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Mr. Willie Botha  
IAASB Technical Director  
International Auditing and Assurance Standards Board

International Federation of Accountants  
529 5<sup>th</sup> Avenue  
New York 10017  
USA

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

Dear Mr. Botha,

Further to our covering letter, please find below the BDO International Limited<sup>1</sup> (BDO) comments in respect of the aforementioned standard (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?**

Yes, we support the engagement partner accepting overall responsibility for managing quality on the engagement and strongly believe sufficient and appropriate involvement of the engagement partner will promote quality. While paragraph 12 of the proposed ISA appropriately reflects the role of those tasked by the engagement partner to perform supervisory roles over the engagement team, the extent of what is expected of these senior team members could be enhanced by improved application guidance or implementation support materials.

Paragraph A24 of the application material outlines how the engagement partner can demonstrate sufficient and appropriate involvement, and one of the ways is to take responsibility for the direction and supervision of members of the engagement team. Since the engagement partner is accepting overall responsibility for the audit engagement, naturally direction and supervision would be included. We suggest that the application guidance in this paragraph be modified slightly to highlight that the overall responsibility of the engagement partner can be

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demonstrated in varying degrees of direction, supervision and review, depending on the nature and circumstances of the engagement. This paragraph is also very similar in nature to A82 suggesting potential duplication.

- 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?**

Yes, we believe that the linkages between ED-220 and the proposed ISQMs are appropriate. Further, we appreciate the consistency in formatting, as the ISA is structured in a similar manner to ED-ISQM 1 around the elements of quality control.

We understand the IAASB decision to clarify ‘significant judgments’ versus ‘significant matters’. More clarity (whether in ISA 200 or ISQM 2) about the interaction between the engagement partner and engagement quality reviewer with respect to significant matters and the expected level of documentation supporting the audit work or treatment of these matters would be helpful.

A firm’s policies and procedures provide support to engagement teams and promote consistent and expected behaviours; therefore, we support the various requirements in ED-220 to follow the firm’s policies and procedures and the ability for an engagement partner to depend on the firm’s policies and procedures when appropriate (e.g. paragraphs 16, 20, 27, 32, 35, and 36).

- 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, we support inclusion of material on appropriate exercise of professional skepticism in managing quality at the engagement level and believe this additional guidance could be beneficial. We believe that professional skepticism is a critical attribute in maintaining the appropriate mindset for auditors to properly exercise professional judgment.

Failure to exercise appropriate professional skepticism due to the circumstances outlined in paragraphs A27 - A28 is a risk to audit quality especially relating to less experienced staff members.

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

Yes, we support the changes the IAASB has made to deal with the modern auditing environment.

We agree that ED-220 adequately addresses the modern auditing environment in terms of members of the engagement team and engagement team resources as indicated in paragraphs A16 and A17. We support that ED-220 now acknowledges not only that members of the engagement team may work in different geographic locations but that the engagement team itself can be structured in different ways, including the use of service delivery centers or individuals who may not necessarily be employed directly by the firm. We also note the change to the definition of engagement team to assist this broader understanding. The use of service delivery centers can be a means to deliver consistent quality across the firm’s engagements.

We do note that although it is intended to be principles-based, ED-220 appears more prescriptive than ISQM 1 and 2. As noted in the ED-220 explanatory memo, certain large firms are exploring changes to their traditional audit delivery models that may result in significant changes to the

delivery of audit services in the future. With that said, it is currently difficult to envision a model where the delivery of audit services for a client would not fall under the direction, supervision, and review of an audit partner. Given that any exploratory models are still in their infancy, the design of ED-220 appears to sufficiently address current and trending audit delivery models and technology while providing flexibility.

We also support the increased emphasis on technological resources (as outlined in A56-A58) which allow engagement teams to gather more information, perform more in-depth analysis and increase the quality of the overall audit. As ED ISA 220 (Revised) is finalised, the IAASB may wish to reconsider whether ISA 230, Audit Documentation, remains in alignment in this area.

**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, we support the revised requirements and guidance on direction, supervision and review. These expanded requirements and guidance provide more clarity on managing the audit and evaluating engagement performance.

The examples provided in the areas of direction (A72), supervision (A73) and review (A76) are relevant and provide flexibility in terms of how to achieve the requirements. Further, the additional guidance relating to engagement partner review is helpful in establishing that significant areas of judgment include not only the execution of the engagement and the overall conclusions, but also the audit strategy and audit plan for undertaking the engagement. One area that may need further consideration by the IAASB is how to reflect, to a greater extent, the role of other senior members of the engagement team who may have been assigned supervisory roles by the engagement partner.

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

Overall, we agree that in conjunction with the documentation requirements in ISA 230, the ED-220 requirements appear to be proportionate and the guidance appropriate. There appears to be a more streamlined approach to documentation requirements in paragraph 38 of ED-220. For example, ED-220 now includes consideration of ‘...*matters identified, relevant discussions with firm personnel, and conclusions reached...*’ in the context of relevant ethical requirements (including independence) and acceptance and continuance decisions. Extant ISA 220 (Revised) only required consideration of ‘conclusions’ regarding acceptance and continuance decisions or independence requirements and ‘issues’ identified with regards to compliance. This broadening of the overall requirement reflects how many of these decisions at the engagement and firm level often involve internal discussions with firm personnel. This change does however give rise to a potentially duplicative set of requirements as arguably ED-220 paragraph 38 (b) could cover the decisions highlighted in part (a) - although we understand the need to continue to highlight part (i) and (ii) as areas of concern.

We support much of the previous engagement quality review documentation requirements being moved to ED-ISQM 2 with the overall requirement from an auditor perspective in terms of completion prior to the date of auditor’s report staying in ED-220. However, we note that ED 220 (when combined with increasing use of firm-based audit documentation technologies) may result in a more disaggregated evidence of engagement partner review and this may make it harder to ‘see’ how the engagement partner has performed their review. We suggest the IAASB

consider additional guidance or implementation support to ensure that there is some form of documentation or signposting in order to bring together the various elements of review.

**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, we support the inclusion of additional guidance relating to scalability in ED-220 in comparison to extant ISA 220 (Revised). For the most part, the guidance on scalability for smaller firms consists of the engagement partner having primary responsibility in performing the tasks to meet the requirements in ED-220 and may result practically in less formal requirements compared to larger firms.

The content outlined in the Appendix to the Explanatory Memorandum for ED-220 is helpful in providing a roadmap - particularly for sole practitioners and small and medium-sized practices (SMPs) - about potential scalability challenges and benefits for these types of firms. We recommend that this content continues to be included within further implementation materials to help decision-makers in these firms implement the ED-220 requirements when it becomes effective.

We believe that additional implementation guidance should be provided through examples that help illustrate how to apply the requirements in a smaller firm (whether sole practitioner or SMP) context as well as transnational and group audit situations. Areas of particular focus could include how firms of this size and nature can respond to quality risks on topics such as acceptance and continuance decisions (which include a range of factors such as portfolio management, firm revenue concerns alongside ethical and independence considerations) while also adhering to the stand-back requirement in paragraph 37.

We hope that our comments and suggestions will be helpful to you in your deliberations and finalisation of the suite of quality management standards.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited

Chris Smith

Global Head of Audit and Accounting