

July 31, 2019

Mr. Willie Botha, Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, New York 10017

Submitted electronically at: [www.ifac.org/publications-resources/submit-comment?exposure-draft=273188](http://www.ifac.org/publications-resources/submit-comment?exposure-draft=273188)

**Re: IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level,  
Including Engagement Quality Reviews**

Dear Mr. Botha:

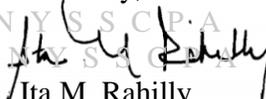
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure drafts, including:

- Exposure Draft, Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1),
- Exposure Draft, Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2), and
- Exposure Draft, Proposed International Standard on Auditing 220 (Revised), *Quality for an Audit of Financial Statements* (ED-220).

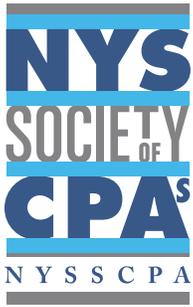
We did not provide comments on the Overall Explanatory Memorandum.

The NYSSCPA's Auditing Standards and International Accounting and Auditing Committees deliberated the proposals and prepared the attached comments. If you would like additional discussion with us, please contact Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
Ita M. Rahilly  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**IAASB'S EXPOSURE DRAFTS FOR QUALITY MANAGEMENT AT THE FIRM AND  
ENGAGEMENT LEVEL, INCLUDING ENGAGEMENT QUALITY REVIEWS**

**Exposure Draft, Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1)**

**Exposure Draft, Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2)**

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

**July 31, 2019**

**Principal Drafters**

**Julian E. Jacoby  
Howard B. Levy  
Bonnie S. Mann Falk  
Mark Murray  
William M. Stocker III**

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## **NYSSCPA Staff**

Keith Lazarus  
Ernest J. Markezin

# New York State Society of Certified Public Accountants

## Comments on

### IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews

We welcome the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB or the Board) invitation to comment on the following Exposure Drafts: Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1); Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2); and Proposed International Standard on Auditing 220 (Revised), *Quality for an Audit of Financial Statements* (ED-220); (collectively the Proposed Standards).

Our responses to the questions for respondents for the Proposed Standards are presented below.

#### **Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ED-ISQM 1)**

##### **Overall Questions**

- 1) Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:
  - a. Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?

**Response:** We support the new quality management approach, but we suggest consideration be given to adding guidance and examples. We welcome continued guidance from the IAASB that will assist and support firms in the implementation and maintenance of these standards in their international practices and serve as a model for the United States (US), and other national standards setters.

- b. In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional skepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?

**Response:** The proposals will generate intended benefits for international engagement quality by reinforcing appropriate behaviors and reminding firm personnel of issues that should be addressed. We believe, however, that unfortunately, the high-level codification of a quality management framework, however robust and well thought-out will only provide limited benefit, since implementation will follow the degree to which a firm values quality.

We envision that the biggest benefits of the proposals will come from the new approach that will enable external reviewers that either serve as engagement quality reviewers or as post-release practice monitoring reviewers to influence changes to a firm's system of quality management as appropriate.

We support the emphasis on a risk-based approach and believe that it will benefit firms practicing internationally, particularly smaller ones, with currently high levels of quality management. This approach may enable firms to redeploy their resources away from quality management systems that respond to lower risk areas to the higher risk areas, thereby better supporting engagement quality, including in the case of audits, appropriate exercise of professional skepticism. A risk-based approach to quality management will help ensure that firms implement the "spirit" of the requirements in the standard rather than only fulfilling the "letter" of a requirement.

We welcome continued guidance from the IAASB that will assist and support firms in the implementation and maintenance of these standards.

- c. Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?

**Response:** We believe that the proposed requirements and application material of proposed ED-ISQM 1 are scalable and that the proposals include sufficient discussion of the considerations that are applicable to small and medium practices (SMPs).

- 2) Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?

**Response:** We believe that the proposed requirement of paragraph 24(b) to have performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management is important but that it will create challenges for meaningful implementation. The internal politics of evaluating the CEO or equivalent is difficult. This challenge is recognized in paragraph A(42) effectively permitting the assessment for many SMPs to be limited to that implied by the evaluation of the quality management system as a whole. Our concern lies in that many larger organizations that would not fall under the paragraph A(42) exception would document pro forma compliance that is not, in fact, robust.

- 3) Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?

**Response:** We recommend including certain graphics and other information in the Explanatory Memo Section in the final standard, as well as more examples on such areas as evaluating deficiencies, quality measurements, and quality risks to consider, as they would be beneficial in aiding an understanding of the rules.

## Specific Questions

- 4) Do you support the eight components and the structure of ED-ISQM 1?

**Response:** We support the eight components and the structure of ED-ISQM 1 as proposed. The addition of risk assessment and information and communications as separate components, particularly the former, would be helpful. Increasing the emphasis on remediation in the monitoring component and adding technological and intellectual resources to human resources also would be helpful.

- 5) Do you support the objective of the standard, which includes the objective of the system of quality management? Furthermore, do you agree with how the standard explains the firm's role relating to the public interest and is it clear how achieving the objective of the standard relates to the firm's public interest role?

**Response:** We support the objective of the proposed standard. We also support the fact that the proposed standard does not attempt to define "public interest entity." We believe the proposed standard properly limits its proposed requirement to act in the public interest by referring to the IESBA Code of Ethics for Professional Accountants (including International Independence Standards) and the definitions therein. We support the way that the proposed standard incorporates the term, "public interest," in its proposed requirements only by stating, in paragraphs 7 and 23(c), the fact that performing quality engagements serves the public interest. We support that, other than by requiring performing quality engagements in general, and in its reference to IESBA, the proposed standard *per se* does not require acting in the public interest in any way.

- 6) Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:

- a. Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?

**Response:** We agree that the risk assessment process should be applied to the other components of a system of quality management.

- b. Do you support the approach for establishing quality objectives? In particular:  
i. Are the required quality objectives appropriate?

**Response:** The proposed required quality objectives are appropriate.

- ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

**Response:** The proposed standard makes clear that the establishment of additional quality objectives beyond those that would be explicitly required by the standard may be necessary in certain circumstances.

- c. Do you support the process for the identification and assessment of quality risks?

**Response:** We believe that the proposed process is appropriate.

d. Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

i. Do you believe that this approach will result in a firm designing and implementing responses that are tailored to and appropriately address the assessed quality risks?

**Response:** We believe that the proposed process, if adopted, will tend to result in designing and implementing responses that are tailored to and that appropriately address the assessed quality risks.

ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

**Response:** We believe that the proposed standard is clear in paragraph A59 that the firm would be expected to design and implement responses in addition to those specifically required by the standard.

7) Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?

**Response:** We believe that, subject to our reservations set forth in our response to question 2) above, the revisions to the proposed standard appropriately address firm governance and the responsibilities of firm leadership.

8) With respect to matters regarding relevant ethical requirements:

a. Should ED-ISQM 1 require firms to assign responsibility for relevant ethical requirements to an individual in the firm? If so, should the firm also be required to assign responsibility for compliance with independence requirements to an individual?

**Response:** The proposed requirement aligns with current standards, and we believe that assignment of this responsibility is generally the practice at most quality-oriented firms. We suggest emphasizing to firms that this assignment does not preclude delegation of different aspects of the function to other individuals reporting to the designated individual. This would better ensure that firms would not misinterpret the standard in a manner that prevents needed flexibility.

b. Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network?

**Response:** We believe that the responsibilities are adequately addressed by the strong language throughout the section on networks suggesting that quality is the individual firm's sole responsibility. The firm must therefore consider the independence of other firms or persons in the network including determining to what extent such considerations apply given the specific nature of the network and involvement of the other firms or persons in the firm's engagements. We do, however, believe that addressing the issue more explicitly would be an improvement.

9) Has ED-ISQM 1 been appropriately modernized to address the use of technology by firms in the system of quality management?

**Response:** Yes, the proposed standard has been appropriately modernized to address the use of technology.

- 10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

**Response:** Yes, the proposed exchange of information about the firm's system of quality management will prove beneficial to elevate audit quality and stakeholder understanding of differences in quality management systems between firms.

- 11) Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject to an engagement quality review?

**Response:** We agree with proposals addressing the scope of the engagements that should be subject to an engagement quality review. We believe that audits of listed entities should require an engagement quality review as they now do in the US. The proposed standard appropriately gives a firm flexibility in making the determination regarding other entities based on risk consideration (as is also the case in the US). We believe that the proposed requirement for having an engagement quality control review for entities with "significant public interest," but allowing the firm to use professional judgment in determining that on a case-by-case basis is also appropriate and an improvement over the extant standard. We ask that you consider providing additional guidance to ensure uniform application of the terms "significant public interest entity" and "public interest entities."

- 12) In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:

- a. Will the proposals improve firms' monitoring of the system of quality management as a whole and promote more proactive and effective monitoring activities, including encouraging the development of innovative monitoring techniques?

**Response:** See our response to Question 1) b., above. We believe that monitoring will be improved in a similar manner. Initially, the implementation will be most robust at those firms least in need of improvement, such as firms that perform audit engagements that are subject to regulatory oversight that includes a robust and effective review of their quality management system. Accordingly, firms generally are required to commit to improve and effectively implement professional standards, including quality control or quality management standards. With provisions that are scalable and risk based, the proposed standard should allow firms to redeploy resources to more important aspects of quality management. In our view, paragraphs 44, 45 and A155 to A159 properly allow and encourage sufficient flexibility in a firm's designing its own monitoring techniques.

- b. Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

**Response:** We agree that completed engagements for all engagement partners be included on a cyclical basis so long as it is made clear that it is not an annual requirement. We believe paragraphs 45.b. and A169, and to some extent A170 regarding the type of review, provide needed flexibility in the application of this proposed requirement.

- c. Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?

**Response:** The proposed framework for evaluating findings and identifying deficiencies, as set forth in paragraphs 47 and A172 to A177, is clear. We support the proposed definition of deficiencies as set forth in paragraphs 19.(a) and A10.

- d. Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:

**Response:** We agree with the proposed new requirement for a firm to investigate the root cause of deficiencies so long as it is clear that the scope of such investigation is left to the discretion of the firm's management.

- i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?

**Response:** The proposed requirements set forth in paragraphs 48(a) and A178 to A182 provide significant and sufficient flexibility in how and to what extent a firm will be required to identify root causes.

- ii. Is the manner in which ED-ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?

**Response:** It is appropriate that the final standard does not require determining the root causes of positive findings. If there were such a requirement, we believe that it would have the potential of diverting resources from efforts that are more worthwhile in meeting the quality management objectives. We support the discussion in paragraphs A173 and A178 reminding firms that they should consider in each case whether addressing the root causes of positive findings would be useful.

- e. Are there any challenges that may arise in fulfilling the requirement for the individual assigned ultimate responsibility and accountability for the system of quality management to evaluate at least annually whether the system of quality management provides reasonable assurance that the objectives of the system have been achieved?

**Response:** The only significant challenge that we perceive is that as is stated in paragraphs 52 and A189, the individual(s) with ultimate responsibility (IUR) will be relying (perhaps too heavily) on the individual(s) with operational responsibility (IOR) for the information with which to make the required assessment. The risk is that the IOR would provide the IUR with information framed in a biased fashion either to make the IOR look good, or less frequently to overstate problems to push for more resources. This is a residual problem of the issue that was addressed in paragraph 48 of the Explanatory Memorandum.

We suggest that in paragraph A189, or an additional paragraph to be placed directly after A189, that language such as the following be added:

“Firms should consider whether the system of quality management should include a requirement that the individual(s) with ultimate responsibility and accountability for the system of quality management be assisted in this review by (an) individual(s) with similar qualifications as, but to the extent practical, operationally independent from, the individual(s) charged with operational responsibility and accountability for the system of quality management.”

13) Do you support the proposals addressing networks? Will the proposals appropriately address the issue of firms placing undue reliance on network requirements or network services?

**Response:** We generally support the proposals addressing the networks. We believe that paragraphs 59, A197 and A198 adequately address the issue of firms placing undue reliance on network requirements or network services.

14) Do you support the proposals addressing service providers?

**Response:** We support the proposals addressing service providers, but would appreciate (1) additional guidance relating to circumstances where certain information is not available to firms, and (2) further clarification of different types of services providers bases on complexity or another criteria, to enable firms to customize approaches.

15) With respect to national standard setters and regulators, will the change in title to “ISQM” create significant difficulties in adopting the standard at a jurisdictional level?

**Response:** We do not see any issues with this in the US.

**Proposed International Standard on Quality Management 2, *Engagement Quality Reviews (EQR)* (ED-ISQM 2)**

- 1) Do you support a separate standard for engagement quality reviews? In particular do you agree that ED-ISQM 1 should deal with engagements for which a quality review is to be performed, and ISQM 2 should deal with the remaining aspects of quality engagement reviews?

**Response:** We agree with the IAASB’s position to establish a separate standard for the provisions that are relevant to engagement quality reviews and believe that the approach gives those provisions more prominence making them more robust. We also support having ED-ISQM 1 deal with whether engagement quality reviews should be performed. We suggest that the Board consider including a cross-reference between the material in ED-ISQM 1 and ED-ISQM 2 to emphasize the individual as well as the firm’s responsibility with respect to engagement quality reviews.

- 2) Are the linkages between the requirements for engagement quality reviews an ED-ISQM-1 and ED-ISQM 2 clear?

**Response:** Yes, they are clear.

- 3) Do you support the change from engagement quality control review/reviewer? Will there be adverse consequences of changing the terminology in respondent’s jurisdictions?

**Response:** We agree with the proposed terminology change since the process is includable in the many controls that a firm must have to enable a successful quality control process over its work (a more inclusive concept). In the US, the auditing standards, including quality management standards, are not embedded in laws and regulation when issued by the AICPA or the IAASB. The PCAOB standards, on the other hand, are tantamount to law through the Sarbanes Oxley Act of 2002 but are not germane to this question.

- 4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively in ED-ISQM 2?

**Response:** We generally agree with the proposed eligibility appointment criteria.

The appointment process in small practices could be very limited based on capability and availability, raising the question of should such firms be involved in this level of service(s). It is also possible that such firms would produce high quality work without this procedure. We note that the procedure’s principal objective, among others, would be to reduce the quality risks in a firm to an acceptable level.

The competence discussion in A(6) to A(9) is well thought out; however, what we have found in practice is that many reviewers have stronger generalist skills or industry specialist skills, and the reviewer’s evaluations tend to become skewed to these skills, *i.e.*, the assignments need to recognize this issue. When this occurs, the EQR process may need to be strengthened; perhaps, a brief mention or short discussion in the application material is appropriate.

In addition, paragraphs 20-20(b) and A(21) address impairment of the engagement quality reviewer's eligibility, but consider adding guidance related to the continuance of the review when the original engagement quality reviewer is mid-review when eligibility is impaired. Application guidance regarding documentation when eligibility ceases would be helpful.

- 5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

**Response:** We believe the Board should seek to emulate requirements of AS 1220, Engagement Quality Review, with respect to mandated EQRs, such as for listed companies and other "public interest entities," but to allow greater flexibility with respect to engagements selected for discretionary EQRs based on risk considerations.

- 6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

**Response:** The final standard should guide EQR reviewers to be alert to possible indicators of insufficient professional skepticism and to react appropriately to such indicators, but it should not require a positive evaluation of professional skepticism since there may likely be no observable evidence of its exercise.

- 7) Do you agree with the enhanced documentation requirements?

**Response:** See our response to question 5), above.

- 8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

**Response:** See our response to question 5), above.

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

- 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 focus on the sufficient and appropriate involvement of the engagement partner or equivalent as part of taking overall responsibility for managing quality on the engagement, especially the requirement to be involved throughout the engagement.

We believe the proposed standard appropriately reflects the role of other senior members of the engagement team, including other partners.

We recommend including in the final standard a statement that the requirements that would be imposed by the proposed ISA do not relieve other members of the engagement team of any of their professional responsibilities.

We suggest including a reference to the need for applying the requirements of this proposed standard within the requirements for group audits under ISA 600.

- 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:** We have no comment here.

- 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:** We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. We caution that the standard be clear that the lists included in A27 and A29 are just examples and not all-inclusive.

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

**Response:** We have no comment here.

- 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 revised proposed requirements and guidance on direction, supervision and review. We offer the below for further consideration:

Paragraph A73 – Under bullet point #1, consider the following addition to sub-bullet #3:

“Monitoring the ongoing adequacy of assigned resources, [including whether they have sufficient time to carry out their work and whether they understand their instructions].”

Paragraph A80 – We recommend the addition of the following:

- The extent to which current economic conditions affected or may affect the client and the stability of its financial position;
- The extent to which there is a variance from the time budget and/or the timetable;
- The extent to which the analytical procedures have uncovered unusual or unexpected balances or relationships that do not appear to be adequately explained, supported and/or resolved.

Under the section addressing direction and supervision, we recommend the addition of considerations relevant where an individual within the engagement team with expertise in a specialized area is used:

- Agreeing with that individual regarding the nature, timing and extent of work and communication between that individual and other members of the engagement team;
- Evaluating the adequacy of that individual’s work, including the relevance and reasonableness of that individual’s findings or conclusions and the consistency of those findings or conclusions with other audit evidence.

Under the section addressing review, consider specifically addressing the requirements when there is a change in engagement partner, *i.e.* whether applying the proposed review procedures in paragraph 29 to review the work performed to the date of the change would be sufficient to enable one to assume the responsibilities of the engagement partner.

We recommend making the standard clear that the lists in the paragraphs noted above and in other paragraphs are merely examples and not all-inclusive.

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

**Response:** We believe the proposed requirements and guidance on documentation 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?

**Response:** Subject to the Board’s adoption of our relevant recommendations in the foregoing responses, we believe the final standard will be appropriately scalable to engagements of different sizes and complexity.