ED-ISA 220 – Objective of the Standard

1. Monitoring Group

IOSCO

Paragraph 1 of ED ISA 220; Para 10 of ED ISQM 2

Paragraph 10 of ED ISQM 2

The relationship between the objectives of ISQM 2 and ISA 220 with the overall objective to improve audit quality needs further attention, as ISA220 only repeats ISQM1’s objective instead of explaining their relationship. The objective of ISQM 2 does not explain how the overall objective (contained in ISQM 1) is to be achieved. A clear differentiation of the various main objectives of the three standards as well as an explanation of their interrelationship could therefore add value.

The objective at engagement level could be enhanced by stating that “the objective is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements.”

2. Regulators and Oversight Authorities

FRC

We strongly support the link between the objective of the firm in ISQM1 and the objective of the auditor in ED-220. In particular, that the objective of extant ISA 220 incorporates the concept of reasonable assurance and therefore embeds the risk-based approach to managing quality at the engagement level.

CEAOB

We urge the Board to carefully review and revise the objective. It currently states ‘the objective of the auditor is to manage quality… to obtain reasonable assurance that quality has been achieved such that (a) the auditor has fulfilled his/her responsibilities… and (b) the auditor’s report is appropriate…’. In our view the objective to manage quality to achieve quality appears circular. Also, and in line with our comment on the objective of ISQM 1, we are concerned with the lack of clarity regarding reasonable assurance at engagement level, and we feel that the stakeholder/public interest perspective has not been adequately reflected. In our view, ‘reasonable assurance’ as an expression of the level of assurance provided by an auditor is a widely accepted concept. While ‘reasonable assurance’ over quality in the proposed ISA 220 uses the same language it is different. Given that this standard is aimed at the engagement level, we would suggest that it can be made more specific by stating that the objective is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements.

IAASA

We urge the Board to carefully review and revise the objective. It currently states ‘the objective of the auditor is to manage quality… to obtain reasonable assurance that quality has been achieved such that (a) the auditor has fulfilled his/her responsibilities… and (b) the auditor’s report is appropriate…’. In our view the objective to manage quality to achieve quality appears circular. Also, and in line with our comment on the objective of ISQM 1, we are concerned with the lack of clarity regarding reasonable assurance at engagement level, and we feel that the stakeholder/public interest perspective has not been adequately reflected. In our view, ‘reasonable assurance’ as an expression of the level of assurance provided by an auditor is a widely accepted concept. While ‘reasonable assurance’ over quality in the proposed ISA 220 uses the same language it is different. Given that this standard is aimed at the engagement level, we would suggest that it can be made
more specific by stating that the objective is to ensure that the audit is of high quality, performed in the public interest and meets all legal and regulatory requirements.

3. National Standard Setters

AICPA

Objective

In reviewing the updated objective in ED-ISA 220, it is unclear how we would determine that an auditor has “managed quality at the engagement level to obtain reasonable assurance that quality has been achieved.” It is our recommendation that the objective of the extant standard be retained as it is more concise and measurable, with the minor change of updating “control” to “management.” Specifically, we propose the following wording for the objective of the standard:

9. The objective of the auditor is to manage implement quality management procedures at the engagement level to obtain reasonable assurance that quality has been achieved such that:

(a) The auditor has fulfilled the auditor’s responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and

(b) The auditor’s report issued is appropriate in the circumstances.

IDW

The objective of the auditor should be to manage quality so as to achieve the objective of the audit

The current objective in extant ISA 220 and the proposed objective in the draft is to obtain reasonable assurance that the audit complies with professional standards and applicable legal and other requirements and that the auditor’s report is appropriate in the circumstances.

Asking auditors to obtain reasonable assurance that the audit complies with professional standards and applicable legal and other requirements and that the auditor’s report is appropriate in the circumstances would mean that the auditor would need to perform a detailed assessment of quality risks at engagement level and respond to those risks. Neither is required in ISA 220. Furthermore, the objective in ISA 220 is inappropriately linked to the objective of a firm’s quality management and therefore to compliance with professional standards, and legal and regulatory requirements, which suggests the quality objective is compliance rather than achieving the objective of an audit engagement.

Consequently, the quality objective in ISA 220 should be linked to achieving the objective of an audit engagement as follows:

“The objective of the auditor is to manage quality at the engagement level so as to achieve the objective of an audit”:

4. Accounting Firms

EYG

In reviewing the updated objective in ED-ISA 220, it is unclear how we would determine that an auditor has “managed quality at the engagement level to obtain reasonable assurance that quality has been achieved.” It is our recommendation that the objective of the extant standard be retained as it is more concise and measurable, with the minor change of updating “control” to “management.” Refer to the ‘Objective’ sub-section within the ‘Other matters’ section in ‘Appendix 3 EYG Response to ED-ISA 220’ for our proposed edits to the objective.
Objective

In reviewing the updated objective in ED-ISA 220, it is unclear how we would determine that an auditor has “managed quality at the engagement level to obtain reasonable assurance that quality has been achieved.” It is our recommendation that the objective of the extant standard be retained as it is more concise and measurable, with the minor change of updating “control” to “management.” Specifically, we propose the following wording for the objective of the standard:

The objective of the auditor is to implement quality management procedures at the engagement level that provide the auditor with reasonable assurance that:

(a) The auditor has fulfilled the auditor’s responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and

(b) The auditor’s report issued is appropriate in the circumstances.

We believe retaining the extant objective with the minor wording change is clearer and will be better understood by auditors, while still being consistent with the enhancements to ISA 220 to address the engagement partner’s responsibility for managing quality on the engagement.

RSMI

We have concerns over the Objective paragraph where the auditor is required to “manage” quality. We would prefer more precise language such as that used in the extant ISA 220 eg “implement quality control procedures”.

6. Member Bodies and Other Professional Organizations

AE

The proposed objective also lacks a linkage to ISQM1. It might be reworded since the engagement partner is required to apply the firm’s quality management’s responses in order to achieve the objective of the audit (ISA 200) and to take further measures if necessary. Therefore, the focus of the engagement partner should not be on compliance with individual requirements.