August 31, 2003

Dear Sir,

Subject: Quality Control - Proposed ISQC 1 “Quality Control for Audit, Assurance and Related Services Practices” and Proposed Revised ISA 220 “Quality Control for Audit Engagements”

We are pleased to have the opportunity to comment on the above Exposure Draft, issued by the International Auditing and Assurance Standards Board (IAASB).

We strongly support the decision to clearly segregate quality control requirements at a firm level from those at an engagement level. We also support the need to increase the level of guidance on specific quality control procedures for audits. We therefore support the Exposure Draft and have set out in Appendix 1 to this letter some comments on how the proposals can be clarified and improved.

Appendix 2 to this letter also includes other minor editorial comments.

Should you require any further information regarding the matters dealt with in this submission, please contact Michael S. West at +31 (20) 656-6720.

Yours faithfully,

Michael S. West
Appendix 1 - Comments

1 ISQC 1

1.1 Introduction

1.1.1 Paragraph 4 – We agree with the context of the paragraph but believe that the way it is currently worded weakens the desired message. We believe that the semi-colon after the word “firms” in the first sentence should be replaced by a period in order to clearly convey the message. Further, the message being conveyed in the latter part of the first sentence might be better expressed if the word “differing” were changed to “tailored”. The word “differing” may be interpreted to mean “dissimilar” or “unlike” rather than the desired message of “tailored” or “modified”. As such, we suggest the wording be amended as follows:

4. This ISQC applies to all firms, however, individual firms are free to develop differing policies and procedures tailored to their particular circumstances provided they meet the requirements of this ISQC. The nature, timing and extent of those policies and procedures will depend on many factors, including the size and operating characteristics of the firm.

1.2 Definitions

1.2.1 Paragraph 5 (b) – “Engagement team” – We recommend that the definition be expanded to specifically include the engagement partner.

1.2.2 Paragraph 5 (c) – “Firm” – We agree that policies and procedures relating to quality control should be established at the overall firm level. However, we are concerned that the proposed standard actually imposes a responsibility on the "firm" to establish these procedures and to receive and disseminate information about these quality control procedures. In practice, compliance with firm policies and procedures is assigned to individuals or groups of individuals comprising the firm in accordance with duly approved authority levels. Accordingly, depending on the nature of the subject matter and the structure of the organization this authority may be appropriately granted to different levels of persons in the firm, including engagement partners, other partners and other empowered personnel. We recommend that the IAASB consider incorporating wording that is more consistent with the current wording of ISA 220.2 by requiring quality control policies and procedures to be established at the firm level as opposed to actually requiring the firm to establish such policies and procedures. In discussing the qualities of the policies and procedures, the rest of the standard can then state that "the policies and procedures established at the firm level should....."

We also note that the current definition of "Firm" is different to the definition contained in the IFAC Code of Ethics for Professional Accountants (the “Code” or “IFAC Code”). As the proposed standard is to be read in conjunction with Parts A and B of the Code, we believe that this inconsistency should be explained or eliminated. The current definition of "Firm" also needs to be considered with our comment under point 1.2.3 below.
1.2.3 Paragraph 5 (e) – “Network Firm” - We acknowledge that the definition of “Network Firm” is the same as that which is included in the IFAC Code. However, we are quite concerned that by combining a legal situation of an entity being under common control together with a situation involving the perceptions of others regarding whether an entity should be considered part of a firm could result in an inappropriate conclusion that entities in a network firm are considered to be “controlled” by the network organization. We therefore suggest that the definition of “Firm” be expanded to include entities that are in fact, by virtue of the legal structure, controlled and therefore correctly included in the legal parameters of the firm. The definition of “Network Firm” should then be confined to addressing the other situation of entities that are not under direct or common control but which are included in the network organization. In this regard, we believe it important to unambiguously avoid any reference to control. We are not aware that such a situation (involving control) exists with any of the international organizations. In our experience each member firm is a separate legal entity from each other member firm and none of the firms are “under the common control, ownership and management” of the respective international entity. Accordingly, the definition of Network Firm should address “entities which, while not under common control…etc., belong to a common organization that seeks to establish consistent professional standards among it’s members”.

1.2.4 Paragraph 5 (i) – “Staff” – The current definition specifically excludes only the engagement partner and not other partners. If taken literally, a second reviewing partner may be considered staff in this context. Additionally, we believe that a distinction should be made between full time employees of the firm and experts employed only temporarily. We also believe that it is important that the IAASB consider the relationships between partners, staff, personnel and the engagement team and is satisfied that the definitions appropriately reflect the intended use of the terms in the proposed standard.

1.2.5 To avoid misunderstandings, we believe that paragraph 5 should also include definitions of “assurance engagements”, “related services engagements” and “public sector”. In order to avoid any doubt as regards to the nature of related services that are covered, the standard should include a full definition of these terms and/or cross references to other international standards or material that provides comprehensive guidance to the type of engagements that are included. Without a complete understanding of the scope of the standard in this area, inconsistent application will develop and the major objective of issuing the standard might not be achieved.

1.3 Leadership and Responsibilities within the Firm

1.3.1 We believe that the title of this section, “Leadership and Responsibilities within the Firm” is too broad for what is covered. We suggest it should be changed to “Leadership Responsibilities for Quality within the Firm”. This change should be made throughout the document.

1.3.2 Paragraphs 7 and 11 – It is unclear what is meant by the term “positive recognition” used in these paragraphs. We believe the spirit of the term suggests that firms should encourage compliance with quality control policies and procedures; however, the term “positive recognition” can be interpreted to mean that evidence of compliance with policies should be maintained. As such, we suggest that the objective of the proposed standard would be achieved by simply referring to “give recognition to” in paragraph 7 and “Recognition for” in paragraph 11.
1.3.3 Paragraph 11 – A firm’s framework for dealing with instances of non-compliance with its policies and procedures will contemplate various actions depending upon the gravity of the situation. We believe that the word “disciplinary” in this regard has inappropriate connotations of punitive action which is unnecessary to convey the appropriate meaning of the point. Also, we believe this paragraph should acknowledge that the framework should include a process to investigate and confirm alleged non-compliance. We suggest the text after the bullets in paragraph 11 be amended as follows:

“An appropriate disciplinary framework for non-compliance with the firm’s quality control policies and procedures includes guidance on how and in what circumstances penalties will be applied, a process to investigate and confirm alleged non-compliance and a process to consider and apply appropriate courses of action. Set out clear penalties for instances of non-compliance together with guidance on how and in what circumstances such penalties will be applied.”

1.4 Ethical Requirements

1.4.1 Independence - We are concerned that this entire section expands on the responsibilities set out in Section 8 of the IFAC Code by black lettering procedures in paragraphs 19 and 20 that are largely concerned with the mechanics of complying with the Code. As acknowledged in paragraph 21 of the proposed standard, the IFAC Code provides comprehensive guidance spanning some sixty pages dealing with threats to independence and safeguards. Accordingly, we believe that paragraph 18 alone, together with a reference to the IFAC Code, is sufficient to deal with this section of the proposed standard and that there is a risk that any further discussion might be construed to expand upon the established responsibilities set out in the Code.

1.4.2 Paragraph 20(c) – We disagree with the requirement that a "communication" between the engagement partner and the firm regarding actions taken to resolve an independence matter is necessary in all situations. We believe that the resolution of independence matters communicated to the engagement partner should be managed by the engagement team in accordance with the firm’s established procedures, including documenting the evaluation/resolution of the matter in the engagement administration work papers. Depending upon the nature of the matter reported this might require communication to the “firm” whereas in other circumstances the engagement partner will be able to deal with the matter without the need for any further contemporaneous communication.

These policies and procedures dealing with the above areas at the engagement level need to be addressed in ISA 220. Notwithstanding the modifications we have suggested, the proposed ISA 220 currently does not include the responsibilities of the engagement partner corresponding to those of the firm as outlined in proposed paragraphs 19 and 20 (e.g. the responsibility of the partner to contact and solve identified problems with the relevant firm personnel assigned responsibility for these areas).

1.4.3 Paragraph 23 – An independence confirmation will also need to be obtained from any “suitably qualified external consultants and outside experts” engaged by the firm.

1.4.4 Paragraph 25 (b) – This paragraph introduces a significant new requirement for firms to establish criteria against which engagement partners responsible for non-listed audit clients should be
considered for rotation. We support the conceptual argument for this initiative but are concerned that the current level of discussion and absence of detailed guidance provided in the standard will result in major inconsistencies across firms. We feel that this policy needs to be reviewed in the context of reducing the opportunity for differential treatment. As such, we recommend that the standard be revised to incorporate additional guidance on criteria for partner rotations for non-listed entities that will ensure that the public interest argument for introducing this requirement will be met. If appropriate guidance cannot be introduced, we propose that the requirement be eliminated.

1.5 Acceptance and Continuance of Client Relationships and Specific Engagements

1.5.1 In general, paragraphs 28-34 do not distinguish clearly between client and engagement acceptance and continuance. We accept that references to “engagement” typically covers “client”, but we suggest these paragraphs should be reviewed to ensure that references to “engagement” do not undermine the need also to consider acceptance and continuance at the client level.

The discussion on when to obtain this information should acknowledge that these procedures are performed when considered appropriate as follows: “Information on these matters when considered appropriate is obtained through…”.

We also recommend that paragraph 29(c) be edited so that it states the “client’s reputation regarding its attitude towards such matters as aggressive interpretation of accounting standards and the internal control environment” since the firm would likely not know a new client’s attitude towards such matters. We also suggest that paragraph 29 be expanded or include an additional paragraph that discusses under what specific circumstances a firm would consider re-evaluating the integrity of an existing client. Paragraph 29(a) should also discuss that it is important to establish the identity of those who ultimately control the entity, particularly where the ownership trail leads to a company in a jurisdiction where details of ownership are not readily available.

Money laundering and possible involvement in criminal activity or fraud is a further important consideration and we suggest adding an additional bullet: “The risk that the client might be involved in money laundering or other criminal activity”.

1.5.2 Paragraph 31 - The concept of “material professional relationship” as promulgated by the ICAEW, including the three-year quarantine interval, could be usefully embraced here. We suggest adding wording at the end of the paragraph such as: “Where a firm has previously acted for a particular client, careful consideration needs to be given to the implications of acceptance, including an assessment as to whether objectivity is likely to be impaired by acceptance of the latest engagement. For example, ethical guidance in certain countries includes a requirement to apply a time interval as a safeguard to promote objectivity”.

1.5.3 Paragraph 34 – We believe that there may be a missing element concerning the development of new facts and circumstances which might lead to a need to discuss with the client what action the auditor should take. The first bullet seems to assume the auditor has already made the decision to withdraw and this is the first time they approach the client to discuss. The third bullet should
come earlier and have more emphasis, particularly given that resignation might not be solving a problem other than enabling the existing auditor to withdraw from it only to have another firm face the same situation.

1.6 Human Resources
1.6.1 Paragraph 40 – As well as the matters listed, we suggest that the requirements be expanded to state that the firm should establish policies and procedures requiring that:

- The responsibilities of engagement partners are clearly defined and communicated to them; and,
- Engagement partners have appropriate support (for example, another partner), where necessary, at meetings with the directors and senior management of the client entity that will involve matters that are, or may be, material to the engagement deliverables.

1.6.2 Paragraph 40 (a) – We agree with the necessity to assign an engagement partner to each engagement and report that information to key members of management for all financial statement audits. However, this seems unnecessary for non-financial statement audit clients.

1.6.3 Paragraph 40 (b) and 41 – We assume that the term “competencies” used in these paragraphs is envisaged to include the person’s experience level and in the case of paragraph 41, the professional’s level within the firm (i.e. manager, etc.). We note paragraph 42 includes a list of certain competencies that should be considered when assigning engagement teams. We recommend that to avoid any confusion as to what is understood by “competencies” the IAASB clarify whether there are other matters to be considered by including a definition of the term.

1.7 Engagement Quality Control Review
1.7.1 As a general comment, the distinction between the pre-issuance review procedures as described in this section and the inspections conducted as part of monitoring process is positive. However, we find the title of this sub-section (used throughout ISQC 1 and ISA 220) “Engagement Quality Control Review” to be confusing as it is not clear that the review in mind is not essentially adversarial and after-the-fact (similar to the inspections as described in ISQC paragraph 76), but rather to support the engagement partner by performing an independent review of the quality of the work on the engagement and by giving an independent opinion on contentious issues. We would prefer a more distinctive term such as “Independent Review”.

1.7.2 Paragraph 61 – The use of past tense in this paragraph does not seem appropriate when referring to the engagement performance or report. Paragraph 57(d) requires the completion of the engagement quality control review before issuance of the report; as such, the phrases “…that would cause the reviewer to believe that the engagement was not performed … or that the report was not appropriate in the circumstances” does not appear consistent with the required timing of the review as stated in Paragraph 57 (d) and should be amended to read as follows:

“…that would cause the reviewer to believe that the engagement was not been performed … or that the report is was not appropriate in the circumstances”
1.7.3 Paragraph 62 – In the first sentence, it is confusing to refer to the engagement quality control reviewer conducting a "review" of the financial statements as this can be misread to mean review of compliance with professional standards in accordance with ISA 910 and we suggest that it be changed to “reading the financial statements….”.

The existing bullet points should also be expanded to state that the quality control engagement reviewer should be involved in appropriate points throughout the engagement including the planning process so as to have input into risk assessment and determining audit approach.

The wording in the fifth bullet point is obscure in its current form and should be expanded to include clarification as to whether this encompasses corrected or uncorrected misstatements.

1.7.4 Paragraph 65 – The inclusion of “other person in the firm” in this sentence provides the opportunity for the engagement quality control reviewer to be someone without authority to bind the firm. We believe that the intentions of this standard would be better served if it were mandated that the engagement quality control review must be performed by someone with the ability to bind the firm (i.e. a “partner” according to the definition in paragraph 5 (f) or a suitably qualified external consultant as defined in paragraph 5 (j)). As such, we suggest the paragraph be amended as follows:

“An engagement quality control reviewer is a partner, other person in the firm or suitably qualified external consultant with sufficient and appropriate experience and authority to perform an engagement quality control review.”

The revised wording as above seems appropriate given the messages incorporated in paragraphs 67 and 68. As this represents the definition of a term, we recommend moving this sentence to the definitions section of the standard.

1.7.5 Paragraph 66 – We believe that included in this black lettered paragraph should be the requirement that the engagement quality control reviewer should be otherwise independent of the client and the engagement (as explained in paragraph 69).

1.8 Monitoring

1.8.1 Paragraph 73 – In some countries, audit firms are inspected by a regulator. As such, we suggest that this paragraph should be expanded to state: “Where the firm receives relevant external regulatory inspection, the firm's own monitoring should be designed and conducted accordingly”.

1.8.2 Paragraph 75 – We suggest that inspection of selected individual engagements should be included here so as to provide a link to paragraph 76.

1.8.3 Paragraph 77 – Selection of engagements without prior notification is not always practicable because of the need to arrange for files and engagement personnel to be available. We suggest that the second phrase of the first sentence be changed to “some of which may be selected without prior notification to the engagement team where this approach is deemed practicable”.

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1.8.4 Paragraphs 80-84 – The distinction in 80 (a) and (b) is not clear. For example, some significant deficiencies could fall within both (a) and (b).

If the distinction intended is that there are certain deficiencies that require further investigation or corrective action “to provide the firm with reasonable assurance that it complies…”, and other deficiencies that do not require such action, this should be clarified.

If there is a distinction, once it is clarified, 81-84 should make clear which type of deficiency is envisaged in each paragraph.

If the distinction is not necessary to understand 82, 83 and 84, we suggest that 80 should be combined with 81 and state: “The firm evaluates the effect of significant deficiencies noted as a result of the monitoring process. Such evaluation will normally result in recommendations for appropriate courses of action. These actions may include…”.

1.8.5 Paragraph 85 (a) – In order to be consistent with language elsewhere in the ISQC 1 and not to confuse the subject matter of this point with that of an engagement quality control review, we suggest you change the word “review” here to “subject to inspection”.

1.8.6 Paragraph 86 – This paragraph should be a black lettered paragraph since it deals with communication of the results of the monitoring process, which is different from the policies and procedures addressed in paragraph 73. The text of the paragraph should also be altered so that it is specific about the matters that should be communicated. As such, we suggest the paragraph be amended as follows:

86. The firm should communicate to relevant firm personnel the following information on the results of the monitoring process of its system of quality control:

- A description of the monitoring procedures performed.
- The conclusions drawn from the monitoring procedures.
- Where relevant, a description of systemic or repetitive deficiencies and of the actions taken to resolve or amend those deficiencies.

This information should be communicated on at least an annual basis to the chief executive officer of the firm (or equivalent), and other firm leadership and personnel.

1.8.7 Paragraphs 88-90 - We believe that “Complaints and Allegations” are not part of “Quality Control” or “Monitoring”. Normally they are dealt with by a quite separate department and we do not consider they should be included in this document. We acknowledge, however, that it might be appropriate to state in any guidance on possible sources of quality control policies and procedures that any relevant lessons regarding a firm’s policies and procedures that are noted in situations involving complaints and allegations should be considered by the firm.
1.9 Public Sector Perspective

1.9.1 Paragraph 2 – It may be unnecessary to state that the term “listed entity” be read to include all public sector entities. Instead, perhaps the requirement should be expanded to allow for judgement to be used in applying the definition of the term “listed entity” based on the size, degree of complexity, and number and range of stakeholders of the public sector entity.

1.9.2 Paragraph 3 – Instead of stating that paragraphs 28-34 of ISQC 1 may not apply in certain circumstances, we would suggest that the paragraph be reworded to state that firms should adhere to the local statutory requirements should they override paragraphs 28-34 of ISQC 1.

2 ISA 220

2.1 Definitions

2.1.1 Paragraph 5 (b) – “Engagement team” – We recommend that the definition be expanded to specifically include the engagement partner.

2.1.2 Paragraph 5 (c) – “Firm” – We agree that policies and procedures relating to quality control should be established at the overall firm level. However, we are concerned that the proposed standard actually imposes a responsibility on the “firm” to establish these procedures and to receive and disseminate information about these quality control procedures. In practice, compliance with firm policies and procedures is assigned to individuals or groups of individuals comprising the firm in accordance with duly approved authority levels. Accordingly, depending on the nature of the subject matter and the structure of the organization this authority may be appropriately granted to different levels of persons in the firm, including engagement partners, other partners and other empowered personnel. We recommend that the IAASB consider incorporating wording that is more consistent with the current wording of ISA 220.2 by requiring quality control policies and procedures to be established at the firm level as opposed to actually requiring the firm to establish such policies and procedures. In discussing the qualities of the policies and procedures, the rest of the standard can then state that "the policies and procedures established at the firm level should......"

We also note that the current definition of "Firm" is different to the definition contained in the IFAC Code of Ethics for Professional Accountants (the “Code” or “IFAC Code”). As the proposed standard is to be read in conjunction with Parts A and B of the Code, we believe that this inconsistency should be explained or eliminated. The current definition of "Firm" also needs to be considered with our comment under point 2.1.3 below

2.1.3 Paragraph 5(c) – “Network Firm” - We acknowledge that the definition of “Network Firm” is the same as that which is included in the IFAC Code. However, we are quite concerned that by combining a legal situation of an entity being under common control together with a situation involving the perceptions of others regarding whether an entity should be considered part of a firm could result in an inappropriate conclusion that entities in a network firm are considered to be “controlled” by the network organization. We therefore suggest that the definition of “Firm” be expanded to include entities that are in fact, by virtue of the legal structure, controlled and
therefore correctly included in the legal parameters of the firm. The definition of “Network Firm” should then be confined to addressing the other situation of entities that are not under direct or common control but which are included in the network organization. In this regard, we believe it important to unambiguously avoid any reference to control. We are not aware that such a situation (involving control) exists with any of the international organizations. In our experience each member firm is a separate legal entity from each other member firm and none of the firms are “under the common control, ownership and management” of the respective international entity. Accordingly, the definition of Network Firm should address “entities which, while not under common control….etc., belong to a common organization that seeks to establish consistent professional standards among it’s members”.

2.1.4 Paragraph 5 (i) – “Staff” – The current definition specifically excludes only the engagement partner and not other partners. If taken literally, a second reviewing partner may be considered staff in this context. Additionally, we believe that a distinction should be made between full time employees of the firm and experts employed only temporarily. We also believe that it is important that the IAASB consider the relationships between partners, staff, personnel and the engagement team and is satisfied that the definitions appropriately reflect the intended use of the terms in the proposed standard.

2.1.5 To avoid misunderstandings, we believe that paragraph 5 should also include definitions of “assurance engagements”, “related services engagements” and “public sector”. In order to avoid any doubt as regards to the nature of related services that are covered, the standard should include a full definition of these terms and/or cross references to other international standards or material that provides comprehensive guidance to the type of engagements that are included. Without a complete understanding of the scope of the standard in this area, inconsistent application will develop and the major objective of issuing the standard might not be achieved.

2.2 Leadership and Responsibilities

2.2.1 We believe that the title of this section, “Leadership and Responsibilities” is too broad for what is covered. We suggest it should be changed to “Leadership Responsibilities for Quality”. This change should be made throughout the document.

2.2.2 Paragraph 6 – We believe that this paragraph suffers from the attempt to mirror in this document the contents of ISQC 1. In particular, we do not agree that the engagement partner can be held responsible for all the elements of “quality control” as defined in paragraph 6 of ISQC 1 on an individual engagement. We therefore suggest that the words: “the quality control of, and” and the comma after “on” should be deleted.

2.3 Ethical Requirements

2.3.1 Paragraph 8 – This paragraph, which is black lettered, is not consistent with the objectives of the firm policies and procedures relating to ethical requirements in ISQC 1, paragraph 14. ISQC 1 paragraph 14 requires the firm to establish policies and procedures to provide reasonable assurance that personnel comply with relevant ethical requirements. ISA 220, paragraph 8 does not require the partner to conclude on compliance with ethical requirements. It instead requires
the partner to obtain an understanding of potential threats and safeguards. The guidance in ISA 220 paragraph 12 does, however, refer to documentation of a conclusion.

In addition, ISA 220, paragraph 8 does not provide any guidance on the areas that should be focused on or on how the engagement partner obtains the required understanding of threats and safeguards. This is important since there is an overlap between some of the fundamental principles of professional ethics and the elements of a system of quality control. For example, two key principles of professional ethics are professional experience, relevant knowledge and due care and technical standards. One would have thought that a partner would have reasonable assurance of complying with these principles if the requirements relating to assignment of engagement teams and engagement performance in ISA 220 paragraphs 23 to 32 have been met. It is not clear from the standard whether this is the case and whether the partner is required to do something more in this area. On the other hand, confidentiality and professional behaviour are also key principles that are not elaborated on at all in ISA 220.

In a large firm the partners’ “understanding” may be limited to (appropriately) relying upon the firm’s policies and procedures to inform the partner of these issues. In this regard a paragraph similar to ISQC 1 paragraph 14 would be appropriate to describe to partners their responsibility in this area.

We also question whether the term “potential threats” versus simply “threats” is used appropriately and consistently in ISA 220. We believe that ISA 220 paragraph 8 refers to “potential threats” to compliance with relevant ethical requirements and safeguards in place to eliminate or reduce “potential threats”. ISA 220 paragraph 15, on the other hand, refers to both “potential threats to independence” in 15(a) and “threats to independence” in 15(b) and 15(e) refers to taking appropriate action to eliminate “such threats”. It is not clear whether (c) is referring to just the “threats” in 15 (b) or whether it is also including the “potential threats” in 15 (a).

Regarding the requirement to document the understanding obtained in paragraph 8, we agree that client acceptance should consider the ability to comply with ethical requirements; however, we believe that when absence of contrary indication, further documentation, other than the fact that a check was performed, should not be required.

Given the above points, we believe that ISA 220 paragraph 8 to 12 need to be re-written so that they clearly explain:

- The engagement partner’s responsibilities with respect to compliance with ethical requirements;
- Which of these responsibilities are met by virtue of complying with ISA 220 paragraphs 13 to 44; and
- What else the engagement partner needs to do to ensure that the responsibilities are appropriately addressed.

2.3.2 Paragraph 11 – We believe that it would be helpful to make it clear that ethical matters may also be discussed with appropriate ethics specialists within the firm.
Paragraph 15 (d) – We disagree with the requirement that a "communication" between the engagement partner and the firm regarding action taken to resolve an independence matter is necessary in all situations. We believe that the resolution of all independence matters communicated to the engagement partner should be managed by the engagement team in accordance with the firm’s established procedures, including documenting the evaluation/resolution of the matter in the engagement administration work papers. Depending upon the nature of the matter reported this might require communication to the “firm” whereas in other circumstances the engagement partner will be able to deal with the matter without the need for any further contemporaneous communication.

2.4 Acceptance and Continuance of Client Relationships and Specific Engagements

2.4.1 Paragraph 20 – The expectation is that the engagement partner would have been involved in the acceptance decision-making process. We suggest this paragraph should be changed to: “The engagement partner is normally involved in the acceptance or continuance decision. Regardless of whether…”

If this paragraph is intended to cover situations where there has been a change in engagement partner responsibilities, a requirement to have the new partner review the initial consideration might not always be practicable and will depend upon the availability of the material relating to the original client and engagement acceptance or continuation documentation as well as newly available information.

2.4.2 Paragraph 21 – Acceptance of audit engagements for an existing client also includes consideration of whether it conflicts, or is incompatible, with other services being, or to be, provided to the client.

Regarding the third bullet - It is also important to establish the identity of those who ultimately control the entity, particularly where the ownership trail leads to a company in a jurisdiction where details of ownership are not readily available.

We suggest that this paragraph be expanded and reorganized so that it is clear that the auditor needs to consider the three key factors relating to acceptance and continuance discussed in paragraph 28 of ISQC 1 which are: integrity of the client, competence of the engagement team and compliance with ethical requirements. The list included in paragraph 21 does not exactly correspond with the paragraphs of ISQC 1.

2.4.3 Similar to ISQC 1, paragraphs 28-34, paragraphs 19-22 of proposed ISA 220 do not distinguish clearly between client and engagement acceptance and continuance. We accept that normally references to “engagement” will also cover “client”, but we suggest these paragraphs should be reviewed to ensure that references to “engagement” do not undermine the need also to consider acceptance and continuance at the client level.

2.5 Assignment of Engagement Teams

2.5.1 Paragraph 23 –This paragraph of the proposed ISA 220 requires the engagement partner to be satisfied that the engagement team “collectively” has the necessary competencies to perform the audit engagement. We assume that the term “competencies” is envisaged to include the person’s
experience level and the professional’s level within the firm (i.e. manager, etc.). We recommend that to avoid any confusion as to what is understood by “competencies” the IAASB clarify whether there are other matters to be considered by including a definition of the term.

Additionally, paragraph 40(b) of proposed ISQC 1 requires a firm to consider whether the engagement partner has both the necessary competencies and sufficient time to perform the role. Paragraph 41 also requires the firm to assign appropriate staff with the necessary competencies to perform the engagement. However, paragraph 23 of proposed ISA 220 requires the engagement partner to be satisfied that the engagement team “collectively” has the necessary competencies to perform the audit engagement. Paragraph 23 does not require the engagement partner to consider whether he/she has the necessary skills, relevant knowledge and experience and time to take responsibility for the engagement on behalf of the firm. This omission results in an inconsistency between the requirements of proposed ISQC 1 and ISA 220.

2.6 Engagement Performance

2.6.1 Paragraph 25 – The first bullet point refers to ‘planning procedures’, however, it not clear whether these are high level procedures involved in planning the audit or planning the detailed procedures to be performed throughout the audit. In addition, the second bullet point refers to ‘performance of further audit procedures’ as being the responsibility of the engagement partner. However, there is no mention of performing the original audit procedures, which are understandably not part of the partner’s responsibility. If this is to mean that the determination of whether further audit procedures are required as a result of the outcome of the original procedures, this should be made more clear.

2.6.2 Paragraph 28– We assume that the term “competencies” used in the second bullet is envisaged to include the person’s experience level and the professional’s level within the firm (i.e. manager, etc.). We recommend that to avoid any confusion as to what is understood by “competencies” the IAASB clarify whether there are other matters to be considered by including a definition of the term.

2.6.3 Paragraph 36 – We suggest that this paragraph be revised so that it is consistent with paragraph 54 of ISQC 1. This would require it to be a black lettered paragraph and it should be directed to the engagement partner. We believe this is appropriate since the engagement partner should be the one who is responsible for resolving differences of opinion that arise during consultation.

2.7 Engagement Quality Control Review

2.7.1 As explained in our comments in the Engagement Quality Control Review sub-section to ISQC 1 above, we find the title of this sub-section (used throughout ISQC 1 and ISA 220) “Engagement Quality Control Review” to be confusing as it is not clear that the review in mind is not essentially adversarial and after-the-fact (similar to the inspections as described in ISQC paragraph 76), but rather to support the engagement partner by performing an independent review of the quality of the work on the on the engagement and by giving an independent opinion on contentious issues. We would prefer a more distinctive term such as “Independent Review”.

2.7.2 Paragraph 37 – The “firm’s criteria” that is mentioned here is not defined; this is because the requirement to establish criteria is included in ISQC 1. In order to allow an easier read of the
document, we suggest that a cross-reference to the ISQC 1 be included in this paragraph. We suggest the text be amended as follows:

37. For audits of listed entities, or in other circumstances where the firm’s criteria (established in accordance with ISQC 1, paragraphs 57(b) and 58) require that an engagement quality control review…

2.7.3 Paragraphs 39-41 – These paragraphs are repeated in verbatim from ISQC 1. We suggest paragraphs 39-42 be replaced with the following:

39. Refer to ISQC 1 for detailed guidance on engagement quality control reviews as follows:

- Nature and Extent of the Engagement Quality Control Review – ISQC 1, paragraphs 60-64.
- Criteria for the Eligibility of Engagement Quality Control Reviewers – ISQC 1, paragraphs 65-71
- Documentation of the Engagement Quality Control Review – ISQC 1, paragraph 72

Notwithstanding the above suggestion, our comments on paragraphs 40 and 41 can be found under the comments to ISQC 1, paragraphs 61 and 62, respectively, and have not been duplicated here.

2.8 Monitoring

2.8.1 Paragraph 44 – As explained in our comments on paragraphs 88-90 of proposed ISQC 1, we consider that “Complaints and Allegations” are not part of “Quality Control” or “Monitoring”. Normally they are dealt with by a quite separate practice protection department. We do not consider they should be included in this document.

Notwithstanding the above comment, this paragraph addresses the responsibilities of the engagement partner and engagement team to communicate to appropriate parties. As mentioned earlier in our comments, the standards in this ISA should focus on the responsibilities of the engagement partner in order to be consistent. The team’s responsibilities in this area is adequately covered in paragraphs 88 to 90 of proposed ISQC 1 and as such, we suggest that the words “or engagement team” in this paragraph be deleted.
Appendix 2 – Other Editorial Comments

A. ISQC 1

A.1 Proposed ISQC 1 in a number of paragraphs refers to “a person or persons with sufficient and appropriate experience to...”. We suggest that “person or persons” be replaced with “partner or partners” since “partner” is defined as “any individual with authority, whether through office or otherwise, to bind the firm”. Relevant paragraph references are ISQC 1.12, 13, 69(a) and 74.

A.2 Paragraph 38 - We suggest the notion of other career advancement factors be added to the point as follows:
“(c) Career advancement to positions of greater responsibility depends, among other things, upon performance quality…”

A.3 Paragraph 45 – It is difficult to understand the meaning of the second sentence the way it is currently worded. We suggest expanding the sentence as follows:
“Appropriate team-working and training is necessary to assist less…”

A.4 Paragraph 65 – This paragraph defines an Engagement Quality Control Review. As such, we suggest this be moved to the definitions section of the standard in paragraph 5.

A.5 Paragraph 67, third sentence – “financial statements” should be changed to “financial statement”

A.6 Paragraph 69 (d) – “twenty four” should be hyphenated to read “twenty-four”

A.7 Paragraph 69 (e) – “twenty four” should be hyphenated to read “twenty-four”

B. ISA 220

B.1 Paragraphs 13-18 – We have some suggestions for improvement to the readability and structure of paragraphs 13 to 18. Paragraph 13 is a black letter paragraph although it only contains a statement of fact and it does not require the engagement partner to actually carry out any procedures. Paragraph 15, on the other hand, requires the engagement partner to carry out certain procedures without providing a context for the procedures. Paragraph 16 is directed to engagement teams when the rest of the black lettered paragraphs in proposed ISA 220 (except for paragraph 44) are directed to the engagement partner. Further, paragraphs 17 and 18 expand on the black letter requirements in 15(b) and (c). Given this, we recommend that the IAASB combine paragraphs 13 and 15 and move 17 and 18 to follow 15. We have included below how we believe these paragraphs should be changed. Our italicized comments in parentheses provide the reasoning behind some of the suggested wording changes in these paragraphs.

13. The engagement partner should conclude on compliance with independence requirements applicable to the audit engagement. 15. The In
forming the conclusion, the engagement partner should:
(a) Obtain sufficient information regarding the engagement, including the scope of services provided to the client by the firm or, where applicable, other network firms, in order to evaluate whether there are potential threats to independence for the audit engagement:

(The threats should be also restricted to those relating to the audit engagement. This is consistent with 13(b). See also comment above regarding use of “potential threats”).

(b) Evaluate information regarding identified breaches, if any, of the firm’s independence policies and procedures to determine whether they represent a threat to independence for the audit engagement and that need to be addressed;

(All threats need to be addressed; therefore the last phrase is redundant).

(c) Take appropriate action to address eliminate such threats or reduce them to an acceptable level by the application of safeguards, or if not possible, to withdraw from the engagement.

(We believe it is better to keep the black lettered text brief and expand on how the partner might address the threat in non-black lettered paragraph. Alternatively, 13 (c) should be expanded so that it is consistent with 15 (c) which states that when the partner determines that a threat cannot be eliminated or adequately reduced, they consult with the firm to determine the action to be taken, which may include withdrawing from the engagement. See also comment above regarding the need to clarify use of the reference to “such” threats and whether it includes the threats discussed in both 13 (a) and 13 (b)).

(d) Communicate any independence breaches and the action taken to address these matters promptly to the firm regarding the action taken to resolve the matter;

(Paragraph 20 of ISQC 1 requires both breaches and the action taken be communicated.)

(e) Document conclusions regarding independence and any relevant discussions with the firm that support these conclusions.

(Paragraph 18 states that both discussions and conclusions are to be documented.)

14. In concluding on compliance with independence requirements applicable to the audit engagement, the engagement partner is entitled to rely on that part of the firm’s quality control system comprising policies and procedures regarding independence, unless informed otherwise by the firm, individuals within or outside the firm, or the client.

16. Engagement teams should provide the firm with relevant information to enable the functioning of that part of the firm’s system of quality control relating to independence. Engagement teams should notify the firm in a timely manner of independence breaches of which they become aware.

(We recommend deleting this paragraph. We believe that it is inappropriate to direct an instruction to the engagement team in this standard. ISQC 1, paragraph 19 (a) applies to engagement teams. Also, paragraphs 6 and 7 of proposed ISA 220 state that the engagement partner provides the leadership for compliance with the firm’s policies and procedures. Therefore, we believe that nothing further is needed).

17. If the most recent information circulated as a result of the firm’s monitoring process indicates that deficiencies have been found in either the design or operation of the policies and procedures regarding independence, the engagement partner:

(a) Ascertains whether the specific deficiencies noted by the monitoring review relate to the audit engagement in question; and
(b) Considers whether the measures adopted by the firm to rectify the situation are sufficient in the context of that audit engagement.

18. When the audit partner concludes that identified breaches to the firm’s independence policies represent a threat to independence for the audit engagement, the audit partner takes appropriate action to eliminate the threat or reduce it to an acceptable level by the application of safeguards. Where, in the judgment of the engagement partner, there is a threat to independence regarding the audit engagement for which it might not be possible to adopt safeguards that eliminate the threat or reduce it to an acceptable level, the engagement partner consults within the firm to determine the appropriate action to be taken, which may include withdrawing from the audit engagement. Such discussion and conclusions are documented. *(Suggested changes are intended to provide more guidance with respect to 15(c)).*

B.2 Paragraph 15(b) – We suggest changing “…of its independence policies…” to “…of the firm’s independence policies…”

B.3 Paragraph 25 – We suggest the second bullet, “Performance of further audit procedures.” be changed to “Performance of further audit procedures”.

B.4 Paragraph 27 – It is difficult to understand the meaning of the second sentence the way it is currently worded. We suggest expanding the sentence as follows: “Appropriate team-working and training is necessary to assist less …”

B.5 Paragraph 37 – “The engagement partner does not issue the auditor’s report…” should be changed to “The engagement partner should not issue…”