

5 June 2019

Scientia Professor Simnett AO  
Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins St West  
Melbourne Victoria 8007  
AUSTRALIA

Dear Scientia Professor Simnett

**Exposure Draft – Proposed International Standard on Auditing 220 (Revised)**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft Quality Management for an Audit of Financial Statements (ED-220). The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG agrees with the intent of ED-220 to modernise the standard by incorporating varying delivery models and auditing techniques, as well as explicitly articulating the engagement partner's responsibilities for managing and achieving audit quality. However, ACAG has raised some matters for the IAASB to consider so as to ensure the suite of quality management standards are coherent, the requirements are easily understood, and can be practically applied by firms of all sizes.

ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

The attachment to this letter addresses the AUSAB's additional specific requests for comments, in addition to the IAASB's requests for comments, as outlined in ED-220.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Andrew Richardson  
**Chairman**  
**ACAG Audit Standards Committee**

**AUASB Specific Matters for comment**

***Matters for further consideration in relation to the Quality Management Standards***

- 1. Do you consider the definition of engagement team has been consistently applied across the suite of Quality Management Standards?**

ACAG believes the definition of engagement team has been consistently applied across ED-220 and ED-ISQM1, however the term is not defined in ED-ISQM 2.

ACAG acknowledges the explanatory guidance in ED-220 (paragraphs A16 to A19) defines the engagement team to include individuals from service delivery firms or network firms and excludes the engagement quality reviewer. However, this is not made clear in ED-ISQM 1. ACAG recommends that ED-ISQM 1 include the same explanatory paragraphs or reference to specific paragraphs in ED-220 when discussing the engagement team to ensure consistent application.

***Matters for further consideration in relation to ISA 220 (revised)***

- 2. Do you support the AUASB's view that situations where somebody other than the engagement partner signs the audit report, or there are multiple partners on an engagement, should be addressed as part of the revisions to ISA 220?**

ACAG does not support the need for additional guidance in ED-220 to address instances where there are multiple partners on an engagement.

ACAG is of the view that requirements for the engagement partner to have overall responsibility for the audit engagement and its performance are sufficiently clear.

- 3. Do you consider that the expanded Engagement Team definition makes it difficult to meet the requirements of the standards, in particular when Service Delivery Centres are used?**

ACAG believes the expanded engagement team definition is appropriate, however acknowledges it would be beneficial to include additional guidance on the level and extent of oversight required by the engagement partner.

Notwithstanding this, ACAG recommends the guidance be principles-based, incorporating the level and extent of quality management systems in place at the Service Delivery Centre, when determining the level and extent of oversight by the engagement partner.

- 4. Do you consider that the proposed changes to ISA 220 will result in improved audit quality in Australia? If no, please describe the provisions of the proposed standard which impede the improvement of audit quality.**

ACAG is supportive of the changes to ISA 220 and believes it will result in improved quality in Australia. Concerns over inconsistency and ambiguity have been raised in the response to the IAASB's questions, which, if not addressed, may reduce the efficacy of the quality improvements.

- 5. Does the drafting of the standard to emphasise the engagement partner's responsibility for managing and achieving quality at the engagement level make it difficult to practically achieve?**

ACAG is supportive of the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level. ACAG believes these requirements already represent better practice in the profession. The explicit articulation of this responsibility reinforces what is happening in practice but also helps in consistent application, especially where the firm utilise service delivery centres and for network firms.

- 6. Do you support the IAASB’s decision to remove from the introduction in the extant standard the paragraph that engagement teams are entitled to rely on the firm’s system of quality control?**

ACAG is supportive of the change and considers paragraph 4 sufficient in emphasising the firm and engagement partner’s responsibility in relation to quality management.

- 7. Do you consider that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate given the objectives and nature of the two distinct roles?**

ACAG considers that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate. ACAG does raise the need for more guidance, especially in ED-ISQM 2, to address conflicts and resolution of differences of opinion between the engagement partner and engagement quality reviewer.

***Considerations related to Australian Principles and Practices and Laws and Regulation***

- 8. Are there any modifications to the extant ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information, which are still relevant to the ED-220?**

ACAG recommends the AASB review the Aus insertions to address Australian specific requirements for continuing relevancy to ED-220. For example, Aus 7.2 and Aus 7.3 in extant ASA 220 are very relevant to the public sector because the existing Australian modification is to bring the “public service equivalent” concept up from the footnotes in the ISQM 1 into the definitions for engagement partners and engagement firms.

If AUASB intends to continue to use ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*, for which an international equivalent does not exist (i.e. it is an Australian only standard), as a vehicle to simplify references between AUASB standards and APES110 *Code of Ethics for Professional Accountants*, then these modifications would need to be brought into the new ASA 220.

- 9. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

ACAG has not identified any matters for comment.

- 10. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

ACAG has not identified any matters for comment.

- 11. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

ACAG has not identified any matters for comment.

- 12. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:**
- a. Where those costs are likely to occur;**
  - b. The estimated extent of costs, in percentage terms (relative to audit fees); and**
  - c. Whether expected costs outweigh the benefits to the users of audit services?**

ACAG does not believe there are additional significant costs in complying with the requirements. As stated earlier, ACAG believes that engagement partners demonstrating best practice in the profession are already complying with many of the requirements in accordance with their firm's system of quality management.

**13. Are there any other significant public interest matters that stakeholders wish to raise?**

ACAG has not identified any further matters for raising.

5 June 2019

Mr Martin Baumann  
Chair  
International Auditing and Assurance Standards Board (IAASB)  
529 5<sup>th</sup> Avenue  
New York, New York 10017  
UNITED STATES OF AMERICA

Dear Mr Baumann

**Exposure Draft – Proposed International Standard on Auditing 220 (Revised) Quality Management for an Audit of Financial Statements (ED-220)**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on Exposure Draft Quality Management for an Audit of Financial Statements (ED-220). The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG agrees with the intent of ED-220 to modernise the standard by incorporating varying delivery models and auditing techniques, and explicitly articulating the engagement partner's responsibilities for managing and achieving audit quality. However, ACAG has raised some matters for the IAASB to consider so as to ensure the suite of quality management standards are coherent, the requirements are easily understood, and can be practically applied by firms of all sizes.

ACAG also notes that the revised standard appears to be more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB.

The attachment to this letter addresses the IAASB's requests for comments outlined in ED-220.

ACAG appreciates the opportunity to comment and trusts the attached comments are useful.

Yours sincerely



Andrew Richardson  
**Chairman**  
**ACAG Audit Standards Committee**

## IAASB Specific Matters for comment

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?**

Yes, ACAG supports the focus on the sufficient and appropriate involvement of the engagement partner. Although extant ISA 220 infers the engagement partner as being responsible for the overall quality of the audit, it was not explicitly stated.

ACAG notes that paragraph 29 requires the engagement partner to ‘review audit documentation at appropriate points in time...’ Whilst the guidance paragraphs A77 – A80 provides examples of what matters the engagement partner should review, it does not elaborate on ‘appropriate points in time’. ACAG suggests the IAASB incorporate wording from ISQM 2 paragraph A26 that calls out ‘planning, risk assessment, performance, completion, reporting’ as ‘appropriate points in time’. Although this refers to the engagement quality reviewer’s involvement, ACAG believes this is also relevant for the engagement partner’s role.

In relation to the question on other senior members of the engagement team, ED-220 does not specifically make reference to this but refers to ‘other members’. Notwithstanding this, ACAG believes that this is sufficient given that the focus is on the engagement partner having ultimate responsibility for the audit.

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?**

ACAG believes the linkages between ED-220 and ISQMs can be made more explicit to enhance clarity and understandability, with linkages to specific paragraph references.

ACAG supports the requirements to follow the firm’s policies and procedures and the requirement in paragraph 4(b) that the engagement team and engagement partner must consider the firm’s policies and procedures in the context of the nature and circumstances of the audit engagement. ACAG believes the onus should continue to be placed on the firm to ensure that it has an appropriate system of quality management in place as required in ISQM 1, to allow the engagement partner to fulfil their responsibilities in accordance with professional standards.

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)**

Yes, ACAG supports the material in ED-220 on professional scepticism.

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

ACAG does not believe ED-220 provides sufficient guidance to deal with the modern auditing environment, given the current and increasing use of different audit delivery models and techniques.

ACAG acknowledges the guidance in paragraphs A56 – A58 on the use of technological resources on engagements. This is high level and does not help the engagement partner ensure the quality of audit evidence generated through existing or upcoming technological resources.

ACAG recommends the IAASB provide additional practical guidance for engagement partners in the form of what they should consider / be mindful of, when:

- assessing the work/conclusion of specialists that use technological resources on the engagement (in cases where the engagement partner does not have the skills to do so)
- evaluating or analysing the output of technological resources.

**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, ACAG supports these revised requirements.

As stated in our response to question 1, ACAG reiterates our recommendation to elaborate on 'appropriate points in time during the audit engagement' per paragraph 29 by adopting similar wording used for engagement quality reviewers in ISQM 2 paragraph A26.

ACAG believes this would help with the application of the 'stand back provision' in paragraph 37 ie for this to be performed at each critical point in the audit, rather than at the end of the audit when procedures have been finalised as highlighted by paragraph A101.

ACAG questions the intent of the second bullet point of paragraph A101 for the engagement partner to 'consult with firm personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management'. ACAG recommends the IAASB clarify what the expected outcome should be once consultation has occurred.

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

ACAG believes that the documentation requirements are sufficient.

**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?**

Yes, ACAG believes ED-220 is appropriately scalable to engagements of different sizes and complexity.