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

Definitions and Terminology

2. Regulators and Oversight Authorities

NASBA

We recommend that the phrase, “may be able to depend,” that appears in the application guidance in A7 be revised to “may depend” as used in A8 for consistency.

3. National Standard Setters

AICPA

The explanatory memorandum for ED-ISA 220 clarifies the meaning of the phrases “shall be satisfied” and “shall determine;” however, this clarification is not included within the standard. We recommend that this be clarified within the standard as the phrase “shall be satisfied” is used in several requirements, and without a clear description, can be open to interpretation and may result in inconsistent application.

We recommend that the following paragraph be added after paragraph 10 within the Definitions section of ED-ISA 220 to clarify this:

10A. For purposes of this ISA, the following phrases used in the requirements have the meanings attributed below:

“shall be satisfied” – the engagement partner’s responsibility in relation to actions that occur (or should have occurred) at the firm level, but which are relevant to managing and achieving quality at the engagement level

“shall determine” – actions that the engagement partner is required to take or delegate with appropriate oversight

AUASB

The IAASB’s proposed approach of using the terms “shall be satisfied” and “shall determine” to differentiate between actions that can occur at a firm level and actions that must occur at an engagement level is not clearly articulated in the body of ISA 220 and is not commonly used throughout the suite of auditing standards which may result in diverse interpretation.

CICPA_Final

1. The definition of engagement management reviewer in ED-ISA 220 is different from that expressed in ED-ISQM 1 and ED-ISQM 2. Suggest further clarification.

2. When comes to the definition of engagement partner, what does other individual mean? Suggest further explanations or examples.

IDW

Listed entity

We note that in contrast to extant ISA 220, the draft does not include a definition of “listed entity”. Although that term defined in extant ISQC 1 and in the draft of ISQM 1, we note that the term is used in other ISAs.
Since not all jurisdictions that use the ISAs also directly adopt ISQM 1, we recommend that the definition of “listed entity” be reinstated, or be placed in another ISA. We have substantive comments on the definition of “listed entity”, which we will address in our comment letter on ISQM 1.

**NBA**

We question why in the objective the term ‘auditor’ is used, while later on the term ‘engagement partner is used’. The first time, the use of the term ‘auditor’ seems all right, but the second time the term ‘engagement partner’ seems more appropriate. We recommend investigating this.

**4. Accounting Firms**

**EYG**

The explanatory memorandum for ED-ISA 220 clarifies the meaning of the phrases “shall be satisfied” and “shall determine;” however, this clarification is not included within the standard. We recommend that this be clarified within the standard as the phrase “shall be satisfied” is used in several requirements, and without a clear description, can be open to interpretation and may result in inconsistent application.

**GTIL**

We note that the explanatory memorandum indicates that the term “shall be satisfied” is used in the proposed requirements that refer to the engagement partner’s responsibility in relation to actions that occur at the firm level but which are relevant to managing and achieving quality at the engagement level and “shall determine” is used in relation to actions that refer directly to actions that the engagement partner is required to take. The distinction between these two phrases is not clear, nor is it consistent with the use of “shall be satisfied” in other ISAs. Further, given that this distinction is only referenced in the explanatory memorandum, the nuance will become lost over time.

**MZRS**

We draw the attention that the definitions between the proposed ISA 220 and the ones from the glossary are not exactly the same. When the ISA 220 is issued in its final form, we recommend that the glossary is updated to ensure consistency.

**MZRSUS**

Separately, consideration should be given in ED-220 and across all the auditing standards as to whether engagement resources and teams are consistently defined, including technological resources, or implied in the standards themselves, and not only covered in the application or explanatory material.

**NSW**

We note that there is some apparent variability in what the engagement partner is required to do. In some cases, the engagement partner “shall determine that”, and in other cases “shall be satisfied that”. If these terms are meant to imply different levels of effort, we believe that this needs to be made clear; if not, one phrase should be used consistently. To take an example, paragraph 15 requires the engagement partner to “determine that other members of the engagement team have been made aware of relevant ethical requirements”, rather than being satisfied that they have been made aware.

**PwC**

We believe that there is a significant risk of confusion and inconsistent application of the requirements due to the use of the terms “determine” and “be satisfied” to differentiate the nature of the engagement partner's
responsibilities. Expectations of the required work effort and documentation under each use case are unclear and likely to result in inconsistencies without further clarification.

We note that there may be a perceived conflict between paragraph 13 and the Glossary to the International Standards that indicates that when the term “the engagement partner shall” is used it is expressly intended that the requirement or responsibility be fulfilled by the engagement partner. It is not clear if the requirements of proposed ISA 220 (Revised), in particular paragraphs 12-13, seek to override this principle through the assignment concept.

We believe that there is a significant risk of confusion and inconsistent application of the requirements due to the use of the terms “determine” and “be satisfied” to differentiate the nature of the engagement partner’s responsibilities. Based on discussions in various fora we have been party to, it is clear there are different and often opposing views as to what each term means. Consequently, expectations of the required work effort and documentation under each use case are unclear and likely to result in inconsistencies without further clarification.

We also believe there is a significant risk of confusion and inconsistent application of the requirements due to the use of the terms “determine” and “be satisfied” to differentiate the nature of the engagement partner’s responsibilities, based on whether or not a specific action is required by the engagement partner (“determine”) or an action has already been taken by the firm (“be satisfied”). Based on discussions in various fora, it is clear there are different and often opposing views as to what each of these terms mean. Consequently, expectations of the required work effort and documentation under each use case are unclear and likely to result in inconsistencies without further clarification.

We also note that there may be a perceived conflict between the principle being established in paragraph 13 and the Glossary to the International Standards, which states that when the term “the engagement partner shall” is used it is expressly intended that the requirement or responsibility be fulfilled by the engagement partner. It is not clear if the requirements of proposed ISA 220 (Revised), in particular paragraphs 12-13, seek to override this principle through the “assignment concept”. To the extent there are specific responsibilities of the engagement partner that the Board envisages cannot be assigned in any circumstances, the requirements need to make this clear.

RSMI

We recommend adding definitions in respect of “shall be satisfied” and “shall determine”. These phrases are used in various places and therefore the inclusion of definitions would promote consistency and clarification. The definition of “shall determine” should be consistent with paragraph A30 to allow appropriate delegation of activities to other members of the engagement team whilst being clear that ultimate responsibility remains with the engagement partner.

5. Public Sector Organizations

GAO

We suggest that the IAASB consider clarifying in application guidance the different intended meanings of “shall be satisfied” and “shall determine” as discussed in paragraph 14 of the explanatory memorandum.

OAGA

In our view, the term “engagement partner” and “partner” should be changed to “ engagement leader.” The term “engagement partner” is not applicable to the public sector, although we note that a footnote mentions
to use public sector equivalents. We think the term “engagement leader” is better because it is generic to all organizations that do audits and more importantly conveys that there is someone who leads the engagement, reinforcing the main point of ISA 220 as there is someone who leads and is ultimately responsible and accountable for achieving quality, which is descriptive of the term “leader.”

The phrase “shall be satisfied” is problematic in that it could imply each engagement leader should individually evaluate the firm’s entire ISQM, always and continually.

6. Member Bodies and Other Professional Organizations

CNDCEC

The alternate use of the two wordings “shall be satisfied” and “shall determine” to indicate the two different circumstances, may not be sufficient without a clear explanation.

CPAA

We support the approach taken in the proposed standard to the overall responsibility and involvement on the engagement taken by the engagement partner. We also support the inclusion of others to whom supervisory roles are assigned. We note that “public sector equivalent” could be included in the definition of engagement partner in paragraph 10(a), rather than simply in footnote 12.

ICAEW

We note references in requirements for auditors to ‘determine’ various matters and to ‘be satisfied’ in relation to various matters. We are not convinced that there is a significant distinction between these two terms and we suggest one or the other be eliminated if that is the case to avoid inconsistent interpretations.

ICPAU

However, we observe the change in language used to emphasise the engagement partner’s responsibilities from using the phrase “shall be satisfied” to “shall determine”. This change appears to result in a higher bar for an engagement partner to meet.

IMCP

We consider that ED deal properly with the current auditing environment, nevertheless, we propose that the standard includes a clear definition of the term “delivery models”

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.

SAICA

The differing views in terms of areas of significant judgement create a particular challenge in the performance of the EQR. In line with the purpose of the EQR for the engagement quality reviewer to perform an objective evaluation of the significant judgements of the engagement team and the conclusions reached in formulating the report, the question is whether the engagement partner and engagement quality reviewer have to agree on what constitutes a significant judgement.

In answering this question, reference is made to paragraphs A29 and A30 of ED-ISMQ 2. In expanding on the requirement for the engagement quality reviewer to identify the areas involving significant judgements
made by the engagement team, the aforementioned paragraphs make specific reference to the examples of significant judgements identified by the engagement partner as contained in ED-220. It therefore seeming logical to conclude that the significant judgements identified by the engagement partner and engagement quality reviewer should be similar, barring differences as a result of the exercise of professional judgement.

In line with our suggestion included in Response Template: Proposed ISQM 2, SAICA suggests that a definition for the terms significant matters and significant judgements be included in both ED-ISQM 2 and ED-220.