Response Template: Proposed ISA 220 (Revised)

Note to Respondents:

• The questions below are from the exposure draft of proposed International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements, which is available at www.iaasb.org/quality-management.

• Respondents are asked to respond separately to each of the exposure drafts and the overall explanatory memorandum.

• We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents’ comments.

General Comments on Proposed ISA 220 (Revised)

[Please include here comments of a general nature and matters not covered by the questions below.]

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: Affirmative.

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: Yes, in general.

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: IAB-IEC supports this material.

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

Response: IAB-IEC is pleased with the update that considers recent technological evolutions.

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: Prima facie, yes.

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

Response: The draft standard is unfortunately still a normalization based on the most complex situations (‘Think big first’). Regulation is justified because a company is listed. This leads to a top-down concept, where the standard is designed to suit PIE’s, listed and large companies and needs
to be simplified, by carve-outs, SME-packages, guidelines, Q&A's, technical note’s or other means to meet the needs of SME’s.

The draft standard prefers to enter into the details of the procedures to be implemented, even if it means reducing the domain of the auditor’s judgment, without wanting to eliminate it. The limiting of professional judgement could lead to box-ticking. This is caused by the basic principle ‘what is not written is not done’, that leads to detailed checklists, where the audit documentation serves more as evidence against any accountability or legal responsibility than as a record of the basis for the auditor’s report. This is reinforced by the pyramidal model of large audit firms, i.e. a model for large companies that are organized internationally and that contain many requirements.

For this reason, a bottom-up concept is required. It is about starting with requirements designed for small and simple entities and then adding requirements for larger, more complex PIEs. Preferably, the more complex standards would be built or based on the less complex ones.

For this reason, a fundamental redrafting of the basic structure of the ISAs, not only ISA 220 is necessary.

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: Unfortunately, no. The draft, together with ISQM 1 and ISQM 2, are a step in that direction, but the goal is not yet achieved.

Editorial Comments on Proposed ISA 220 (Revised)

[Please include here comments of an editorial nature.]