

ED-ISA 220 – Comments on Question 5

Question 5 asked:

Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)

Q5 – Agree**2. Regulators and Oversight Authorities****NASBA**

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

3. National Standard Setters**AICPA**

Yes, particularly the reference in paragraph 29 to “appropriate points in time”.

CAASB

Yes.

We support the revised requirements and guidance on direction, supervision and review. Canadian stakeholders support paragraph A57, which recognizes that the engagement partner may rely on the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output from technological tools.

HKICPA

In general, we support the revised requirements and guidance on direction, supervision and review.

IDW

We support the revised requirements and guidance on direction, supervision and review in the paragraphs noted.

JICPA

We support the revised requirements and guidance.

KSW

Yes, we support.

MAASB

We support the revised requirements and guidance on direction, supervision and review which are comprehensive to obtain sufficient appropriate audit evidence to support the audit conclusion.

NBA

We support the paragraphs mentioned.

NZAASB

The NZAuASB supports the revised requirements and guidance on direction, supervision and review. The requirements are more specific as to the meaning of direction, supervision and review, more specific as

to the audit documentation that the engagement partner is required to review. This is appropriate and consistent with what we believe is being performed in quality engagements, and appropriate for a risk-based audit approach. The NZAuASB agrees the onus is on the engagement partner.

4. Accounting Firms

BTI

We support the revised requirements regarding direction, supervision and review. We agree that the onus should be on the engagement partner. The requirements in ED-220.29-31 are clear and represent significant enhancement over the extant standard.

CASI

We support the revised requirements and guidance on direction, supervision and review.

DTL

Yes. As per the response to question one, given the recent, high-profile corporate collapses, these elements must be made absolutely clear, especially with regards to the role played by the engagement partner. This is now the case.

ETY

Yes we do.

EYG

Yes, we support the revised requirements and guidance on direction, supervision and review. Specifically, we believe that the enhanced requirements for the engagement partner to review audit documentation at appropriate points in time during the audit engagement as included in paragraph 29 will support the performance of a quality audit. We also believe that the detailed discussion of how an engagement partner can provide direction and supervision of engagement teams and review of their work in paragraphs A72-A76 will be helpful to the implementation of the requirements of ED-ISA 220.

HM

Yes. The specific requirements relating to review of documentation by the engagement partner add clarity to their overall responsibility for engagement quality.

KPMG

We support these revised requirements as we believe these are more specific than in the extant standard and we welcome the references to “taking into account the nature and circumstances of the engagement”, which we believe is very important. We also support the strengthened links with other ISAs, e.g. ISA 230, Audit Documentation, regarding significant matters/ judgements and we also believe the application material is particularly helpful here.

We welcome the explicit requirement at paragraph 29 that the Engagement Partner review of documentation should take place “at appropriate points in time during the audit engagement”. We believe that timely involvement of the Engagement Partner is a critical driver of audit quality and as such we believe it is appropriate to give specific emphasis here.

We note that firms may establish policies and procedures around timing and extent of involvement, and we therefore recommend cross-reference in the requirement itself, as well as in the application material, to the policies and procedures of the firm in this regard.

MGIW

We support these requirements and guidance, especially in requiring that the engagement partner reviews key areas of the audit documentation (paragraph 29) and the key deliverables (the financial statements and any management reporting). Whilst we accept that elements of the direction, supervision and review can and will be delegated to other partners and senior audit staff, the engagement partner must be suitably familiar with the work undertaken on significant matters and ensure that the quality of the financial statements and management reporting is up to standard and is consistent with expectations and the documented audit file.

MNP

Yes, we support the revised requirements and guidance on the direction, supervision and review at the engagement level.

MSI

Yes

MZRS

Yes.

NI

YES

NSW

Yes, we support the revisions.

PKFI

We support the revised requirements and guidance on direction, supervision and review.

PKFSA

We support the revised requirements and guidance on direction, supervision and review.

RSMI

Yes, we consider these paragraphs to be very clear.

5. Public Sector Organizations

AGSA

Yes, we support the revised requirements and guidance on direction, supervision and review. The new requirement that requires the engagement partner to review financial statements and the auditor's report prior to the auditor's report date and issuance will assist in achieving quality by ensuring that the conclusions in the auditor's report are supported by sufficient appropriate evidence.

NAOM

Yes.

OAGC

Yes, we support the revised requirements and guidance on direction, supervision and review.

PAS

Yes, we support the revised requirements and guidance on direction, supervision and review.

6. Member Bodies and Other Professional Organizations

ACCA-CAANZ

Yes. The feedback we received supported these revisions on the basis that the more detailed requirements in relation to direction, supervision and review were what EPs who are focused on delivering a quality audit should be doing.

AE

We support the revised requirements as developed in paragraphs 27–31 and A68–A80 of ED-220.

CAI

Yes we support the revised requirements set out in the ED.

CaICPA

Yes.

CCC-ICPARD

Yes, we do.

CICC-AIC

Yes, we support them.

CNDCEC

CNDCEC agrees with the proposal.

IAB-IEC

Prima facie, yes.

IBRACON

Yes. Overall, the revised requirements provide more clarity about the engagement partner role in managing quality during the audit.

IBR-IRE

Yes.

ICAS

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

ICJCE

The addition of some novel requirements addressed to the engagement partner such as:

Reviewing the financial statements, the auditor's report to issue and, if appropriate, key audit matters in the auditor's report together with related audit documentation.

Reviewing any formal written communication to the management or administrative body of the company or to regulatory authorities.

We consider it is useful to specify these procedures.

ICPAS

Yes, we support the revised requirements and guidance on direction, supervision and review

ICPAU

ICPAU supports the revised requirements and guidance on direction, supervision and review especially the fact that the engagement partner shall take overall responsibility of supervision of the engagements.

IMCP

We support the requirements and guidance included into the ED related to direction, supervision and review

NRF

Yes, we support the revised requirements and guidance on direction, supervision and review.

WPK

We support the revised requirements in Para 27-31 and A68-A80.

9. Individuals and Others

CAA-TAS

Yes, more clarity was offered on how direction, supervision and review can be achieved in a constructive manner which supports both the achievement of audit quality plus the transformation and development through nurturing of especially less-experienced engagement members. E.g. timing of reviews was clearly and explicitly stated in para 29

Significant matters.

Other areas involving significant judgments, especially those relating to difficult or contentious matters identified during the course of the engagement, and the conclusions reached; and

Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

Par 30 includes review of management representation letter and Other Information (e.g. directors' report etc.) and audit differences that goes with the audit report where applicable.

VM

Yes

Q5 – Agree But With Further Comments

2. Regulators and Oversight Authorities

We strongly support:

- The revised requirements and application material that addresses direction, supervision and review, and the responsibility of the engagement partner to determine the nature, timing and extent of direction, supervision and review. We believe the proposals have the potential to significantly improve audit quality.
- The emphasis in paragraph A83 that the engagement partner develops and tailors the nature, timing and extent of direction and supervision of the members of the engagement team, and the review of the work performed, to the nature and circumstances of the engagement.
- The guidance on matters that may constitute a significant judgment.
- Greater specificity on matters that need to be reviewed by the engagement partner, including to review the financial statements and the auditor's report prior to dating the auditor's report, and

formal written communications to management, those charged with governance, or regulatory authorities.

IRBA

We support the revised requirements and guidance on direction, supervision and review.

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.

We request more clarification regarding the timeframe of the engagement partner's review.

3. National Standard Setters

AUASB

The AUASB considers that whilst the direction, supervision and review requirements on their own do not appear overly onerous, they may not be practically achievable as a result of the broader engagement team definition. The AUASB is concerned that the broad definition of engagement team may draw in unintended personnel into the engagement team.

In particular, it is presently unclear whether a component auditor engagement team is captured as part of the engagement team under ISA 220. The AUASB considers it is impractical to expect an engagement partner to perform the direction, supervision and review requirements for component auditor team members, and in practice this is more likely performed at the component auditor team level.

The application material of the engagement team definition draws in service delivery centres and may also draw in technology support staff assisting the engagement team in using tools and processing data. It may be impractical for the engagement partner to meet the direction, supervision and review requirements for each of these possible groups of engagement team members, particularly where they only perform functions to support the engagement team.

CFC

Yes. However, we suppose that could be clarified the kind of communications that shall be reviewed. Depending on the engagement, this would request a large effort.

CNCC-CSOEC

We have the following comments concerning paragraph A79 that deals with significant judgments in relation to the audit engagement:

The fifth bullet point "the engagement team's risk assessment process" is too wide and should be restricted;

The ninth bullet point that deals with the group audit situations, we consider that the principle of delegation is not well treated.

4. Accounting Firms

BDO

Yes, we support the revised requirements and guidance on direction, supervision and review. These expanded requirements and guidance provide more clarity on managing the audit and evaluating engagement performance.

The examples provided in the areas of direction (A72), supervision (A73) and review (A76) are relevant and provide flexibility in terms of how to achieve the requirements. Further, the additional guidance relating to engagement partner review is helpful in establishing that significant areas of judgment include not only the execution of the engagement and the overall conclusions, but also the audit strategy and audit plan

for undertaking the engagement. One area that may need further consideration by the IAASB is how to reflect, to a greater extent, the role of other senior members of the engagement team who may have been assigned supervisory roles by the engagement partner.

CG

We agree with the revised requirements and guidance on direction, supervision and review. These are a welcome development from the extant standard more clearly setting out the contemporary expectations of the role of engagement leaders to deliver audit quality. We encourage the use of implementation guidance to support the practical understanding and application of these expectations.

DTTL

DTTL is broadly supportive of the revised requirements and guidance on direction, supervision, and review. With respect to paragraph 31 of ED-220, DTTL recommends clarifying that the requirement applies to those communications for the individual engagement for which ED-220 is applicable. In a group audit, the requirement may suggest that the group engagement partner is required to review formal written communications from component auditors to component management, those charged with governance at the component, or component regulatory authorities. For example, in the case of a statutory audit of the financial statements of a component of a group, we believe the group engagement partner should not be responsible for reviewing formal written communications issued by the component auditor to local management as part of that separate statutory audit.

GTIL

Further, paragraph 12 introduces a requirement addressed to “others to whom supervisory roles are assigned” (rather than the term “senior members of the engagement team” as included in the question). There is no definition or guidance indicating the members of the engagement team this would encompass. For example, a second-year staff person on an engagement may be assigned to coach the first-year staff person and review their work product. This is essentially a supervisory role. It is not clear if this requirement is expected to extend to such a person. If so, we are of the view that this would create an onerous burden to evidence how each of the team members with a supervisory role, however small, has fulfilled the specific requirements of paragraph 12.

Paragraph 13 allows the engagement partner to assign procedures, tasks or actions to other members of the engagement team to assist in complying with the requirements of the ISA. However, 13(b) requires that, when making such an assignment, the engagement partner reviews selected related documentation to evaluate the conclusions reached. Guidance concerning the extent of the review to be performed by the engagement partner would be helpful. If the intention is that the engagement partner is required to review selected documentation of all team members to whom work is assigned, we are of the view that this requirement will be unduly onerous.

We support more robust guidance on the engagement partner’s direction supervision and review of an engagement. In particular, we are supportive of the explicit requirement for the engagement partner to be involved at appropriate points in time during the audit engagement. However, we do have concerns over the extent of review that may be required by paragraph 31 of ED-220. In particular, this requires the engagement partner to review communications to regulatory authorities. For many regulated engagements, there may be routine communications with regulators for which there would be no benefit derived from the engagement partner reviewing such communication and which also may be outside of the scope of the audit engagement. We recommend that application material be included in ED-220 to indicate that only communications that relate to the financial statement audit are required to be reviewed by the engagement partner and that of those, the engagement partner may exercise professional judgment in determining which it is appropriate to review. Also see our response to question 7 below regarding the scalability of the proposed requirements.

KI

The revised requirements and guidance on direction, supervision and review are supported and clarify the review responsibilities of the engagement partner. Paragraph 28 refers to the review of audit documentation by the engagement partner. This could be interpreted as requiring the engagement partner to review all audit documentation. A reference to paragraph 29 would clarify the extent of the engagement partner review. Paragraph 27 sets out clearly the review process. Consideration could be including reference to determining that sufficient appropriate audit evidence has been obtained. This is given as the responsibility of the engagement partner in paragraph 28. To impact quality all team members should have a responsibility when supervising or reviewing work to consider whether sufficient and appropriate audit evidence has been obtained.

MZRSUS

Overall, we support the revised requirements and guidance on direction, supervision and review, but we are concerned that the lists in paragraphs A72-A73, and A75 could evolve into a “checking the box” approach to documentation. In addition, revisions to extant ISA 600 should appropriately and realistically scale the direction, supervision and review requirements outlined in ED-220. See our response to ED-220 question 1 above.

PwC

As described in our cover letter and response to question 1, we believe that it is important that the revised requirements are principles-based and recognise that the way in which compliance with these requirements is achieved may vary depending on the structure of the engagement team. For example, the approach to direction, supervision and review may vary depending on whether an audit delivery model or a component auditor is being used.

In the context of a single entity audit, we consider the requirements addressing direction, supervision and review to be reasonable. However, we are concerned that certain principles established in this foundational standard may not be capable of appropriate application to various engagement circumstances that may arise, and in particular to group audits, which, as explained in our response to question 1, is a consequence of the potential expansion of the definition of engagement team to include all staff of component auditors. We recommend that an assessment of all requirements be performed to determine whether they are capable of being applied in the context of a group audit.

For example, extending the illustration we described in our response to question 1, if a director on the group engagement team is assigned responsibility for monitoring the work of a component auditor partner, that individual may not be considered to be a “more experienced engagement team member” (paragraph 27(c) of the proposed ISA).

As a further example, we would not expect the group engagement partner to review all communications by component auditors to component management prior to their issuance, which is the literal interpretation of the application of paragraph 31 when applied to a group scenario.

Role of firm’s policies and procedures

Paragraph 29 requires the engagement partner to review certain elements of audit documentation. Paragraph A77 notes that the firm’s policies and procedures may specify the nature, timing and extent of the engagement partner’s review. We believe that this application material could further emphasise that a firm’s policies and procedures addressing the expected level of review of engagement documentation will often establish a baseline of matters that the engagement leader must always review (i.e., those matters that are expected to be significant judgements across engagements), while providing flexibility in relation to other matters for which review could be delegated to other partners or senior members of the engagement team. In addition to complying with the firm’s policies and procedures related to review, the

engagement partner may also consider it necessary to review other aspects of audit documentation relating to matters described in paragraph A79, which may or may not constitute a significant judgement, depending on the engagement circumstances.

Paragraph 27(c) Supervision and review (refer to our response to question 5):

Further to our comments in respect of paragraph 13, we note that, in the context of a group audit, there may be instances where a member of the group engagement team that has been designated a supervisory role may be less experienced than a component audit partner.

Paragraph 29 Direction, supervision and review (refer to our responses to questions 1 & 5):

We believe that further clarification is needed on the potential interaction of paragraph 13 and this requirement with respect to the identification and review of areas involving significant judgement.

Paragraph 31 Written communications (refer to our response to question 5):

We note that in the context of a group audit, the group engagement partner would not be expected to review all communications by component auditors to component management prior to their issuance.

5. Public Sector Organizations

ACAG

Yes, ACAG supports these revised requirements.

As stated in our response to question 1, ACAG reiterates our recommendation to elaborate on 'appropriate points in time during the audit engagement' per paragraph 29 by adopting similar wording used for engagement quality reviewers in ISQM 2 paragraph A26.

ACAG believes this would help with the application of the 'stand back provision' in paragraph 37 ie for this to be performed at each critical point in the audit, rather than at the end of the audit when procedures have been finalised as highlighted by paragraph A101.

ACAG questions the intent of the second bullet point of paragraph A101 for the engagement partner to 'consult with firm personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management'. ACAG recommends the IAASB clarify what the expected outcome should be once consultation has occurred.

GAO

In our view, engagement partners' compliance with the audit documentation review requirements will help assure their sufficient and appropriate involvement in the engagement. Also, we believe that compliance with these requirements can be evaluated. Therefore, we believe that ED-220 could benefit from increased emphasis on the engagement partner's review of audit documentation. As we discuss further in our response to question 5, we suggest that the IAASB consider revising the application guidance in paragraph A79 to help clarify the documentation the engagement partner should review. In addition, we encourage the IAASB to consider revising paragraph 37 to reemphasize the requirements for audit documentation review in paragraphs 28 through 32.

We generally support the revised requirements and guidance on direction, supervision, and review. However, we believe that the requirements could be clarified to help ensure a robust review of audit documentation. We believe that the engagement partner's review of audit documentation is important for assuring the sufficient and appropriate involvement of the engagement partner. We also note that reviews of audit documentation can be evaluated through internal monitoring and peer reviews.

For example, the IAASB should consider adding clarifications to the application guidance in paragraph A79. We suggest that the IAASB modify paragraph A79 as follows:

- Include accounting estimates as a separate bullet to highlight that accounting estimates are likely an area of significant judgment for the engagement team, and
- Add matters in which the engagement team obtained contrary or disconfirming information.

We also suggest that the IAASB consider whether team member experience is an appropriate measure for determining whether engagement team members adequately supervised engagement work. Experience is only one driver of skill and proficiency in auditing. As such, paragraph 5.36 of the 2018 revision of GAGAS provides that “the audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.” We believe that considering both skill and proficiency would more effectively achieve the objective of the requirement.

OAGA

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.

OAGNZ

paragraph 27(c) there is an implicit assumption that a more experienced team member is more capable than a less experienced team member. While this may be broadly true, experience alone is not the sole determinant of a person’s knowledge and capability.

SNAO

Paragraph 26.

The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58)

In general, we support this paragraph but isn’t this already reflected in other ISAs (efficient audit).

Reading the application material A58 we do not find A58 to be relevant and we do not see the clear link to paragraph 26.

6. Member Bodies and Other Professional Organizations

CPAA

We support the requirements on supervision and review. However, we are concerned that paragraph 31 could inadvertently capture broader communication than intended. At a minimum it needs to clarify that the review relates to any formal written communications from the firm to management or those changed with governance of the entity. With respect to regulatory authorities this needs to be limited to matters relevant to the entity or the engagement. Consideration could be given to other communication relevant to the entity or engagement to related entities, in the event that communication was directed to parent entities, subsidiaries or joint ventures relating to the engagement.

FSR

In our view, it is important that the revised requirements are principles-based and recognise that the way in which compliance with these requirements is achieved may vary depending on the structure of the engagement team. For example, the approach to direction, supervision and review may vary depending on whether an audit delivery model or a component auditor is being used.

In the context of a single entity audit, we consider the requirements addressing direction, supervision and review to be reasonable. However, we are concerned that the standard may not be capable of appropriate application to various engagement circumstances that may arise, and in particular group audits, which is a consequence of the expansion of the definition of engagement team to include all staff of component auditors. We recommend that an assessment of all requirements be performed to determine whether they are capable of being applied in the context of a group audit.

ICAEW

statements and the audit report, without specifying which version of those documents should be reviewed. In practice there can be a number of drafts, and the engagement partner's review may be evidenced on a final draft, rather than the final signed version.

ICAP

We believe that the ED-220 contains significant guidance on direction, supervision and review by the engagement partner in accordance with the firm's policies and procedures. However, we note that para 28 of the ED-220 states that the engagement partner shall 'On or before' the date of the auditor's report, through review of audit documentation and discussion with the engagement team, determine that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. We believe that this review should be done before audit report so as to avoid any biases as defined in the para A28 of the ED-220, where the engagement partner may, due to pressure of meeting deadline etc., become unconsciously biased towards the evidence and information collected. Although, para 29 of the ED-220 clarifies this situation by stating that the Engagement partner will review audit documentation at appropriate times, however, it would be more understandable to make this clear in the wordings of para 28 as well.

ISCA

Generally, the revised requirements reflect what is being performed in practice.

Some areas that we feel can be further clarified or addressed include:

- Roles and responsibilities of partners when the signing partner is not the engagement partner
- Responsibilities of outsourced functions, in particular, the level of oversight and involvement required by engagement teams who engage such services, can be included in the standard

- In group audit situations where component auditors are not from the same network, the level of oversight and involvement can be further addressed

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.

SAICA

During our outreach activities, a question around the significant revisions made to the requirements on engagement performance was raised; specifically, whether the changes contained in paragraph 27 of ED-220 will result in achieving the objective of clarifying the engagement partner's responsibilities and if the expanded application guidance contained in A72-A76 and A79 was useful.

The addition was welcomed in terms of providing clarity in relation to the engagement partner's responsibilities. To address a situation where the engagement partner only performs a review on a completed audit file when it is possibly too late for the engagement team to revise the audit approach, we suggest that the IAASB may consider including a requirement for the engagement partner to review the planned approach to significant risk areas, as well as areas involving significant judgement prior to the commencement of the audit field work.

SAICA notes the inclusion of the stand back provision to ensure that the engagement partner is satisfied that quality management at the engagement level has provided reasonable assurance that quality has been achieved.

We are in support of the inclusion of the stand back provision and believe that this contributes to achieving the objective of the engagement partner taking overall responsibility for achieving audit quality. Often, the engagement partner gets so involved in the detail that they forget to step back and consider the bigger picture.

During our outreach activities, a debate around whether this requirement needs to be specifically included or whether the engagement partner currently considers these without there being a formal requirement ensued. The response was that these points are not always considered by the engagement partner and it is foreseen that the specific inclusion of this requirement will go a long way in changing this behavior.

SMPC

In our view, the SMP environment is generally conducive to engagement partner being closely involved in all key aspects of each engagement. Hence, we are generally supportive of the requirements and guidance under paras 27-31.

We also support the stand back required by para 37 in regard to sufficient and appropriate involvement in the audit engagement, as long as the term "throughout" is not intended to mean a continuum (we suspect this stand back provision will only be meaningful if conducted at the later part of an audit, closer to the dating of the auditor's report). However, we believe that application material is necessary to explain what subsection (b) entails. It should not be a checklist of all of the firm's policies and procedures having been adhered to.

8. Academics

AAA-ASC

We support the revised requirements and guidance on direction, supervision, and review provided by ED-220. However, we believe the revised standard could be improved by describing that the nature of supervision and review practices could vary dependent upon audit risk. For example, paragraph A69 could

be modified to acknowledge that reviews can be conducted remotely or face-to-face – a possibility acknowledged in paragraph A82. Several studies provide evidence that although electronic review methods may be convenient, face-to-face reviews may be more efficient and effective when the risk of material misstatement is high (Agoglia, Brazel, Hatfield, and Jackson 2010; Payne, Ramsay, and Bamber 2010; Brazel, Agoglia, and Hatfield 2004). As the nature of the engagement may dictate the preferred type of review, both paragraph A69 and A82 should include language to this effect. Specifically, we recommend that paragraph A69 be modified to, “Direction and supervision of the engagement team and the review of the work of the engagement team are firm level responses that are implemented at the engagement level of which the nature, timing and extent may be further tailored by the engagement partner in managing quality of the audit engagement. Supervision and review may occur remotely or face-to-face. The approach to direction, supervision and review should consider the nature, circumstances, and risk of material misstatement of the engagement and will generally include a combination of addressing the firm’s policies or procedures and engagement-specific responses. The approach will vary from one engagement to the next.” The fifth bullet point in paragraph 82 could be modified to, “The manner in which the engagement partner and manager reviews of work performed are expected to take place. For example, in some circumstances, including when the risk of material misstatement is high, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.”

UNSW

On the whole, we support the requirements as they relate to the direction and supervision of the members of the engagement team and the review of the work performed. With reference to review, our own research and that of others (see Trotman, Bauer and Humphreys 2015 for a review of this literature) generally provides support for the quality enhancing characteristics of the review process. We note, however, that different forms of review (e.g., with or without discussion: Ismail and Trotman 1995; electronic vs face-to-face: Agoglia, Brazel, Hatfield and Jackson 2010) as well as characteristics of the environment (e.g., audit risk: Phillips 1999), reviewer (e.g., known/unknown preferences: Peecher 1996; Rich, Solomon and Trotman 1997), preparers (e.g., hierarchical level: Tan and Trotman 2003) and the relationship between the preparer and reviewer (e.g., reviewer’s prior impression of the quality of the preparer’s work: Tan and Jamal 2001) have all been shown to influence the effectiveness of the review process. While paragraphs A81, A82 and A83 note a number of factors that the engagement partner should consider when determining the nature timing and extent of direction, supervision and review, we feel that the importance of review, and the unique circumstances impacting on the effectiveness of review, but not necessarily direction and supervision, warrant the expansion of paragraph A82 to explicitly recognize that the engagement partner, in tailoring the nature, timing and extent of review, should consider potential variation in the nature of the review, as well as characteristics of, and relationship between, the reviewer and preparer.

Paragraph 27c (and paragraph A68) note that work is to be reviewed by more experienced engagement team members. Our own research (Harding and Trotman 1999) following on from Ramsay (1994) highlights that more junior members of the engagement team are more effective at identifying mechanical workpaper errors (e.g., workpaper cross referencing issues) than their more senior engagement team colleagues. This suggests that there may sometimes be benefits in having a peer, as well as a more experienced colleague, review the work performed. We recommend that thought be given to amending paragraph A68 to recognize that the provisions of paragraph 27 do not preclude a review by a member of the engagement team of equal (or even less experience), but rather that a peer review of itself is insufficient as a means of meeting the requirements of the standard.

We also feel that the application material for paragraph A72, particularly the second last dot point, could be expanded to recognize direction as to how to achieve the objectives of the work, in addition to the objectives themselves. Our own research on fraud brainstorming (Chen, Khalifa and Trotman 2015; Chen,

Khalifa, Morgan and Trotman 2018), together with the work of others (e.g., Trotman, Simnett and Khalifa 2009), highlight the merit in the engagement partner not only communicating objectives of the task, but also communicating effective means by which to achieve those objectives.

Finally, we note that caution needs to be exercised in directing junior staff in that we (Kim and Harding 2017) have found, consistent with other research (e.g., Wilks 2002; Peecher, Piercey, Rich and Tubbs 2010), that direction can bias the judgments of junior auditors in the direction of their superior's preferences. While we (Kim and Harding 2017) find that this is, in part, a reflection of engagement team members responding to the information value inherent in the direction provided by a more knowledgeable engagement team member (and, therefore, quality enhancing), research that we have also undertaken (Harding and Kim 2019) points to the possibility that, in circumstances where the engagement team is small and/or the superior providing direction has responsibility for evaluating the performance of engagement team members, engagement team members may be focused as much on quality inhibiting impression management as they are on benefiting from the advice of a knowledgeable superior. We recommend that paragraph A72 (in particular the final two dot points) be expanded to acknowledge that the engagement team member response to direction may, to the extent that it is motivated by impression management, be a threat to audit quality.