

Response Template: Quality Management Covering Explanatory Memorandum

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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: Yes.

- 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: None noted.

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: Not applicable.

- (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: We note several public sector considerations.

The concept of engagement leader should be adapted to the public sector. Either ISQM or ISA 220 or both should recognize that in the public sector there might not be one person that meets the definition of engagement leader. The definition of engagement partner may need to be re-examined because it contains two elements that may not be met by one person. The first is the person responsibility for the engagement and its performance; the second is for the report that is

issued and who has the appropriate authority, which practically means the appropriate authority to sign the report. Because of legal reasons and the appointment of public sector auditors, a public sector auditor general may be able to delegate to someone within their “firm” the responsibility for the engagement and its performance and the report that is issued, but may not be able to delegate signing authority. ISA 220 should recognize this and allow the public sector auditor (specifically, a legislative auditor or a supreme audit institution), to adapt the requirements in ISA 220 and other ISAs (such as ISA 700 naming of the engagement leader) to circumstances unique to legislative auditors. To illustrate, the situation would be as if a law stated that the CEO of a large accounting firm is the engagement leader of every audit report issued by that firm. It is likely that that CEO would be unable to meet all the requirements of ISA 220 for every audit report, and the firm would either have to substantially reduce its number of audits (which it may also not be able to do if it was appointed by statute), or not comply with the ISAs. If IAASB is unable to accommodate this, then perhaps it should simply state in ISQM and ISA 220.03 that legislative auditors may choose to apply INTOSAI standards for quality control for their audits and this is considered acceptable in meeting the requirements of ISAs for legislative auditors.

We note it is unfortunate that consequential amendments to ISAE 3000 have not been made, to align it with ISA 220. This results in several differences, including that the engagement leader takes on more responsibilities for financial statement audits than assurance engagements, and that the engagement quality review role differs between financial audits and assurance engagements. Standards that incorporate ISQC such as the assurance standards and other standards such as reviews should be updated before ISQM is issued.

- (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: None.