

Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

1 July 2019

To: Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Proposed International Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

We welcome the opportunity to comment on Proposed International Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements (ED-220). It is important that the process for managing audit quality at the engagement level continuously evolves along with the management of audit quality at the firm level. However, as stated in our submission on ED-ISQM 1, any changes to the processes by which firms manage quality, including engagement quality, must be evaluated in terms of benefits delivered balanced against the costs of implementation and ongoing maintenance by firms. We are generally supportive of the proposals to clarify the role of the engagement partner (EP) and other aspects of engagement quality management but have some concerns as addressed in our overall comments and specific responses.

Overall comments

Definition of engagement team

Our stakeholders have expressed concern with the definition of engagement team. It includes "any other individuals who perform audit procedures on the engagement". Audit procedures is not a defined term within the ISAs and without clarity on this point, the

engagement team definition could capture a wide range of people. Audit procedures needs to be defined or the definition be specific about the procedures considered to be 'audit procedures' to avoid divergence in practice. It should also be made explicit that component auditors are not part of the engagement team.

Scalability

As stated above, changes to the engagement quality management process need to be evaluated in terms of cost versus benefit. For SMPs (and other firms) there will be significant work effort in implementing these changes and on an ongoing basis to produce the documentation required by the proposed standard. For the changes to deliver clear benefits and reduce the implementation costs, there needs to be implementation guidance addressing the documentation requirements and providing examples of appropriate documentation for firms of different levels of size and complexity.

Our responses to the specific questions raised in ED-220 are enclosed in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; melanie.scott@charteredaccountantsanz.com and Antonis Diolas, Manager Audit and Business Law at ACCA via email antonis.diolas@accaglobal.com

Yours sincerely

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Appendix A

Responses to specific 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?**

We are generally supportive of the proposals in the standard. Our stakeholders felt that most of the more explicit requirements in relation to the involvement of the EP and the other senior members of the engagement team were a reflection of current practice.

Concerns were expressed with the definition of engagement team. It includes “any other individuals who perform audit procedures on the engagement team”. Audit procedures is not a defined term within the ISAs and without clarity on this point, the engagement team definition could capture more people than is intended, which increases the work effort for no corresponding improvement in audit quality.

- 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?**

Concerns were raised around how the EP would evidence the requirements in relation to being satisfied with the firm's policies and procedures. While we accept that the EP should be happy with the firm's quality management, there is potential for the work effort required for the EP to question and document their considerations of these matters to be excessive when the objective of the ISQM series of standards is that firms should have suitable policies and procedures on which all EPs can rely. Similar to the issues in ISQM 1 in relation to network firms relying on network policies and procedures our stakeholders were uncertain of the cost versus benefit of implementing these requirements and expressed concerns that firms would simply develop boilerplate documentation for EPs to use.

- 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)**

We are supportive of the need to address professional scepticism in the standard however, some of our stakeholders expressed concerns that paragraph 7 is confusing as currently drafted.

As we have stated in our submissions on ED-ISQM 2 (and ED-ISQM 1) and on previous standards, we believe that professional scepticism is a ‘state of mind’ that cannot be instilled by it merely being mentioned more often in standards. It must come from the firm having a culture that reflects the value of professional scepticism through the tone at the top and formal and on-the-job training of staff. Regulators most frequently express concerns around professional scepticism in relation to documentation of the exercise of professional scepticism and the application guidance does not cover this in detail. Implementation guidance and examples of scalable documentation would be valuable for SMPs.

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

Yes, however, as we noted in our general comments broadening the definition of the engagement team to include “any other individuals who perform audit procedures on the engagement” seems challenging. For example, in the case of service delivery centres as these tend to be off-site how would the engagement partner take the responsibility required per para 11 which refers to the culture and behaviour of engagement team members?

- 5) **Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)**

Yes. The feedback we received supported these revisions on the basis that the more detailed requirements in relation to direction, supervision and review were what EPs who are focused on delivering a quality audit should be doing.

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

The requirements in the standard are quite specific and some stakeholders expressed concerns that the documentation requirements do not have clear linkages to all the requirements. Further clarification and guidance would be useful.

- 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?**

While the concepts in the standard appear scalable, as stated above and in our submissions on proposed ISQM 1 and ISQM 2, preparing documentation in relation to these standards will represent a significant work effort, particularly for SMPs. Implementation guidance and examples of documentation would assist SMPs to reduce this effort. As discussed in our response to question 2, how would a partner document how they satisfied with the firm's policies and procedures was one area where stakeholders expressed concern with the work effort and where guidance would be valuable.

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Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 121,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 219,000 members and over 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.



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