



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
du Canada

July 1, 2019

International Auditing and Assurance Standards Board

529 Fifth Avenue  
New York, New York 10017  
UNITED STATES OF AMERICA

Re: Exposure Drafts –

Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)

Proposed International Standard on Quality Management 2

Proposed International Standard on Auditing 220 (Revised)

Thank you for the opportunity to provide feedback on the above Exposure Drafts. I am responding on behalf of the Office of the Auditor General of Canada.

Our responses to the specific questions posed in the Exposure Drafts are provided below. Responses may be limited to questions of relevance to our Office and legislative audit.

Sincerely,

Lissa Lamarche  
Assistant Auditor General

cc. Jacqui Kuypers, CPA, CA  
Principal, Auditing and Assurance Standards Board  
Auditing and Assurance Standards Board

**Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1)**

Question 1

- (a) Yes, we support the new quality management approach.
- (b) The impact proposals will have will depend on the extent to which new requirements result in changes to firm business processes and controls already in place.
- (c) Yes the requirements and application material are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.

Question 2

Of most significance to the public sector, the proposals establish a requirement for an engagement quality review for entities of “significant public interest” in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.

Question 3

As noted above, guidance in paragraphs A106 and A107 could be expanded to more thoroughly address the application of the concept of significant public interest in the public sector. We would recommend paragraph A107 be removed or revised as this criteria is not, in our view, an indication of significant public interest.

Question 4

Yes, we are supportive of the components and structure.

Question 5

We support the objective of the standard. The underlying objectives of the system of quality management, when met, result in engagements that are conducted in accordance with applicable professional standards, legal and regulatory requirements, and properly reported, which serves the public interest where the standards, laws and regulations have been designed to do so. As a result, we have no concerns with the references to public interest presented in ISQM 1 and feel the link between from the objective of the standard and public interest is clear.

#### Question 6

- (a) We are supportive of the risk assessment approach and its application to other components of the system of quality management but acknowledge it will require resource investment upon adoption and each year to ensure the system remains relevant.
- (b) We support the required quality objectives which are derived, in part, from extant ISQC 1. The proposed ISQM 1 is clear that a firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances.
- (c) We believe this approach will result in a firm designing and implementing responses that are tailored to the assessed quality risks.
- (d) As noted above, it is clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard.

#### Question 7

Yes, the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership.

#### Question 8

- (a) We are supportive of the focus on independence but would not be concerned with shifting the focus to ethics more broadly.
- (b) Legislative auditors generally do not operate or belong to a network, as a result, no analysis has been performed in respect of this question.

#### Question 9

Yes, ED-ISQM 1 has been appropriately modernized to address the use of technology by firms in the system of quality management.

#### Question 10

At present, we believe transparency reporting should be optional and therefore agree with how the proposals leave this matter to a firm policy choice.

#### Question 11

Of most significance to the public sector, the proposals establish a requirement for an engagement quality review for entities of "significant public interest" in addition to listed entities. In our view, the application of such a requirement will present an implementation challenge in the public sector given the nature of the mandates of public sector entities. It will be necessary to determine which public sector entities meet this requirement in order to properly and consistently apply the requirements for an engagement quality review. Current guidance in the proposed standard is insufficient in this area.

Based on the above, we do not feel the requirements and application guidance will result in the proper and consistent identification of engagements to be subject to an engagement quality review. In the absence of additional guidance, firms will be required to develop their own guidance in this area.

#### Question 12

- (a) The proposals expand significantly on monitoring activities which should serve to improve monitoring in comparison with that performed for extant ISQC 1.
- (b) We agree with the retention of the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis as an appropriate element of monitoring.
- (c) The framework for evaluating findings and identifying deficiencies is clear from the requirements and application material. Whether or not a finding is ultimately considered a deficiency will depend on the application of judgment as illustrated in paragraph A175 and as such, the definition is acceptable.
- (d) The introduction of root cause analysis requirements is likely to present the benefits outlined in paragraph A179.
- (e) ISQM 1 paragraph 55 requires the individual(s) assigned ultimate responsibility and accountability for the system of quality management to evaluate whether the system of quality management provides reasonable assurance that the objectives stated in paragraph 18(a) and (b) have been achieved. On their own, individuals with ultimate responsibility may not have the same detailed understanding of the system and its components. Paragraph A189 has recognized that this individual may need to be appropriately supported by the individual assigned operational responsibility for the system to form an appropriate conclusion.

#### Question 13

Legislative auditors generally do not operate or belong to a network, as a result, no analysis has been performed in respect of this question.

#### Question 14

We are generally supportive of the inclusion of proposals concerning service providers.

#### Question 15

No response is provided as this question is directed at national standard setters and regulators.

## **Proposed International Standard on Quality Management 2**

### Question 1

Given the increased volume of requirements and guidance, providing a separate standard for engagement quality review is appropriate. Selection and appointment of the quality reviewer could have remained a part of ISQM 1 as it is in extant ISQC 1, allowing ISQM 2 to focus on the execution of the quality review. However, the location of these requirements is not significant to their application.

### Question 2

Yes, the concept of linkages and integration of the standards and their requirements is understandable and sufficiently clear.

### Question 3

We have no concerns with this terminology change.

### Question 4

We are supportive of the eligibility requirements proposed. We do not feel there is a need for additional guidance in the standard concerning cooling off periods beyond that already provided.

### Question 5

There appears to be an opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33 of ED-220. We feel it would be more helpful if the engagement leader would identify and discuss significant matters and their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader's involvement including the extent to which they believe significant judgments are present in the engagement.

### Question 6

This proposed requirement is an appropriate reflection of how the quality reviewer may contribute to the exercise of professional skepticism depending on the nature of the judgments and documentation reviewed. We feel this approach strikes the right balance for this issue.

### Question 7

Yes we agree with the enhanced documentation requirements which are reasonable and not overly onerous.

### Question 8

Yes the requirements are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.

## **Proposed International Standard on Auditing 220 (Revised)**

### **Question 1**

Yes we support the focus on sufficient and appropriate involvement of the engagement partner.

Paragraph 37 of ED-220 provides for an engagement partner stand back on extent of involvement and the application of ISA 220. We would note that because the requirement for the engagement partner to assess themselves is not objective, it is of limited value. We would expect few engagement partners would conclude negatively on their own performance.

### **Question 2**

Appropriate linkages have been established with ISQMs in important areas such as ethics, acceptance and continuance, consultation, quality reviews and differences of opinion. We did note, however, one opportunity to improve linkages concerning the discussion with the engagement quality reviewer at paragraph 33. We feel it would be more helpful if the engagement leader would identify and discuss significant matters and their views concerning significant judgments with the quality reviewer, rather than only the broader significant matters. This would not prohibit the quality reviewer from forming their own opinion on significant judgments present in the engagement but would serve to provide important insight about the engagement leader's involvement including the extent to which they believe significant judgments are present in the engagement.

### **Question 3**

Yes, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

### **Question 4**

Yes, ED-220 deals adequately with the modern auditing environment, including the use of different audit delivery models and technology.

### **Question 5**

Yes, we support the revised requirements and guidance on direction, supervision and review.

### **Question 6**

Yes, sufficient requirements and guidance on documentation are provided. Guidance could be further expanded to caution auditors about the heightened sensitivity and appropriateness of including detailed documentation concerning threats, threat resolution and breaches of engagement team member ethics in broadly accessible locations of the audit file. Alternatively, a requirement for firm policy concerning this issue could be added.

### **Question 7**

Yes the requirements are scalable. The IAASB has provided clear illustrations of how and where proposals are adaptable by SMPs. In our view, this communication serves to demonstrate how the principles and requirements can be tailored and met in a variety of situations.