

Response: Proposed ISA 220 (Revised)

Respondent: CPA Australia

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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)

Overall we are supportive of the clarification and strengthening of the engagement partner's responsibility for audit engagement quality. We suggest that the structure of the standard may rely too heavily on introductory paragraphs and related application material. Consideration should be given to either reflecting introductory material in the requirements and related application material if it is integral to the standard.

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: We support the approach taken in the proposed standard to the overall responsibility and involvement on the engagement taken by the engagement partner. We also support the inclusion of others to whom supervisory roles are assigned. We note that "public sector equivalent" could be included in the definition of engagement partner in paragraph 10(a), rather than simply in footnote 12.

- 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: Whilst the terminology and components in ISQM 1 are reflected in ISA 220, there could be more explicit cross-references to the ISQM 1 requirements in the ISA 220 requirements.

The IAASB has removed the engagement team's entitlement to rely on the firm's system of quality control and replaced it with application material paragraphs A7 and A8. However, this application material is not linked to a requirement, but only to introductory material. In addition, the application material provides some examples of when the engagement partner may depend on the firm's policies and procedures which are not comprehensive. Coupled with that, the criteria for

determining whether or the degree to which they can depend on the firm's policies and procedures in paragraph A8 is not definitive. For example, criteria include the partner's "knowledge or understanding of, or practical experience with, such policies or procedures" but is not clear whether a deeper understanding enables them to depend on those policies and procedures and the degree of confidence they need to have gained. Whilst we agree that the engagement team should not blindly rely on the firm's system of quality management, we do not consider that the proposed standard provides the necessary requirements or guidance regarding when or how the engagement partner determines whether the firm's quality management policies or procedures are "fit-for-purpose" in the specific circumstances of the engagement, as suggested in paragraph 12 of the explanatory memorandum. We encourage the IAASB to articulate how this determination is made, otherwise there are likely to be very disparate outcomes.

- 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: Whilst we welcome the explanations of the role of professional skepticism along with the drivers, impediments and biases impacting the exercise of professional skepticism, we question why this is only reflected substantially in the introductory material and application material. Although mentioned in paragraph 12(e), we suggest that the IAASB consider how this material can be further reflected in the requirements.

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

Response: We welcome the extension of "human resources" to "resources" in the components of ISQM 1, and the related guidance on technological resources in ISA 220.

- 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 the requirements on supervision and review. However, we are concerned that paragraph 31 could inadvertently capture broader communication than intended. At a minimum it needs to clarify that the review relates to any formal written communications from the firm to management or those changed with governance of the entity. With respect to regulatory authorities this needs to be limited to matters relevant to the entity or the engagement. Consideration could be given to other communication relevant to the entity or engagement to related entities, in the event that communication was directed to parent entities, subsidiaries or joint ventures relating to the engagement.

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

Response: Yes, we have not identified any further documentation requirements or guidance needed.

- 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: We consider that ISA 220 is scalable, although we are concerned that the engagement partner will need to rely on the firm or network policies and procedures and may experience difficulties in meeting the standard in this regard, as explained in our response to Q2.

Editorial Comments on Proposed ISA 220 (Revised)

None noted.