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Mr. Willie Botha — Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Botha:

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide comments on the International Auditing and Assurance Standards Board's ("IAASB" or the "Board") exposure drafts related to quality management at the firm and engagement levels:

- Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1).
- Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2).
- Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ED-220).

Audit quality is of critical importance to the capital markets, regulators, and every stakeholder that demands confidence in the audit process. The performance of audits, as well as the regulatory landscape within which firms are structured and operate, has changed considerably since the issuance of the clarified ISA 220, *Quality Control for an Audit of Financial Statements*, and ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, in December 2009. Accordingly, DTTL commends the Board for its renewed focus on quality management, including consideration of relevant public interest issues and other input received through the Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. DTTL is broadly supportive of the direction taken in these standards; in this letter, we present a summary of the primary matters for additional consideration.

ED-ISQM 1 — The firm's risk assessment process

With respect to the identification and assessment of quality risks as part of the firm's risk assessment, DTTL recommends additional guidance regarding *how* to assess the significance of a quality risk, including the determination of the effect that a quality risk could have on the achievement of a quality objective. We also recommend that the requirement to perform a preliminary assessment of the significance of a quality risk followed by a "further assessment" (i.e., a more detailed consideration) of

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the significance of a quality risk be removed. Requiring a two-step process such as this may result in excessive documentation of risks that do not rise to the level of having a significant effect on the achievement of a quality objective. Lack of clarity in these areas could result in inappropriate execution, including inconsistencies in how quality risks are identified and assessed. (See Appendix II, Question 6(c))

ED-ISQM 1 – Monitoring and remediation process

In recognition of the risk-based nature of ED-ISQM 1, and with a focus on engaging in more proactive types of monitoring activities, DTTL recommends removal of the requirement for inspection of at least one completed engagement for each engagement partner on a cyclical basis. We believe retaining this requirement is contrary to the risk-based nature of the new quality management approach and discourages firms from investing in actions that would promote more effective, efficient, and innovative monitoring techniques, including increased investments in inspection of in-process engagements. (See Appendix II, Question 12(b))

ED-220 – Definition of engagement team

DTTL supports the focus on the engagement partner's overall responsibility for managing quality on the engagement. We are also supportive of the focus on modernizing ED-220 for an evolving environment, including the evolving use of audit delivery models. We note the definition of "engagement team" has been modernized and includes all partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm (excluding external experts and internal audit). As the definition of engagement team is a fundamental concept, additional guidance is needed as to *how* this new definition interacts with the requirements within ED-220, and *how* this definition is applied to different and evolving team structures (e.g., service delivery centers, component auditors). (See Appendix IV, Question 4)

Implementation period

DTTL recognizes the important role of these standards in improving audit quality and agrees with the focus on timely and effective implementation. Embracing the "transformational" nature of the three standards will require focused and significant effort by firms and engagement teams to implement. We agree with the IAASB's view that a rushed implementation may exacerbate risks to quality, lead to increased inspection findings, and would be inconsistent with the objectives of the IAASB's project to enhance its quality management standards. Accordingly, we believe an implementation period that allows sufficient time to achieve compliance with the standards is at least 24 months after the approval of the proposed standards by the Public Interest Oversight Board. (See Appendix I, Question 1)

Consistency of global standards

Consistent auditing and quality control standards implemented globally serve to enhance audit quality and therefore serve the public interest. Significant diversity in practice due to different professional standards makes it difficult for firms to develop and implement consistent systems and methodologies and has the potential to cause difficulty in firms implementing and operating an effective system of quality management. This could have the unintended impact of adversely affecting audit quality instead of enhancing it. DTTL acknowledges the efforts of the Board in engaging with other standard setters related to quality control matters and strongly encourages the Board to continue these activities.

The further comments articulated in these appendices are intended to assist the IAASB as it continues its deliberations:

- Appendix I — Quality Management Covering Explanatory Memorandum
- Appendix II — ED-ISQM 1
- Appendix III — ED-ISQM 2
- Appendix IV — ED-220.

D TTL would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (cbuss@deloitte.ca) or at +1 604 640 3313.

Very truly yours,

A handwritten signature in black ink, appearing to read "Calvin H. Buss". The signature is fluid and cursive, with a large initial "C" and "B".

Calvin H. Buss, FCPA, FCA
Senior Managing Director, Global Audit & Assurance Quality Leader
Deloitte Touche Tohmatsu Limited

Appendix I: Quality Management Covering Explanatory Memorandum

Overall Questions

- 1) Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?

Response: With respect to the proposed implementation period, DTTL agrees with the Board’s perspectives outlined in paragraphs 23 and 24 of the Covering Explanatory Memorandum. We support the view of the IAASB with respect to the impact of ED-ISQM 1, ED-ISQM 2, and ED-220, individually and collectively, on audit quality and agree with the focus on timely and effective implementation. However, we also agree with the views of the Board that the new quality management approach in ED-ISQM 1 represents a substantial revision to the extant standard and that there are other new requirements that enhance the rigor across the three standards. Embracing the “transformational” nature of the three standards will require focused and significant effort by firms and engagement teams to implement, including as referenced in the explanatory memorandum, with respect to ED-ISQM 1, implementation of a robust risk assessment process, increased levels of coordination and cooperation within the firm and between the firm and the network, and internal organizational changes. Furthermore, we support the recognition that firms and networks will need time to test aspects of the system to determine that they are appropriate for use across the firm or the network before implementing them. For these reasons, DTTL supports an implementation period of 24 months after the approval of the standards by the Public Interest Oversight Board.

- 2) In order to support implementation of the standards in accordance with the IAASB’s proposed effective date, what implementation materials would be most helpful, in particular for SMPs?

Response: In the detailed responses to questions raised in the explanatory memorandums for individual standards, DTTL provides observations with respect to where additional implementation guidance or other materials would be helpful by facilitating a consistent understanding of the requirements within the standards. In particular, we draw attention to the responses to Questions 6 and 12 within ED-ISQM 1 related to the firm’s risk assessment and monitoring and remediation processes, respectively. Further, within ED-220, we draw attention to the response to Question 4 and the need for a framework as to how the requirements within ED-220 may be applied to different and evolving engagement team structures.

General Questions

In addition, the IAASB is also seeking comments on the general matters set out below for all three EDs:

- (a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

Response: No comment.

- (b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.

Response: No comment.

- (c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.

Response: DTTL did not identify any potential issues related to the translation of the proposed standards to bring to the Board’s attention.

Appendix II — ED-ISQM 1

Overall Questions

- 1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard?

Response: DTTL believes the new quality management approach, as proposed in ED-ISQM 1, provides a framework from which to substantively enhance firms' management of engagement quality while at the same time improving the scalability of the standard.

The responses to Questions 1(a)-(c) below provide further comments.

In particular:

- (a) Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

Response: DTTL is broadly supportive of the new quality management approach and believes that its risk-based nature, if implemented as intended by the Board (see response to Question 1(b)), will improve the robustness and effectiveness of activities undertaken by the firm to address engagement quality. We also believe the approach will facilitate a more proactive response by the firm to changing circumstances, thereby promoting continual improvement and responsiveness for firms' systems of quality management. Responses to the further questions below provide specific considerations for the Board's deliberations with respect to specific attributes of the new quality management approach.

- (b) In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?

Response: DTTL believes that ED-ISQM 1 provides a basis for generating the intended benefits for engagement quality. However, whether such benefits will ultimately be achieved depends upon the mindset and dedication of the firms in adopting the new quality management approach (e.g., "compliance" versus "transformational" in nature), as well as the willingness of regulators to embrace the scalability and flexibility provided for within the proposed standard.

- (c) Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?

Response: With the risk-based nature of the new quality management approach, DTTL believes the requirements and application material of ED-ISQM 1 are sufficiently scalable such that they can be applied by firms of varying size, complexity, and circumstances. We recognize that implementation of the revised structure will require the investment of time and resources on the part of firms and that such investment may be more significant for smaller firms than for larger ones, relative to size. We believe, however, that such investment is necessary to substantively enhance the robustness of firms' systems of quality management and further drive improvements in engagement quality.

- 2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

Response: DTTL believes there are aspects of the standard that may create challenges for implementation, specifically elements of the firm’s risk assessment and monitoring and remediation processes, as well as firm-wide required enhancements to documentation and system capabilities. Responses to individual questions below highlight those challenges, including areas where particular enhancements to the standard or support materials would assist in addressing challenges identified. Such challenges support the basis for a necessary extended implementation period. (See Appendix I, Question 1)

- 3) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

Response: DTTL believes the application material in ED-ISQM 1 is helpful in supporting a consistent understanding of the requirements. Specific areas where additional examples or explanations would be helpful are included in responses to individual questions below. Further, we believe certain language and illustrations included in the Explanatory Memorandum to ED-ISQM 1 are beneficial in understanding the Board’s intent. Responses to individual questions below also include recommendations with respect to inclusion of information from the explanatory memorandum into ED-ISQM 1 to support a consistent understanding of the requirements.

Specific Questions

- 4) Do you support the eight components and the structure of ED-ISQM 1?

Response: DTTL is supportive of the eight components and structure of ED-ISQM 1, including the existing emphasis in the proposed standard on the interrelationship between the components.

- 5) Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm’s role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm’s public interest role?

Response: DTTL is supportive of the objective of the standard and agrees with how the standard explains the firm’s role relating to the public interest. DTTL believes that paragraph 7 of ED-ISQM 1 clearly outlines the connection between the purpose of the system of quality management and the public interest and how achieving the objective of the standard relates to the firm’s public interest role.

- 6) Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved?

Response: DTTL is supportive of the new quality management approach and believes, consistent with responses to earlier questions, that it provides a framework from which to substantively enhance firms’ management of engagement quality. Further, we believe that application of a

risk assessment process as intended by the Board will drive firms to establish quality objectives, risks, and responses appropriate to the nature and circumstances of the firm and the engagements it performs, facilitating achievement of the objective of the standard as articulated in paragraph 18 of ED-ISQM 1.

See responses to the questions below for further considerations with respect to the firm's risk assessment process overall, as well as observations specific to quality objectives, quality risks, and responses.

In particular:

- (a) Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?

Response: While recognizing that the approach a firm takes to the risk assessment process may vary, DTTL agrees that a firm's risk assessment process should be applied to the other components of the system of quality management.

- (b) Do you support the approach for establishing quality objectives?

Response: DTTL is supportive of the approach for establishing quality objectives, including the inclusion of quality objectives that all firms are required to establish, as well as the requirement for firms to establish additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard.

In particular:

- i. Are the required quality objectives appropriate?

Response: DTTL is supportive of the outcome-based nature of the quality objectives and believes that the required quality objectives are appropriate. In addition, we are supportive of the flexibility provided within the standard whereby firms may decide that more granular quality objectives than those set out in the proposed standard are appropriate to enhance the identification and assessment of quality risks.

- ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

Response: Paragraphs 10(a) and 26 of ED-ISQM 1 are explicit with respect to the requirement for the firm to establish additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objective of the standard. DTTL, however, agrees with the Board's view expressed in paragraphs 29 and 37 of the explanatory memorandum that the quality objectives in EQ-ISQM 1 are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved. While recognizing that the nature and circumstances of firms and the engagements they perform will vary, we recommend that language similar to that in the explanatory memorandum be included in the application material as an indication that the need to establish additional quality objectives is expected to be limited. Inclusion of such language would further support the statement within Question 3 of the *Draft Frequently Asked Questions Regarding Proposed ISQM 1* that the IAASB

does not anticipate that all firms will need to establish additional quality objectives. Further, examples in the application material of those circumstances in which establishing additional quality objectives may be considered necessary would be helpful in supporting a consistent understanding of the requirement.

(c) Do you support the process for the identification and assessment of quality risks?

Response: Consistent with previous responses, DTTL is supportive of a risk-based approach to quality management. Further, DTTL agrees with the principle in ED-ISQM 1 that it is not reasonable or practicable for firms to identify and assess every possible risk, and as such, a process that includes a threshold for identifying and assessing those quality risks that are important for the system of quality management is necessary. However, expanding upon the guidance in paragraphs A56 and A57 of the standard, we believe additional examples or explanations would be helpful to support a consistent understanding with respect to determining the “significance” of the effect of a quality risk on the achievement of a quality objective(s), including the determination of whether the quality risk would have a significant effect on the achievement of a quality objective(s) “in combination with other quality risks that have a reasonable possibility of occurring.”

Further, with respect to the two-step process for the identification and assessment of quality risks as set out in paragraphs 28 and 29 of ED-ISQM 1, while we recognize the Board’s acknowledgment that the two steps may be taken concurrently, DTTL proposes combining the requirements, as both steps involve the firm’s consideration of the possibility of risks occurring and their effect on the achievement of the quality objectives. Furthermore, maintaining the same requirement in two paragraphs creates confusion as to how the same activity (i.e., assessing quality risks) is performed twice — through a preliminary assessment and then through more detailed consideration. Specific recommendations are suggested as follows:

Paragraph 28

Based on the understanding obtained in paragraph 27, the firm shall identify **and assess** those quality risks, before consideration of any responses, that:

- (a) Have a reasonable possibility of occurring; and
- (b) If they were to occur, may individually or in combination with other quality risks, have a significant effect on the achievement of a quality objective(s).

Paragraph 29

~~The firm shall assess the quality risks identified in paragraph 28 to provide a basis for the design and implementation of the related responses.~~

(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks?

Response: Consistent with previous responses, DTTL is supportive of a risk-based approach to quality management, including the process for designing and implementing responses to address the assessed quality risks.

With respect to the definition of response, we strongly believe that paragraph 36 of the explanatory memorandum is helpful in clarifying the Board’s view that responses to quality risks are analogous to controls and, as such, the definition of response in ED-ISQM 1 has been aligned to the definition of controls in ED-315. To further facilitate a consistent understanding of the requirements, we recommend including such language within the application material to the standard.

In particular:

- i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

Response: DTTL believes a risk-based approach provides a framework for firms to design and implement tailored responses that appropriately address the assessed quality risks. With respect to the required responses to quality risks, DTTL is supportive of the language included in paragraph 38 of the explanatory memorandum; specifically, the recognition that for those responses required by the standard, the firm would still tailor them, taking into account the assessed quality risks that the responses address, as well as the nature and circumstances of the firm and the engagements it performs. To further facilitate a consistent understanding of the requirements and emphasize the importance of designing responses that are based on, and responsive to, the reasons for the assessments given to the quality risks, DTTL recommends including such language within the application material to the standard.

- ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

Response: DTTL believes it is clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard. Paragraphs 10(c) and A59 are explicit in stating that the responses required by ED-ISQM 1 alone will not be sufficient to address all of the firm’s assessed quality risks and, accordingly, the firm is required to design and implement additional responses.

- 7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

Response: In recognition of its paramount importance to engagement quality and to establishing the environment in which the system of quality management operates, DTTL is supportive of the IAASB’s focus on firm governance and leadership and believes that the revisions to the standard appropriately address the responsibilities in this area.

- 8) With respect to matters regarding relevant ethical requirements:

- (a) Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

Response: DTTL does not believe that ED-ISQM 1 should require firms to assign responsibility for relevant ethical requirements to an individual in the firm, over and above any other specific aspect of the system of quality management. However, we agree that independence is of sufficient importance for the firm to be required to assign responsibility

to an individual (hereafter referred to as an “Independence Leader” for ease), subject to two considerations below.

Responsibility for policies and procedures, not “compliance”

DTTL believes the wording of the proposals could suggest that the Independence Leader is responsible for more than the relevant system of quality management because of the use of the words “responsibility for compliance with independence requirements.” The firm’s personnel are responsible for compliance with the independence requirements that apply to them. The Independence Leader should only be assigned responsibility for the system of quality management relating to the independence requirements. Accordingly, we recommend the following revisions to paragraph 24 (also requiring changes to paragraphs A38, A69, and A139):

Paragraph 24(a)(iii)(b)

Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for **designing and implementing the firm’s responses [or “policies and procedures”] relating to independence requirements**, ~~compliance with independence requirements~~ and the monitoring and remediation process.

Alignment and interaction with the International Ethics Standards Board for Accountants (IESBA) Code

The IESBA Code (the “Code”) currently states in paragraphs 400.4 and 900.3: *Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.*

Without a very clear description of responsibility in ED-ISQM 1, a reader may be led to the conclusion that “firm” should be read as interchangeable with “Independence Leader” in Parts 4A and 4B of the Code. It would be contrary to the intent of the Code and therefore not in the public interest to suggest that one individual should become responsible for every responsibility assigned to the “firm” in Parts 4A and 4B of the Code.

One example of this potential confusion in ED-ISQM 1 is the very broad description in paragraph A69:

...Furthermore, the individual in the firm assigned operational responsibility for compliance with independence requirements is ordinarily responsible for the oversight of all matters related to independence, including the policies or procedures addressing communication of breaches of independence requirements and determining that appropriate actions have been taken to address the causes and consequences of the breach.

With respect to this paragraph, we note:

- The words “oversight of all matters related to independence” is very broad and could be interpreted to apply to every responsibility in Part 4A and Part 4B.
- The Code provides that “the firm” shall determine whether it is possible to “take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.”
- Others in the firm, including the audit engagement partner, may also be responsible for determining that appropriate actions have been taken to address the consequences of a breach.
- The Code does not use the concept of “causes” of the breach in this context. Consequently, the wording is inconsistent.

Suggested approach for clarity, with respect to the considerations above:

Paragraph A69

...Furthermore, the individual in the firm assigned operational responsibility for **designing and implementing the firm’s responses relating to compliance with independence requirements** is ordinarily responsible for **all aspects of the design, implementation, and operation of this aspect of the system of quality management** ~~the oversight of all matters related to independence,~~ including the policies **and** ~~or~~ procedures addressing communication of breaches of independence requirements and **monitoring and remediation of such breaches in order to respond to identified deficiencies and their related root causes** ~~determining that appropriate actions have been taken to address the causes and consequences of the breach.~~

We also note that R400.80 of the Code contains reference to “Those with responsibility for the policies and procedures relating to independence,” which may or may not be intended to be interchangeable with the Independence Leader contemplated in ED-ISQM 1.

- (b) Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

Response: D TTL believes that the standard appropriately addresses the responsibilities of the firm regarding the independence of other firms or persons within the network, and more requirements should not be added to ED-ISQM 1 in this respect. Including more direct requirements for network independence in the standard would be duplicative given that the IESBA Code already addresses network firm independence in detail.

- 9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

Response: In recognition of firms’ increased use of technology both in the performance of engagements and in the operation of the system of quality management, D TTL is supportive of the adaptation of the resources component to include technological (as well as intellectual)

resources. See responses to Question 12 for further consideration within the monitoring and remediation process of how the standard may be modernized to address the use of technology by firms in the system of quality management.

- 10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm’s system of quality management with the firm’s stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

Response: While DTTL is supportive of the requirements for communication with external parties about the firm’s system of quality management, we believe that the proposals, which include the language “as the firm determines appropriate” and “when the firm determines it appropriate to do so” will likely not encourage firms to change existing behavior.

Further, while supportive of transparency, we agree with the Board’s view that there may be alternate means of exchanging information with external parties, given the circumstances of the firm, that may be more appropriate or effective than a transparency report. As such, we would propose removing the reference to “transparency report” within the requirements of the standard. In addition, from a drafting perspective, the language “in a transparency report or otherwise” provides for optionality in a requirement and would typically be included in the application material as an example. Accordingly, DTTL suggests the following proposed revisions to paragraph 41(c)(iv) of ED-ISQM 1:

Paragraph 41(c)(iv)

Other communication to external parties about the firm’s system of quality management, ~~in a transparency report or otherwise,~~ when the firm determines it appropriate to do so, taking into account:...

- 11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

Response: DTTL is supportive of strengthening the requirements for engagements that are subject to an engagement quality review beyond audits of listed entities and broadly agrees with the scope of engagements as proposed in paragraph 37(e) of ED-ISQM 1.

With respect to paragraph 37(e)(ii), we are supportive of the responsibility for firms to determine those entities that are of significant public interest. However, we believe that the related application material may be enhanced to reduce ambiguity and promote consistency in application. Specifically, we support the inclusion of additional guidance clarifying how entities that the firm determines are of significant public interest relate to public interest entities as defined in the IESBA Code (e.g., are entities of significant public interest a subset of public interest entities or are they “other entities” that are not public interest entities but are of “interest”?). Further, we question whether there may be implications in jurisdictions that utilize the concept of a public interest entity, and where an entity is identified as an entity of significant public interest for purposes of ED-ISQM 1 but not identified as a public interest entity for purposes of applying the IESBA Code. DTTL recommends that the IAASB further coordinate with IESBA on these matters. In addition, with respect to paragraph A102, we recommend clarifying

within the example whether the reference to “certain” applies only to banks or also to insurance companies and pension funds.

From a scalability perspective and as a further enhancement to the scope of engagements subject to an engagement quality review, we are also supportive of the requirement in paragraph 37(e)(iii)(b) for firms to establish policies or procedures to require an engagement quality review for engagements for which the firm determines that an engagement quality review is an appropriate response to an assessed quality risk(s).

12) In your view, will the proposals for monitoring and remediation improve the robustness of firms’ monitoring and remediation?

Response: DTTL is supportive of the enhancements made to the monitoring and remediation component but believes that the proposals could go further in improving the robustness of firms’ monitoring and remediation processes. See responses to the further questions below.

In particular:

(a) Will the proposals improve firms’ monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

Response: DTTL is supportive of the IAASB’s focus on promoting more proactive and effective monitoring activities. However, with respect to specific proposals, we believe the Board could go further with respect to encouraging the development of innovative monitoring techniques. See responses to Questions 12(b) and 12(d) below.

(b) Do you agree with the IAASB’s conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

Response: DTTL recognizes that the inspection of completed engagements is one of the firm’s monitoring activities. However, monitoring the completed portions of in-process engagements may often be a more proactive type of monitoring activity, the learnings from which may be more timely and different in nature and would add to the mix of information in a way that adherence to an archive inspection model would not. We believe retaining the requirement for the inspection of at least one completed engagement for each engagement partner on a cyclical basis is contrary to the risk-based nature of the new quality management approach and does not promote modernization of the standard, discouraging firms from investing in actions that would promote more preventative, effective, efficient, and innovative monitoring techniques. Accordingly, we suggest removing the requirement.

If, however, the Board determines it is important to retain a requirement that includes the inspection of completed engagements, DTTL recommends the following revisions to paragraph 45:

Paragraph 45

The firm’s monitoring activities shall include the inspection of engagements to determine whether the responses that are required to be implemented at the

engagement level have been implemented. Engagement inspections ~~may~~ include the inspection of ~~in-process or~~ completed engagements ***and may also include the inspection of in-process engagements***. In determining the nature, timing and extent of the inspections of engagements, the firm shall ***take into account the relevant factors in paragraph 44.***⁺

- ~~(a) Take into account the relevant factors in paragraph 44; and~~
~~(b) Include the inspection of at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.~~

The above revisions facilitate greater scalability and enhance the risk-based nature of the requirement by removing the focus on inspection of at least one completed engagement for each engagement partner.

Under either approach (i.e., retention, modification, or removal of the requirement), DTTL recommends the following revisions to paragraph A169:

Paragraph A169

The firm may establish different cyclical periods for inspecting engagement partners according to the categories of engagements they perform. ~~For example, the firm may determine that a longer the cyclical period may be more appropriate for an engagement partner performing audits of financial statements is every three years of non-public interest entities than, whereas a longer period may be appropriate for engagement partners performing audits of listed entities only compilation engagements.~~ The cycle of the inspection may be based on ***the number or nature of the engagements performed by the engagement partner, time (i.e., every three years as illustrated) or another other factors,*** such as ~~the number of engagements performed. The cyclical period may also be affected by the nature, timing and extent of~~ ***other monitoring activities undertaken by the firm at the engagement level, including*** inspection of in-process engagements and the results thereof.

The suggested revisions remove the specific focus on a three-year cycle, emphasizing factors the firm may consider in determining the length of a cycle (or considerations in determining whether inspection of a completed engagement for an engagement partner is needed) and acknowledging that a cyclical period may vary across engagement partners.

- (c) Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?

Response: With respect to the definition of deficiency as well as the overall framework for evaluating findings and identifying deficiencies, DTTL provides the following recommendations:

- We are supportive of the recognition within ED-ISQM 1 that identified deficiencies may vary in terms of their severity and pervasiveness and would recommend further reflecting this concept within the definition of deficiencies. For example, when evaluating the effectiveness of a company's internal control over financial reporting, in accordance with the PCAOB standards, there is a hierarchy of deficiencies, including

significant deficiencies and material weaknesses. Having this hierarchy of well-understood definitions contributes to the consistent evaluation of deficiencies.

- In addition, as the standard requires further action when a finding is determined to be a deficiency, we would support expanding upon the guidance provided in paragraph A175 to include examples demonstrating application of the factors that firms may consider when determining whether a finding is a deficiency.

(d) Do you agree with the new requirement for the firm to investigate the root cause of deficiencies?

Response: DTTL agrees with the new requirement for the firm to investigate the root cause of deficiencies, so that action can be taken to effectively remediate such deficiencies.

In particular:

- i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?

Response: DTTL agrees with the IAASB's view that the nature and extent of the firm's procedures to determine the root cause of a deficiency may vary depending on the nature and possible severity of the deficiency. The requirement in paragraph 48(a) of ED-ISQM 1 is sufficiently flexible, as it directly acknowledges the nature, timing, and extent of the procedures to be performed to investigate the root cause(s) take into account the nature of the identified deficiencies and their possible severity.

In addition, while the requirement to determine the severity and pervasiveness of the deficiency follows the requirement to investigate the root cause of the deficiency, DTTL agrees with paragraph 72 in the explanatory memorandum in that investigating the root cause of the deficiency and determining the severity and pervasiveness of the deficiency is likely to be iterative. Therefore, DTTL recommends acknowledging the iterative nature of such requirements in the application material to paragraph 48 of the standard.

- ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?

Response: Paragraph A172 of ED-ISQM 1 indicates that findings may be positive or negative in nature. Accordingly, in recognition of the value of evaluating positive findings, DTTL recommends that the Board further highlight positive findings in relation to the requirement in paragraph 47 of ED-ISQM 1, which states, "The firm shall establish policies or procedures addressing the evaluation of the findings arising from the monitoring activities, the results of external inspections and other relevant information to determine whether deficiencies exist, including in the monitoring and remediation process."

As noted in paragraph A173, we agree that positive findings may be useful to the firm as they indicate practices that the firm can support or apply more extensively, for example, across all engagements. We also agree that positive findings may highlight opportunities for a firm to enhance its system of quality management.

Accordingly, we believe the application material to paragraph 47 could be enhanced by recognizing that evaluation of positive findings may be useful as they may help the firm in the identification and evaluation of, as well as response to, deficiencies that exist in other engagements or within the system of quality management.

With respect to a root cause analysis, we are supportive of the requirement to investigate the root cause of identified deficiencies and agree with the Board's approach to outline the benefits of identifying the root cause of positive findings in the application material rather than requiring firms to investigate their root cause.

- (e) Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

Response: As previously indicated in the response to Question 7, DTTL is supportive of the revisions made to ED-ISQM 1 to enhance the role of firm leadership as it relates to the system of quality management, including the new requirement for individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides the firm with reasonable assurance that the objectives of the system have been achieved. With respect to challenges, DTTL agrees with the challenge highlighted in paragraph A189 that, in a larger firm, individuals assigned ultimate responsibility and accountability for the system of quality management may not have direct involvement in the monitoring and remediation process. As such, the individual(s) assigned operational responsibility for various aspects of the system of quality management may need to collate, summarize, and present the information that supports the evaluation of the system of quality management in a manner that enables the individual(s) assigned ultimate responsibility and accountability for the system of quality management to form an appropriate conclusion.

Further, with respect to the evaluation itself, we believe it would be helpful to clarify whether the measurement date is on an "as of" or "period ended" basis. To provide reasonable assurance that the objective stated in paragraph 18(a) and (b) have been achieved, it would seem appropriate for the evaluation to be performed on a "period ended" basis. However, paragraph 75 in the explanatory memorandum indicates that the evaluation involves a determination of whether the system provides reasonable assurance that the objectives are achieved at the point in time the evaluation is undertaken. Clarity with respect to the measurement date is strongly recommended, as it has the potential to significantly impact how a firm evaluates its system of quality management.

Finally, we believe additional guidance associated with the severity or pervasiveness of deficiencies that would require an interim evaluation would promote consistent application of such judgments.

- 13) Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

Response: DTTL is supportive of the proposals addressing networks and believes that they may address the perception that firms place undue reliance on network requirements or network

services. However, DTTL also agrees with the Board’s views expressed in paragraph 76 of the explanatory memorandum that in circumstances in which network firms share common elements related to the system of quality management, such common elements can be instrumental in enhancing engagement quality. We recommend that such language be included within the application material to ED-ISQM 1 in recognition of the benefit of centralized or common elements related to the system of quality management across firms that belong to a network.

14) Do you support the proposals addressing service providers?

Response: DTTL recognizes that firms may use service providers in the system of quality management and is broadly supportive of the need for firms to determine that it is appropriate to use resources provided by a service provider in the system of quality management. With respect to the specific proposals, DTTL supports the requirements addressing service providers as they relate to human resources; however, as it relates to technological or intellectual resources, we have concerns with respect to certain implementation challenges, specifically the need for, and willingness of, service providers to provide information that would enable the fulfillment of the new requirements. Examples include the requirement in paragraph 65(a) regarding understanding the planned remedial actions by the service provider, as well as the example in paragraph A210, which indicates the firm may make inquiries of the service provider or request documentation from the service provider regarding “for technological or intellectual resources, the procedures undertaken by the service provider in designing, implementing and operating the resources” in order to determine if the resource is appropriate.

15) With respect to national standard setters and regulators, will the change in title to “ISQM” create significant difficulties in adopting the standard at a jurisdictional level?

Response: No comment.

Appendix III — ED-ISQM 2

Questions

- 1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

Response: DTTL is supportive of a separate standard for engagement quality reviews and believes that such an approach appropriately emphasizes the important role of engagement quality reviews as part of a firm's system of quality management. In addition, a separate standard provides an appropriate mechanism for enhancing the requirements and application material for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review while increasing the scalability of ED-ISQM 1.

As an engagement quality review is a response to assessed quality risks, DTTL agrees that ED-ISQM 1 should address the engagements for which an engagement quality review is to be performed with the remaining aspects of engagement quality reviews addressed in ED-ISQM 2.

- 2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

Response: As ED-ISQM 2 is designed to operate as part of the firm's system of quality management, DTTL agrees with the need for the requirements in ED-ISQM 1 and ED-ISQM 2 to be organized in a manner that provides appropriate linkages between the standards. We believe the linkages between such requirements are clear.

- 3) Do you support the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer?" Will there be any adverse consequences of changing the terminology in respondents' jurisdictions?

Response: DTTL is supportive of the change from "engagement quality control review/reviewer" to "engagement quality review/reviewer" thereby aligning with the transition from references to "quality control" in ED-ISQM 1. We do not believe that changing the terminology will create adverse consequences in adopting the standard at a jurisdictional level.

- 4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

Response: DTTL is supportive of the eligibility requirements as described in paragraphs 16 and 17 of ED-ISQM 2.

- (a) What are your views on the need for the guidance in proposed ISQM 2 regarding a "cooling-off" period for that individual before being able to act as the engagement quality reviewer?

Response: DTTL is supportive of the new requirement for firms to establish policies or procedures that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner, as well as the related application material indicating that such

limitations may be accomplished by establishing a specified “cooling-off” period during which the individual is precluded from being appointed as the reviewer.

We believe it is appropriate for the firm to determine the “cooling-off” period rather than one being prescribed by either the IAASB or IESBA.

With respect to determining the “cooling-off” period, we are supportive of the flexibility provided in ED-ISQM 2, specifically the guidance provided in paragraph A5 indicating that determination of a suitable “cooling-off” period depends on the facts and circumstances of the engagement (and applicable provisions of law or regulation or relevant ethical requirements). DTTL recommends further emphasizing this flexibility by including in the application material language from paragraph 28 of the Explanatory Memorandum to ED-ISQM 2 indicating that for certain types of engagements the firm may determine that no “cooling-off” period is necessary, or that the firm’s policies or procedures may specify a different “cooling-off” period.

- (b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Response: DTTL recommends that guidance regarding a “cooling-off” period be located in the IESBA Code. In addressing the long association of personnel with an audit or assurance client, the Code is already focused on matters regarding familiarity and self-interest threats, which may affect an individual’s objectivity and professional skepticism. Inclusion of guidance within the Code regarding a “cooling-off” period before being able to act as an engagement quality reviewer would provide a consistent source of authoritative guidance.

- 5) Do you agree with the requirements relating to the nature, timing, and extent of the engagement quality reviewer’s procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

Response: DTTL is supportive of enhancing the extant requirements and related application material regarding the nature, timing, and extent of the procedures performed by the engagement quality reviewer. In addition, we believe the responsibilities of the engagement quality reviewer are appropriate considering the engagement partner’s revised responsibilities in proposed ISA 220 (Revised) (“ED-220”), with the exception of the following recommendation related to the engagement quality reviewer’s responsibilities in connection with the “stand-back” requirement in paragraph 37 of ED-220.

Rather than requiring the engagement quality reviewer to specifically “evaluate the basis” for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement, DTTL recommends deletion of (f) from paragraph 22 of ED-ISQM 2 (and related relevant application material) and revisions to paragraph 23, as follows:

Paragraph 22(f)

~~For audits of financial statements, evaluate the basis for the engagement partner’s conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.~~

Paragraph 23

~~If the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate, the engagement quality reviewer shall notify the engagement partner~~ **if the engagement quality reviewer has concerns that: (a) the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate; or (b) for audits of financial statements, that the engagement partner’s involvement throughout the engagement has not been sufficient and appropriate in order to take overall responsibility for managing and achieving quality on the audit engagement.** If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer shall notify an appropriate individual(s) in the firm that the engagement quality review cannot be completed.

The proposed revisions reflect the intent of the engagement quality reviewer’s responsibilities relating to the engagement partner’s responsibility for managing and achieving quality on the audit engagement and for being sufficiently and appropriately involved throughout the engagement (as stated in ED-220, paragraph 37).

Regardless of whether the Board finds it appropriate to combine the requirements in paragraphs 22(f) and 23, DTTL recommends including within the application material considerations for the engagement quality reviewer when evaluating whether the engagement partner’s involvement throughout the audit engagement has been sufficient and appropriate to take overall responsibility for managing and achieving quality.

Further, DTTL recommends deleting paragraph A34 as the requirement in paragraph 22(f), or as we have proposed in revised paragraph 23 above, is specific to audits of financial statements.

With respect to other specific requirements related to performance of the engagement quality review, DTTL provides the following suggestions:

Completion of the engagement quality review

DTTL recommends the following revision to paragraph 21(b) of ED-ISQM 2 elevating language from the application material (paragraph A39) to emphasize that completion of the engagement quality review includes resolving matters raised by the engagement quality reviewer.

Paragraph 21(b)

The responsibilities of the engagement partner in relation to the engagement quality review, including prohibiting the engagement partner from dating the engagement report until the completion of the review, **which includes resolving matters raised by the engagement quality reviewer;** and

Identifying areas involving significant judgments made by the engagement team

Paragraph 22(c) of ED-ISQM 2 requires the engagement quality reviewer to identify the areas involving significant judgments made by the engagement team based on the information obtained in (a) and (b). The phrase “identify the areas involving significant judgments” may be

viewed as expanding those activities required by the standard, which is an objective evaluation of the significant judgments made by the team and the conclusions reached thereon. Further, in recognition that there may be other forms of information from which the engagement quality reviewer learns about the engagement and the issues that may be relevant, DTTL recommends combining the requirements in paragraph 22(c) and (d) as follows:

Paragraph 22(c) and (d)

- (c) ~~Based on the information obtained in (a) and (b), identify the~~ **For those** areas involving significant judgments made by the engagement team, including those related to:
- (i) The overall strategy and plan for performing the engagement;
 - (ii) The performance of the engagement; ~~and~~
 - (iii) Forming an opinion or conclusion, when applicable, and reporting on the engagement.
- ~~(d) Review~~ selected engagement documentation that supports the significant judgments made by the engagement team and the conclusions reached thereon and evaluate:
- (i) The engagement team's basis for making the significant judgments, including when applicable, the appropriate exercise of professional skepticism;
 - (ii) Whether the engagement documentation supports the conclusions reached; and
 - (iii) Whether the conclusions reached are appropriate.

- 6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

Response: DTTL recognizes the role of engagement quality reviews in supporting the exercise of professional skepticism at the engagement level and agrees that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes, when applicable, evaluating the team's exercise of professional skepticism. Further, from an eligibility perspective, we believe the requirement for firms to establish policies or procedures that set eligibility criteria to be appointed as an engagement quality reviewer appropriately positions the reviewer to perform such an objective evaluation.

We believe that ED-ISQM 2 appropriately addresses professional skepticism and do not believe that additional guidance is necessary in this area.

- 7) Do you agree with the enhanced documentation requirements?

Response: DTTL is supportive of the focus on documentation of the engagement quality review, including the new requirement in paragraph 26 of ED-ISQM 2 that such documentation be included with the engagement documentation. Further, from a scalability perspective, we support the application material provided in paragraphs A37 and A38, which recognizes that the engagement quality review may be documented in a number of ways and that the form, content, and extent of such documentation may vary according to the nature and complexity of the engagement, the entity, and matters subject to review, as well as the extent of engagement documentation reviewed.

With respect to paragraph 27, DTTL supports the inclusion of an overarching requirement related to the sufficiency of documentation, with the following suggested revisions:

Paragraph 27

The engagement quality reviewer shall determine that the documentation of the engagement quality review is sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the ~~nature, timing and extent of the~~ procedures performed by the engagement quality reviewer and, when applicable, individuals who assisted the reviewer, ~~and the conclusions reached in performing the review.~~ **to comply with the provisions of this standard, including** ~~The engagement quality reviewer also shall determine that the documentation of the engagement quality review includes:~~

- (a) The names of the engagement quality reviewer and individuals who assisted with the engagement quality review;
- (b) An identification of the engagement documentation reviewed;
- (c) The engagement quality reviewer's determination in accordance with paragraph 24;
- (d) The notifications required in accordance with paragraphs 23 and 24; and
- (e) The date of completion of the engagement quality review.

We believe the proposed revisions more appropriately align the documentation requirement with the responsibilities of the engagement quality reviewer in achieving the objective of the standard.

- 8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

Response: DTTL believes that the requirements for engagement quality reviews are scalable for firms of varying size and complexity as well as for engagements where nature and circumstances differ.

Appendix IV — ED-220

Questions

- 1) Do you support the focus on the sufficient and appropriate involvement of the engagement partner (see particularly paragraphs 11–13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?

Response: DTTL supports the focus on the sufficient and appropriate involvement of the engagement partner as part of taking overall responsibility for managing quality on the engagement. Furthermore, we agree with the position in paragraphs 13 and A30 of ED-220 that it would generally not be possible or practicable for all the requirements in ED-220 to be dealt with solely by the engagement partner and, therefore, in managing quality at the engagement level, the engagement partner may assign responsibility for procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team who assist the engagement partner in complying with the ED-220 requirements.

Specific to paragraph 13, however, we believe the engagement partner’s responsibility for direction, supervision, and review in accordance with paragraph 27 of ED-220 appropriately addresses those circumstances in which the engagement partner is assigning procedures, tasks, or actions to other members of the engagement team to assist in complying with the requirements of ED-220. Accordingly, DTTL recommends the following revisions to paragraph 13:

Paragraph 13

If the engagement partner assigns procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA, the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement. ~~When assigning procedures, tasks or actions to other members of the engagement team, the engagement partner shall:~~

- ~~(a) Appropriately inform assignees about the nature of their responsibilities and authority, the scope of the work being assigned, the objectives thereof and any other necessary instructions and relevant information; and~~
- ~~(b) Monitor the performance of the work of assignees and review selected related documentation in order to evaluate the conclusions reached.~~

Furthermore, we suggest application material be developed to link the responsibilities in paragraph 27 with the concepts in paragraph 13.

- 2) Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?

Response: DTTL is supportive of the interrelationship between the quality management standards and believes ED-220 has the appropriate linkages with the ISQMs. Further, we support the requirements to follow the firm’s policies and procedures and agree with the

statement in paragraph 4 of ED-220 regarding the responsibility of the engagement team, led by the engagement partner, for implementing the firm’s responses to quality risks that are applicable to the audit engagement. In addition, we recognize some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements in ED-220. While we agree it would not be appropriate to “blindly rely” on the firm’s system of quality management, DTTL believes the engagement partner is entitled to rely on the firm’s policies or procedures unless the engagement partner has reason to believe it is not appropriate to do so. This belief may be based on those matters in paragraph A8, such as the engagement partner’s knowledge or understanding of, or practical experience with, such policies or procedures or information obtained about the effectiveness of such policies or procedures. We recommend that paragraph A8 be revised to clarify that the engagement partner may depend on the firm’s policies and procedures, unless the engagement partner has reason to believe it is not appropriate to do so.

- 3) Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

Response: DTTL is supportive of the introductory material within ED-220 on the importance of the use of professional skepticism and professional judgment in performing audit engagements (paragraph 7 of the standard). Further, we are supportive of the related application material that describes the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases, and possible actions the engagement partner may take to deal with impediments to the exercise of professional skepticism. See the Editorial Comments on Proposed ISA 220 (Revised) section below for editorial comments to paragraph A27.

- 4) Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?

Response: With respect to modernizing ISA 220 for an evolving environment, DTTL supports the recognition of different audit delivery models as well as the growing role of technology in audits. We believe, however, there are areas where necessary modifications or enhancements need to be made with respect to further modernizing ISA 220 for an evolving environment.

With respect to audit delivery models, the definition of “engagement team” has been expanded to recognize the evolving organization of engagement teams, with recognition in paragraphs A17 and A18 that engagement teams may include individuals from service delivery centers as well as network firms or other firms who perform audit procedures. Through the definition and related application material, ED-220 clearly recognizes that engagement teams may be organized in a variety of ways. What the standard does not provide, however, is a framework for how the requirements within ED-220 may be applied to different and evolving team structures, the execution of which, we believe, may look quite different from that in a more traditional engagement team environment. Without such a framework, we strongly believe there is a risk for highly inconsistent interpretation and application of the requirements. While we firmly agree that regardless of how the engagement team is organized the engagement partner is responsible for managing and achieving quality on the engagement, DTTL strongly believes the standard should more directly recognize variability for how the requirements in ED-220 are achieved across different and evolving team structures and provide additional material to support a consistent understanding of the ED-220 requirements.

Furthermore, we recognize that the IAASB is currently undertaking a project to revise ISA 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*. Given the potential effect the principles of ED-220 have on the role and responsibilities of the engagement partner in a group audit, DTTL recommends the Board align these standards where appropriate to achieve its objectives. Additionally, we suggest providing further clarity on the execution of the engagement partner’s responsibilities in accordance with ED-220 in the context of a group audit.

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

Response: 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.

- 6) Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?

Response: DTTL believes that the overarching documentation requirements in ISA 230 together with the requirement in paragraph 38 of ED-220 and related application material provide sufficient requirements and guidance on documentation. The examples provided in paragraph A102 are helpful in demonstrating different ways in which the involvement of the engagement partner may be evidenced.

- 7) Is ED-220 appropriately scalable to engagements of different sizes and complexity, including through the focus on the nature and circumstances of the engagement in the requirements?

Response: DTTL believes ED-220 is appropriately scalable for firms of different sizes and for engagements where nature and circumstances differ. Further, DTTL is supportive of the IAASB’s development of support materials to show how certain aspects of ED-220 and ED-ISQM 1 can be applied together in a scalable manner in smaller firms.

Editorial Comments on Proposed ISA 220 (Revised)

Suggestions are provided to align the lead-in statement in paragraph A27 with the related bullets and to more clearly indicate that the items provided within the bullets represent examples of instances where there may be impediments to the exercise of professional skepticism at the engagement level.

Paragraph A27

As explained in paragraph 7, professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, the overall effectiveness of the engagement team in achieving quality at the engagement level. In some circumstances, the engagement partner may need to deal with impediments to the exercise of professional skepticism at the engagement level, for example such as:

- Tight deadlines or budget constraints **which** may negatively affect the behavior of those who perform the work as well as those who direct, supervise and review it;
- Lack of cooperation or undue pressures imposed by management **which** may negatively affect the engagement team's ability to resolve complex or contentious issues;
- Insufficient emphasis on the importance of quality **which** may undermine the exercise of professional skepticism by the engagement team;
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework **which** may constrain the ability of the engagement team to make appropriate judgments and an informed questioning of management's assertions;
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others **which** may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible; and
- Overreliance on tools and templates **which** may undermine the exercise of professional skepticism by the engagement team.