MGI Worldwide response to ED-ISA 220

Quality Management for an Audit of Financial Statements

Overview

MGI Worldwide welcomes the aim of the proposed standard to improve quality at the audit engagement level by reiterating and improving the requirements for engagement partners to take ultimate responsibility for the quality of their engagements. We consider that the proposed standard links in well with ED-ISQM 1 for the firm overall and should also help to address the issues arising from public perception of the audit profession (such as being insufficiently sceptical and robust with client management or in spending insufficient time on audits due to fee and other resource pressures).

We welcome the comment in paragraph 15 of the Explanatory Memorandum that the IAASB is developing support materials to show how certain requirements in the proposed standard can be applied, with a focus on the scalability of the standard for smaller firms.

Request for comments

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

We support the focus on requiring sufficient and appropriate involvement of the engagement partner on each audit engagement. We consider it to be vitally important that the individual who signs the auditor’s report has had sufficient involvement in the direction, review and supervision of the audit and takes that role seriously. Evidencing such involvement and ensuring effective communication within the audit engagement team are key to this objective.

Most of our member firms are small and medium-sized practitioners (SMPs) and this means that audit teams do not tend to be large or have complex management structures involving multiple partners. We welcome that the standard is scalable in this respect, considering those engagements where there may be elements of the review and supervision role that are delegated to other partners or senior staff and consider that the standard is very clear that, ultimately, the engagement partner is responsible for the quality of that audit.

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

ED-220 makes appropriate references to the ISQMs and explains how the requirements of this standard fit into the overall requirements at the firm level in ISQM 1 and how the engagement quality review may be performed in ISQM 2. The key messages and scalability are consistent across the standards.

We consider that the linkage between the firm’s policies and procedures and how these will affect the performance of an individual audit engagement, including where the engagement partner decides to rely on firm policies and procedures around independence or updating the technical audit programs say, is critical, as no audit engagement should be considered in isolation from the firm’s policies and procedures. Where those policies and procedures are robust and provide support and evidence in achieving the objectives of this standard and laws and regulations, they should be relied upon by firms in the daily performance of work, otherwise there could be unnecessary duplication of work. By linking back to the firm’s policies and procedures on each engagement, this should encourage staff at all levels in their familiarisation with the firm-wide policies and procedures, aid discussion and communication on such matters and generally, improve quality through the greater understanding and acceptance of those policies and procedures.

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

Response

Exercising and evidencing professional scepticism is vital on audit engagements to try and allay concerns with the public that audit relationships can be too close with management, when the auditor is responsible to the shareholders of the company. Whilst our
members’ client base will focus predominantly on owner-managed businesses, we support the IAASB in focusing on the need to exercise appropriate professional scepticism on all audits. The application material is useful in explaining to practitioners the indicators of when the audit engagement team may need to apply more scepticism (A27) and in prompting teams to consider how they can adopt a more sceptical mindset (A28). This is one area where the linkage with ISQM 1 needs to be robust as adopting a sceptical mindset and following this through on files requires the leadership’s commitment to quality and robustness to be high (the “tone from the top”). SMPs will require more guidance in this area, especially on how such scepticism should be documented or evidenced within the audit files to be sufficient.

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

Response
We have no strong views in this area, though we agree with the guidance in the application material (A56) that warns firms against over- or inappropriate reliance on technological resources. This is very timely given that many areas of technological development in auditing (including Data Analytics) are filtering down to the SMP firms who are unused to such tools and may misunderstand how they can be used effectively.

Most of our member firms’ audit teams are based in one office and there is as yet little use of service centres to assist with audit work but as the network develops, this may change in future, so we welcome further guidance in this area.

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
We support these requirements and guidance, especially in requiring that the engagement partner reviews key areas of the audit documentation (paragraph 29) and the key deliverables (the financial statements and any management reporting). Whilst we accept that elements of the direction, supervision and review can and will be delegated to other partners and senior audit staff, the engagement partner must be suitably familiar with the work undertaken on significant matters and ensure that the quality of the financial statements and management reporting is up to standard and is consistent with expectations and the documented audit file.

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

Response
Together with ISA 230, the overarching documentation requirements are noted in paragraph 38 and the examples of how the engagement partner’s involvement can be evidenced (A102) will be useful to firms. One area for further guidance, examples and training will be in the extent to which the professional scepticism of the engagement team should be documented on files. This will be especially relevant for SMPs who are more likely to discuss matters within the team and resolve matters verbally rather than engage in formal internal or external consultations.

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
Yes, the ED-220 is scalable and provides some useful guidance on audit situations in large, complex teams may differ from those where the engagement partner performs all the audit work. The Appendix to the Explanatory Memorandum is helpful here and could be used as the basis for further practical guidance for SMPs once the standard is issued.

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