Proposed ISA 220 (Revised) – Respondents’ Comments on ED-220

Public Interest

1. Monitoring Group

IOSCO

The explanatory memoranda to the draft standards put significant emphasis on addressing public interest considerations by encouraging proactive management of quality at the engagement level. The “public interest” is referred to para 19 of the explanatory memorandum to ED ISQM 1. We recognize the importance of a clear definition of what this encompasses yet support the development of the quality management framework prior to the finalization of the discovery of what the most relevant definition encompasses.

Regardless of this definition currently lacking the Board should consider whether the public interest should be more prominent in the proposed standard and whether references to the public interest framework to be developed by the PIOB or the existing IFAC Policy Position 5 are appropriate to better understand which public interest considerations are addressed and how they are taken into account.


2. Regulators and Oversight Authorities

CEAOB

Given the wide impact that quality management has on the quality of all engagements, the standards should clearly address public interest needs, and include clear and enforceable objectives and requirements. We urge the IAASB to perform a comprehensive review and consideration of the standards from the public interest perspective before finalising them.

IAASA

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5. Public Sector Organizations

OAGNZ

We note the proposed revisions to ED-ISQM 1, ED-ISQM 2 and ED-220 have been made with the public interest at the forefront. We note the revisions were to address the most relevant public interest issues related to quality control. They include:

- Fostering an appropriately independent and challenging sceptical mind-set of the auditor;
- Encouraging proactive quality management at the firm and engagement level;
- Exploring transparency and its role in audit quality;
- Focusing more on firms’ (including networks’) structures and communication processes and their internal and external monitoring and remediation and remediation activities; and
- Reinforcing the need for robust communication and interactions during the audit engagement.

6. Member Bodies and Other Professional Organizations

IMCP
The three standards will generate improvements in quality of the engagements, and we agree that these standards, group public interest topics that were identified by the own IAASB, when they required comments in 2016 to the topic Improving Audit Quality completed in 2016.

The public interest topics identified and covered by the group of three standards are:
- Fostering an appropriately independent and challenging skeptical mindset of the auditor.
- Encouraging proactive quality management at the firm and engagement level.
- Exploring transparency and its role in audit quality.
- Focusing more on firms’ (including networks’) structures and communication processes and their internal and external monitoring and remediation activities.
- Reinforcing the need for robust communication and interactions during the audit engagement.

7. Investors

ICGN

One of ICGN’s core policy priorities is to seek transparency through better reporting, audit and metrics. This relates to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. Section 7 of ICGN’s Global Governance Principles focuses specifically on fundamental governance practices relating to audit and reporting and recommendation 7.7 states that “the board should publish the report from the external auditor which should provide an independent and objective opinion whether the accounts give a true and fair view of the financial position and performance of the company.”

The reliability, accuracy and overall quality of audit is therefore vital for investor decision-making and a critical component in holding corporate boards to account for their public disclosures and high standards of corporate governance more generally. In this regard we welcome the reviews undertaken in the UK to address the ‘audit expectation gap’ as referred to in the Independent Review of the Financial Reporting Council conducted by Sir John Kingman (December 2018) and the subsequent independent review by Sir Donald Brydon into the quality and effectiveness of audit (June 2019).

ICGN applauds the work of the IAASB in focusing on improvements in the way professional accountancy firms address key public interest issues related to management of audit quality and the performance of audit quality reviews. We note the crisper coordinated language contained in the revised Exposure Draft and understand that the purpose of the new quality assessment approach is to lead to higher quality audit outcomes than under the current approach which, by comparison, is a more rigid compliance checklist.

ICGN is hopeful that this approach will prove effective in practice. There was some commentary within ICGN that the new drafting is industry-friendly to the audit profession, and we do observe that the drafting of the new language leaves much to the discretion of the audit firms in terms of how this is applied and in making these improvements a reality. ICGN will monitor the impacts of this new language with interest, and we urge a continued focus on quality which is obtained through high ethical standards, objectivity and independence.

ICGN will not address the further aspects of the Exposure Draft, as our existing policy work has not dealt in detail with the specifics of auditor/company engagement. However, we would like to raise one fundamental example as to where the guidance could go further from an investor perspective. Specifically, the Exposure Draft makes no reference to the extent to which quality management can be linked to engagement not just between audit firms and companies but also engagement between investors and companies and perhaps in some cases between investors and audit firms directly.

We believe it is important to “join the dots” between audit quality and investor stewardship and their guiding policy documents. With enhanced audit reporting, we believe that investor engagement with boards and audit committees can also reinforce the importance of audit quality. We would encourage IAASB to make explicit
reference to the importance of investor engagement in its review of audit quality management and to consider adding it as one of IAASB’s key public sector issues.

8. Academics

UNSW

We note that the proposed standard, as presently drafted, focusses on meeting a minimum quality threshold. While we acknowledge that the objective of the standard, as implied in paragraph 9, is to meet a quality threshold, research (Peecher, Solomon and Trotman 2013), based on a review of the psychology and economic research, suggests that there may be merit in focusing quality management not only on the achievement of a minimum threshold, but encouraging (and recognizing and communicating) quality responses that exceed the minimum threshold. With this in mind, we would suggest that the public interest is served not only by the consistent performance of quality audit engagements, but also by a commitment to continuous improvement. Furthermore, while not directly addressing the proposed standard’s approach to a modern auditing environment (see Question 4 of the invitation to comment), a commitment to continuous improvement more effectively accommodates potential quality improvements that may arise from technological and other advancements.