instances where aspects of a system of quality management may be unnecessary, limited or impractical (e.g. .A20, .A28, .A42, .A47, .A121) . A section or appendix clarifying these and other limitations and practicability limitations would be helpful in driving clarity and instruction; and

Quality Risks and Responses – As noted throughout the ED, risks will vary for firms based in part upon a firm's size, service offering, clients and other factors. While EDCM1 provides requirements regarding the objectives of each quality component, limited examples are provided in terms of quality risks and responses. Implementation guidance specific to the types of risks and responses uniquely applicable to SMPs would assist practitioners.

We think the IAASB should offer webcast or other CPE type support to further explain the process. Materials could include illustrations of specific examples of risks, for example.

We believe it's easier for an EP to meet the requirements of ISA 220 in a small audit scenario. As the size/complexity of the audit ramps up, the EP will be hard pressed to be as involved as ISA 220 requires.

#### CAQ

Overall, for smaller engagements, complying with the review requirements in ED-220 as outlined are achievable, but as engagements and engagement team structures increase in complexity and size, compliance becomes increasingly challenging. Please see responses throughout this letter highlighting areas where scalability will be challenging to achieve on audits of increasing complexity and size (e.g., group audits, multi-location audits).

#### CCC-ICPARD

Yes, plus a simple, practical guide would provide a better understanding of the approach based on the nature and circumstances of the assignments, especially for small firms and individual practicing professionals without employees.

#### CICC-AIC

Yes, but a practical and simpler guide would provide a better understanding, based on the nature and circumstances of orders, especially small firms and individual professionals practicing without employee.

#### CNDCEC

In CNDCEC's opinion a useful support to the implementation of the standards for SMPs would be the updated version of the Quality control guide developed by the SMPC of IFAC.

CNDCEC has taken inspiration from this IFAC guide (third edition) for the publication, in April 2018, of its own model of handbook of quality control procedures for auditors (sindaco-revisore), and especially from the models and samples included in the Appendix, including the samples tailored for sole practitioners operating with limited nonprofessional staff.

CNDCEC appreciates the efforts done to introduce in ED-220 specific considerations for smaller firms, not contained in the ISA 220 version currently in force. However, in CNDCEC's opinion some further efforts in this direction are still possible. For example, with reference to the direction, supervision and review of the work, the guidance could foresee some specific considerations for small and medium sized

practices (often consisting of a sole practitioner operating without professional staff) where these aspects are not relevant.

#### CPAA

We consider that ISA 220 is scalable, although we are concerned that the engagement partner will need to rely on the firm or network policies and procedures and may experience difficulties in meeting the standard in this regard, as explained in our response to Q2.

#### ES

In the opinion of EXPERTsuisse, practical examples as well as FAQs and perhaps easy-to-use templates and checklists would be most helpful for SMPs to enable them to implement the new quality management standards. For national standard setters “track change” versions of the standards, which are revised (e.g. ISQC 1 and ISA 220), would be useful to better identify the new requirements and be able to develop guidance and support materials for local SMPs. The implementation material for SMPs should focus on the proportionality and scalability elements of the standards’ application.

In ED-ISA 220 (revised) we welcome the provisions in paragraph A14 and A15 for small and medium sized practices, e.g. that a smaller firm’s policies and procedures may be less formal.

#### FAAPA

Our comments relate mainly to the scalability and understandability of the revised standard and the focus is on SMPs. Few SMPs audit listed entities or entities that are of ‘significant public interest’ and therefore we do not comment on ISQM2 separately.

The answers to some of the questions regarding the revised ISA 220 and the questions in The IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews are included in this document

#### FSR

We suggest making scalability options more clear. For larger and more complex group audits, and audits of standalone entities with cross- border shared service centers, etc., there are challenges in articulating the nature and extent of the engagement partner’s responsibilities for the day-to-day supervision and review of the work of the extended engagement team resulting from the change in definition to include all staff working on a group audit.

#### IAB-IEC

The draft standard is unfortunately still a normalization based on the most complex situations (‘Think big first’). Regulation is justified because a company is listed. This leads to a top-down concept, where the standard is designed to suit PIE’s, listed and large companies and needs to be simplified, by carve-outs, SME-packages, guidelines, Q&A’s, technical note’s or other means to meet the needs of SME’s.

The draft standard prefers to enter into the details of the procedures to be implemented, even if it means reducing the domain of the auditor’s judgment, without wanting to eliminate it. The limiting of professional judgement could lead to box-ticking. This is caused by the basic principle ‘what is not written is not done’, that leads to detailed checklists, where the audit documentation serves more as evidence against any accountability or legal responsibility than as a record of the basis for the auditor’s report. This is reinforced by the pyramidal model of large audit firms, i.e. a model for large companies that are organized internationally and that contain many requirements.

For this reason, a bottom-up concept is required. It is about starting with requirements designed for small and simple entities and then adding requirements for larger, more complex PIEs. Preferably, the more complex standards would be built or based on the less complex ones.

For this reason, a fundamental redrafting of the basic structure of the ISAs, not only ISA 220 is necessary. Unfortunately, no. The draft, together with ISQM 1 and ISQM 2, are a step in that direction, but the goal is not yet achieved.

#### **IBRACON**

But in line with our answer in question 1, we are also concerned about the application of paragraphs 27-31 in large and complex engagements. It seems to be not practical that the engagement partner would review all documentation and communication listed in these paragraphs. There are other audit members in different levels of experience, who have supervisory responsibilities and interactions with the audit partner, based on the risk approach of each engagement.

With respect to large and complex engagements, we believe that the revised standard should clarify what will be expected for an engagement partner, since it will be no practical for him to oversee every aspect of quality – monitor the work and review documentation. In line with this, we also suggest clarify the concept of “supervisory roles” now addressed in the ISA, and how it can be applicable in large and complex engagements.

Yes. The Appendix to the Explanatory Memorandum should be included as an Implementation Material.

#### **IBR-IRE**

We believe that the scalability approach could be improved.

#### **ICAEW**

ED-ISA 220 has fewer obvious scalability problems for less complex audits than the proposed ISQMs and this is directly related to length and complexity. However, the responsibilities of the engagement partner have an onerous feel to them for larger audits. Consideration might be given to noting the need for a layered approach to assignment of responsibilities in larger audits.

The proposed examples have value and IAASB could and should be bolder in developing examples covering more nuanced situations. We set out below in our response to specific questions a number of additional areas in which examples would be helpful.

The FAQs also have value but they are a mixed bag: some simply repeat what is in the standards, some of them add to them and it is arguable that some should be in the standard itself. We provide more detail in our response to specific questions on ISQM 1, below.

Respondents have also suggested that a flowchart describing the quality management process might help firms navigate the material.

#### **ICAS**

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 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.

#### **IMCP**

It is important to mention that one of the recurrent facts that have been considered is the use of the term “scalability”, term that was translated by us as “adaptability”. We consider necessary to describe the term, include additional material as needed, related to how the small and medium firms could apply appropriately these standards.

We believe that ED is properly scalable to engagements to all sizes and complexity, however we consider that would be helpful to include additional guidance in order to make it clear how scalability would apply for small engagements

#### **MICPA**

Yes, the Institute support the revised requirements and guidance on direction, supervision and review. The Institute would similarly encourage the IAASB to consider providing implementation guidance to assist SMPs in group audit situations and transnational audit engagements.

Yes, the ED is appropriately scalable to the engagements.

#### **NRF**

For larger and more complex group audits, and audits of entities with cross border shared service centers, there are challenges in articulating the nature and extent of the engagement partner’s responsibilities for the day-to-day supervisions and review of the work of the extended engagement team as a result of the change in definition.

The requirements regarding direction, supervision and review have extensive application material, which to a certain extent are not relevant for sole practitioners or very small audit teams. Just like in ISQM 1, the length of this section makes it hard to navigate, especially since the scalability options are not that visible. We would therefore suggest that the requirements should be redrafted in such a way that it is clear where they are conditional.

#### **SAICA**

Certain of the requirements contained in ED-220 may not be applicable to sole practitioners and other smaller SMPs; specifically, in relation to direction, supervision and review. For example, a sole practitioner may not have other members of the engagement team to supervise or have discussions with. ED-220 is however not clear in indicating that certain of the requirements are only applicable as may be required based on the nature and circumstances of the firm and the related engagements. This is an area that we suggest be relooked at.

#### **SMPC**

The SMPC notes that a perceived need for support material indicates that the EDs’ requirements may not be sufficiently clear. Hence, a more practical approach is to have, in place, very clear requirements with relevant application material where possible.

The SMPC is pleased to have had the various opportunities to contribute to this project as it has progressed over the last three years. We continue to believe that an appropriate overall quality objective ought to be about establishing and maintaining the firm capabilities to perform quality engagements on a consistent basis but being scalable enough to accommodate firms of all sizes. We believe that more direction is needed in ISA 220 (Revised) and provide suggestions to enhance the clarity below.

We are also concerned that the complexity of the QM Standards taken together may drive a compliance mindset, especially amongst smaller firms who become subject to proportionately greater documentation burdens to “explain/ prove” their compliance. In our view, it is important that IAASB ensure the final suite of QM Standards addresses this issue in order to foster an effective focus on the quality of the services each individual firm delivers, as opposed to compliance with complex standards.

In the case of a sole practitioner or a very small audit team (e.g. the EP and one staff), the requirements with regard to direction, supervision and review are not, or are only partly relevant. We are concerned that certain SMPs may not be able to easily navigate the standard to ascertain which requirements are not relevant to their circumstances. It would be preferable if all such requirements [eg. para 15 (a) to (c) or para 32(a) and (b)] could be reworded in such a way that it is clear that they are conditional.

Another possible approach is to follow para 21 of ISQM 1 which was further supported by para A20 (of ISQM 1) in the application material section for added clarity on such conditionality.

ED-220 contains the section “Consideration Specific to Smaller Firms” whereas both ISQM 1 and 2 do not. We noted the Board’s rationale as mentioned in the Explanatory Memorandum. We do not think the purported integrative nature of both ISQMs is an impediment to do so. We suggest that consistency amongst the three standards on this matter will be highly responsive to the market demand for signposting, especially given the length of the revised standards.

#### WPK

Some aspects of ED-220 are not, or only partly relevant for sole practitioner or a very small audit team, especially the requirements with regard to direction, supervision and review.

Therefore we would ask the IAASB to emphasise the scaling aspects regarding these requirements (esp. Para 15 (a) to (c), 23, 24, 27, 28, 32 (a), (b), 36 (a)).

We are in addition concerned that from the scalability perspective the identification and assessment of quality risks is very prescriptive and leaves only little room for flexibility in the application. The approach is therefore challenging to apply. Therefore supporting material for implementation (like an update of the ISQC 1 guidance published by the SMPC or an IAASB staff Q&A’s) would be beneficial before the standards become effective.

## Q7 – Disagree

### 6. Member Bodies and Other Professional Organizations

#### IAB-IEC

Unfortunately, no. The draft, together with ISQM 1 and ISQM 2, are a step in that direction, but the goal is not yet achieved.

#### ICJCE

In general terms we support the review and enhancement of the requirements included in the ED although we do not see it as scaled to favour its applicability to smaller audit firms.

We do not see further scalability of this standard beyond some requirements that become not applicable because of firm’s quality policies; because of being non-PIE or high-risk engagements or because there is a lack of personnel within the firm.

#### ICPAS

However, small firms and sole practitioners who perform mainly reviews and some audits could view the documentation as burdensome for the size and nature of their practice.

No, we believe specifically small firms and sole practitioners will have difficulty implementation ED-220, see 6 above.