

June 28, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Botha,

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

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB’s Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews (ED-QM).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB’s Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB’s ED. In our response, “Canadian stakeholders” refers to those who provided us with input. Also, “we” refers to the AASB.

Our comments are set out under the following main heading: Request for Comments

Editorial comments on proposed conforming amendments have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@aabcanada.ca.

Yours very truly,



Ken Charbonneau FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

REQUEST FOR COMMENTS

Overall Questions

- 1) ***Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?***

No. It is unlikely that 18 months will give all stakeholders (e.g., firms, those who prepare guidance, trainers, national standard setters, etc.) sufficient time to prepare. Poor implementation may have negative implications as a firm's system of quality management applies to all the firm's engagements covered under the standard. We believe a longer implementation period of 24 months would give stakeholders sufficient time to achieve a successful implementation. It will also give stakeholders time to translate the standards, where translation is necessary.

The objective of ED-ISQM 1 is for firms to design, implement and operate a system of quality management. The effective date states that systems of quality management are required to be established by a certain date. We believe the IAASB should clarify what "required to be established" means to eliminate ambiguity and ensure a uniform understanding by all firms. We recognize that this wording is consistent with extant ISQC 1. However, "establishing" may not necessarily result in implementation or operation. For example, it is not clear to us whether monitoring activities are "established" when they have been designed, or whether "established" means that they must be in operation, which requires a longer timeframe.

We suggest that the IAASB either:

- change the wording of the effective date to be "The firm is required to design, implement and operate its system of quality management by TBD," or
- consider whether the effective date should be bifurcated (for example, firms must design and implement systems of quality management by a certain date and the system of quality management must be in operation for engagements beginning on or after that date).

- 2) ***In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?***

As noted in our response to ED-ISQM 1, SMPs will need guidance around the risk assessment process. Many practitioners in smaller practices, particularly those who perform mostly reviews and non-assurance engagements, are not accustomed to performing risk assessments on their engagements. As a result, it will be difficult for those firms to apply a risk assessment process to their firm's system of quality management.

Such practitioners will need guidance on how to identify, assess and respond to quality risks. The IAASB should consider providing examples of quality risks that might be common to firms of a similar size.

In addition, Canadian stakeholders suggested that the following implementation materials may be helpful for SMPs:

- Guidance on assessing the degree of the likelihood of a quality risk occurring and the significance of the effect of the identified quality risks on the achievement of the quality objectives.
- More examples, similar to the draft examples that were included with ED-ISQM 1, of how the nature and circumstances of the firm and the engagements it performs affect the implementation of ED-ISQM 1. This will help demonstrate how requirements can be customized and implemented, depending on the nature and circumstances of the firm and the types of engagements it performs.
- Case studies that could set out a possible process that firms would follow to develop their systems of quality management. Such case studies could help practitioners apply the requirements to their specific situations.
- Examples of how in-process reviews might be implemented for audits of smaller or less complex entities and other engagements, such as review engagements, where an in-process review might be an appropriate response to an assessed quality risk.

General Questions

- (a) ***Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.***

We have no comments on this question.

- (b) ***Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.***

In our response to Question 11 in ED-ISQM 1, we note that Canadian stakeholders expressed concerns about the requirements related to “entities with significant public interest”. They noted that many audits of financial statements performed in the public sector may need to be subject to EQR because the entity appears to be of significant public interest. However, there may be no assessed quality risk for a particular engagement for which an EQR is an appropriate response. More guidance is needed on how to determine when the audit of financial statements of a public sector entity may or may not be of significant public interest. For example, public sector auditors may consider such factors as financial magnitude and public sensitivity. Such factors could be added to application material in ED-ISQM 1.

- (c) ***Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.***

We have no comments on this question.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> • 19 practitioners from SMPs/Sole Practitioners • Some perform audits, reviews and compilations, while others are compilation-only
Video roundtable consultation – CPA British Columbia	May 2	<ul style="list-style-type: none"> • 17 practitioners from SMPs/Sole Practitioners • 2 CPA Quebec staff members
Virtual roundtable Consultations – CPA Quebec	May 6	<ul style="list-style-type: none"> • 7 practitioners from SMPs • 1 academic • 1 AASB board member • 3 CPA Quebec staff members • 1 member from the public sector
In-person roundtable consultation – CPA Ontario SMP Committee	May 10	<ul style="list-style-type: none"> • 11 practitioners from SMPs/Sole Practitioners • 4 staff of CPA Ontario
Video roundtable consultation – Compilation Engagements Task Force	May 21	<ul style="list-style-type: none"> • 4 practitioners from SMPs/Sole Practitioners • 2 staff of provincial bodies of CPAs
In-person workshop to field test the proposals (note: report to be included in June 25 meeting agenda papers)	May 15	<ul style="list-style-type: none"> • 5 practitioners from practices ranging from SMP to larger firms

We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector

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Technical Director
International Auditing and Assurance Standards Board
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585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Botha,

Re: IAASB Exposure Draft of Proposed ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB's Exposure Draft of 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).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB's Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB's ED. In our response, "Canadian stakeholders" refers to those who provided us with input. Also, "we" refers to the AASB.

Our comments are set out under the following main headings:

- A. Overall Comments; and
- B. Request for Comments.

Editorial comments on proposed ISQM 1 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@asbcanada.ca.

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

A. Overall Comments

We support the overall approach taken by the IAASB in developing ED-ISQM 1. However, we have concerns about the overall length of ED-ISQM 1. A detailed standard can be beneficial, because it can reduce confusion or misinterpretation. However, it may be difficult for small and medium size practitioners, including certain Public Sector practitioners (SMP), and sole practitioners to appropriately implement. We encourage the IAASB to review ED-ISQM 1 to identify requirements or application material that could be deleted or moved to non-authoritative guidance. We believe the IAASB could remove paragraphs 11, A21, some of the examples in A69, A112, A122 and A188. In our opinion, these paragraphs do not add clarity or new information. We also recommend changes to the wording and structure of certain paragraphs, as set out in our responses to Questions 6(c) and 7. We have provided these suggestions to IAASB staff, along with our editorial comments.

Scalability

We believe SMPs (especially very small SMPs) and sole practitioners will have some difficulty applying certain of the requirements in ED-ISQM 1. Please refer to our responses to Questions 1(c), 2, 7 and 12(a) for further discussion. To help SMPs with the successful implementation of ED-ISQM 1, the IAASB will need to ensure detailed guidance is available at the time the final standard is issued.

We note that at its June 2019 meeting, the IAASB considered responses received to its Exposure Draft of ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, and discussed how the IAASB can improve the scalability of that standard. The IAASB should consider that discussion, and how similar changes could be made to improve the scalability of ED-ISQM 1.

Risk Assessment Process

We support the risk assessment approach to establish quality objectives, quality risks and quality responses. However, as we note in our response to Question 6(c), we have specific concerns about the process for identifying and assessing quality risks.

We also believe that practitioners will need guidance and training to help them successfully implement the requirements. We heard from Canadian stakeholders that practitioners that do not perform audits are likely to have difficulty completing a risk assessment process. SMPs who perform mostly reviews and non-assurance engagements lack both the knowledge and experience of applying a risk assessment process to their engagements. This will make it difficult to apply a risk assessment process to a system of quality management. On the other hand, practitioners who routinely perform audits are likely to be aware of how to perform a risk assessment, because they apply a similar process to audits in accordance with ISA 315. As ED-ISQM 1 does not contain any example risks, SMPs may struggle to identify, assess and respond to firm risks. While certain risks may be obvious and easy to identify, less obvious risks may be overlooked. Therefore, we encourage the IAASB to develop, or support others in developing, guidance that will be available when the final standard is issued.

B. Request for Comments

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?

We support the new quality management approach, as we believe it is more proactive and allows firms to tailor their system of quality management. Extant ISQC 1 is prescriptive, requiring firms to establish policies and procedures without appropriate room for tailoring.

However, we believe that for many firms, the risk assessment process will be difficult to implement, as ED-ISQM 1 does not set out examples of risks. It is also not clear if responses implemented to address quality risks will be significantly different from firms' existing policies and procedures. We recommend developing non-authoritative guidance for sole practitioners and SMPs that will assist them in identifying, assessing and responding to firm risks.

(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?

We believe that expected benefits will vary from firm to firm. We understand that, as a result of inspections by regulatory bodies, some firms have made changes to policies and procedures over the past several years, moving towards a risk-based approach to managing quality. Canadian stakeholders believe the new standard may result in enhanced documentation of policies or procedures, but not necessarily different responses to firm risks.

We believe the proposals may lead to increased consistency in the application of policies or procedures within a firm, addressing execution risk (i.e., where engagement teams currently are not following the firm's policies and procedures consistently). However, it is not clear to what extent ED-ISQM 1 will change practitioners' behaviour.

We believe that the proposals support the appropriate exercise of professional skepticism at the engagement level.

(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?

As noted in our overall comments, we believe that the proposals could be scalable. However, lack of familiarity with quality management, as well as the overall length, and lack of signposting of SMP considerations may make it difficult for SMPs to scale the requirements to their particular circumstances.

For example, paragraph 24(a) requires the firm to assign personnel with responsibility and accountability for four different roles. Paragraph A37 notes that the responsibilities may be assigned to one individual. However, without signposting, and because of the length of the standard, it may be easy to overlook that comment. As a result, SMPs may struggle to understand how to scale the requirement. We suggest the IAASB consider adopting the same approach as ISA 315 (Revised) to highlight paragraphs that relate to scalability. Also, it may be difficult for an SMP to identify an individual with the appropriate skills, competencies and time to fulfil these roles. As well, it may be difficult for that one individual to objectively assess their own work.

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?

We believe that there are several aspects of ED-ISQM 1 that will be challenging to implement, and for which support materials may be necessary to assist SMPs.

- *Risk assessment process* – As noted in our overall comments, it will be difficult for many SMPs to apply the risk assessment process. Guidance will be needed on how to identify quality risks, how to assess the quality risks that have been identified, and the level of detail expected.
- *Governance and leadership* – SMPs with fewer resources will need guidance on what alternative responses they may implement when there are not enough people to take on the different roles set out in the requirements, or when the people do not have the appropriate skills, competencies and time to perform the roles, as we noted in our response to Question 1(c). These requirements do not allow for flexibility in an SMP environment. See also our response to Question 7.
- *Monitoring activities* – For firms with low quality risk (i.e., SMPs that don't perform audits of listed entities or entities with significant public interest), we suggest that the IAASB consider whether the extent of monitoring activities should be different. For example, the IAASB could consider whether it is necessary to require an annual

evaluation of the entire system of quality management, or whether the evaluation may focus on specific components or policies or procedures.

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?*

ED-ISQM 1 is already long. We do not support adding more material. We suggest that the IAASB reorganize ED-ISQM 1, similar to what has been proposed for ISA 315 (Revised), so that scalability elements are clearly signposted, without adding to the length of the standard. We also encourage the IAASB to provide non-authoritative guidance to demonstrate how requirements can be customized and implemented, depending on the nature and circumstances of the firm and the types of engagements it performs. Such guidance could include examples of quality risks that would be typical to firms of these sizes to assist in the risk assessment process.

Specific Questions

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

In part. We support the system of quality management as a whole. However, we believe that the system has 6 components and 2 processes, rather than 8 components. The “house” picture in the EM clearly shows the 2 processes (risk assessment process and monitoring and remediation process) as separate from the components. We believe that monitoring and remediation is not a component in the system of quality management but rather a process. We believe this should be made clearer in ED-ISQM 1. Paragraph 8 could be rewritten as follows:

... However, for the purposes of this ISQM, a system of quality management addresses the following ~~eight~~ six components and two processes, which are highly integrated ...

5) *Do you support the objective of the standard, which includes the objective of the system of quality management?*

Yes. We support the objective of ED-ISQM 1.

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?

We support how ED-ISQM 1 explains the firm’s role relating to the public interest. It is clear how achieving the objective of ED-ISQM 1 relates to this role.

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?

As we stated in our response to Question 4, in our view, the system of quality management has 6 components and 2 processes, not 8 components. We agree that the risk assessment process should be applied to the 6 components (governance and leadership, relevant ethical requirements, acceptance and continuance, engagement performance, resources and information and communication).

(b) Do you support the approach for establishing quality objectives? In particular:

i. Are the required quality objectives appropriate?

Yes. We believe the quality objectives identified 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?

In part. We believe that paragraph 26 makes it clear that the firm is expected to establish additional quality objectives beyond those required by ED-ISQM 1 when these are necessary to achieve the objective of ED-ISQM 1. However, there is no guidance to explain how a firm will determine if additional objectives may be necessary, or the nature of such objectives. Guidance on when a firm may need to establish additional quality objectives, and how the firm will conclude that it needs additional quality objectives, is necessary for this requirement to be applied consistently. It is also unclear what documentation, if any, is needed when the firm concludes that there are no additional quality objectives. We recommend including examples in application material that would assist a practitioner in determining what type of additional objectives may be needed depending on the firm's circumstances.

We note that paragraphs 29 and 37 of the EM state that the quality objectives are comprehensive and, if properly addressed by a firm, will result in the system providing reasonable assurance that its objectives have been achieved. We find this to be contradictory to the requirement to establish additional quality objectives.

(c) Do you support the process for the identification and assessment of quality risks?

No. We find the two-step process to be overengineered and more complicated than it needs to be. We believe this complexity is evidenced by the draft examples provided by the IAASB with the ED, in particular scenario 2 for firms that perform compilations and review engagements. In this scenario, when identifying quality risks, the firm has identified three risks. For each of these risks, the firm has determined the likelihood of occurrence. Then, when assessing the identified quality risks, the guidance states that the firm determines the likelihood of occurrence, noting that the assessment of likelihood of occurrence is a more precise assessment of how probable it is that the quality risk will occur. Considering likelihood both when identifying and assessing risks is likely to be confusing to practitioners and may result in inconsistent application. We believe that the approach to considering likelihood could be simplified so that it is only addressed once during the process. We believe that paragraphs 28 and 29 can be combined, and the examples revised accordingly to streamline the process.

Further, for SMPs and sole practitioners, we believe guidance is needed to assist them in identifying potential quality risks that may affect their firm. As risks vary between firms, we recommend non-authoritative guidance, as opposed to application material.

We also believe that clarity is needed in determining which risks need a response. Paragraph A55 states that there is a reasonable possibility of a quality risk occurring when the likelihood of its occurrence is more than remote. It is not clear how the firm would determine what is “more than remote”. Further “more than remote” is a very low threshold compared to “reasonable possibility”. A similar issue was raised by respondents to the Exposure Draft of ISA 315 (Revised). We encourage the IAASB to delete references to “more than remote”, consistent with ISA 315 (Revised).

(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?

In part. The approach is based on the firm appropriately identifying risks. As noted in responses to other questions, practitioners will need guidance on identifying and assessing quality risks. If the firm does not identify the quality risks (e.g., they do not identify the “right” quality risks or all the quality risks), then the responses may not be appropriate. SMPs and sole practitioners especially will need guidance in this area.

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?

Yes. It is clear that firms are expected to design and implement additional responses. However, determining what those responses should be will be a challenge, especially in a small firm environment. The process for determining whether a quality risk requires a response is challenging and could potentially result in practitioners determining they need a response to every risk to avoid being challenged during monitoring or other inspection. Paragraph A64 explains that a risk and response may not always be a one-to-one relationship. We believe that non-authoritative guidance needs to be developed to demonstrate this concept in more detail.

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

Refer to our response to Question 1(c).

In addition, we heard from some Canadian stakeholders whose firm's leadership team is comprised of tax practitioners, who may not have knowledge of assurance standards that it may be difficult for the firm to identify an individual with appropriate experience and knowledge to fulfill the responsibilities.

To achieve scalability of this requirement (per our response to Question 1(c)) and to avoid complications when the firm's leadership team is not comprised of assurance practitioners), we suggest that the requirement be simply to assign responsibility and accountability for the system of quality management, with the detail that follows, which is very prescriptive, moved to application material, as demonstrated below.:

- (a) Assigning ultimate responsibility and accountability for the system of quality management to an appropriate individual(s) in the firm.

AM Depending on the nature and circumstances of the firm, the appropriate individual(s) assigned ultimate responsibility and accountability for the system of quality management may be:

- the firm's chief executive officer; ~~or~~
- the firm's managing partner (or equivalent); ~~if appropriate,~~
- the firm's managing board of partners (or equivalent); or
- a group of partners.

AM In identifying the individual(s) to whom such responsibility and accountability is assigned, the firm may consider the following factors ~~shall~~:

- (i) Whether the individual(s) has ~~Have~~ the appropriate experience and knowledge to fulfill the assigned responsibility.

(ii) Whether the individual(s) demonstrates a commitment to quality through their actions and behaviors, including recognizing and reinforcing the importance of professional ethics, values and attitudes, and establishing the expected behavior of personnel relating to the performance of engagements and activities within the system of quality management.

AM (iii) Depending on the nature and circumstances of the firm, the firm also may establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the following matters to personnel who fulfill the requirements in paragraph 25:

- a. The system of quality management as a whole; and
- b. Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for compliance with independence requirements and the monitoring and remediation process.

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?

We agree with requiring firms to assign responsibility for relevant ethical requirements to an individual in the firm. We note that in SMPs, this may be the same person responsible for other aspects of the system of quality management.

Some Canadian stakeholders suggested that certain aspects of monitoring compliance with the independence requirement, such as obtaining annual confirmation of compliance with independence requirements, may be administrative in nature and does not need to be assigned to a senior person in the firm.

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

Yes. Canadian stakeholders did not raise any concerns with this material.

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

The introduction of requirements dealing specifically with technological and intellectual resources, as well as the recognition of the use of service providers, reflects the current environment.

However, we believe the IAASB could include more examples of the use of technology in applying ED-ISQM 1. For example, ED-ISQM 1 could recognize that, as more files are prepared electronically, there are opportunities to use technological resources to monitor quality, including performing in-process reviews, for example, to ensure the appropriate checklists are completed, etc. Another example provided by Canadian stakeholders is a technological control that does not allow an engagement team to open an engagement file unless the client acceptance and continuance process has been completed. The IAASB could include such examples in the final standard.

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?*

We have no information on which to base a response.

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?*

To an extent. We agree with the engagements that should be subject to an EQR. We believe that it is clear that an EQR is meant to be a response to an assessed quality risk.

However, we have concerns with references to “entities with significant public interest”. Some Canadian stakeholders interpreted this as “public interest entities” and noted that the language used could cause confusion, including in translating the wording.

Determining which entities have significant public interest may vary depending on the size and circumstances of the firm. For example, is the “public interest” always the larger public (i.e., national or global), or can it be specific to the “public” that the practitioner (SMP or sole practitioner) serves (i.e., the local community)? A smaller firm performing an audit of a local charity, religious institution or municipality may have difficulty determining if the entity is of significant public interest. We believe that this could be clarified in ED-ISQM 1.

Canadian stakeholders also noted that many audits of financial statements performed in the public sector may need to be subject to EQR because the entity appears to be of significant public interest. However, there may be no assessed quality risk for a particular

engagement for which an EQR is an appropriate response. In such cases, it is not clear whether it would be necessary or beneficial to perform an EQR. More guidance is needed on how to determine when a public sector entity may or may not be of significant public interest. For example, public sector auditors may consider such factors as financial magnitude and public sensitivity. Such factors could be added to application material in ED-ISQM 1.

We believe that application material in paragraph A102 needs to be more robust to explain other factors that may categorize an entity as having significant public interest, such as those noted above.

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?

We believe the purpose of monitoring is clearer in the ED-ISQM 1 than in the extant standard. We also support the approach to remediation. However, we are not convinced that the proposed changes will encourage the development of innovative monitoring techniques. If this is the IAASB's expectation, this could be addressed through non-authoritative guidance.

Some Canadian stakeholders, especially SMPs, expressed concerns about how they will be able to achieve the monitoring requirements, particularly identifying personnel to perform monitoring activities who are not already involved in the engagement. For a sole practitioner, the requirements are especially cumbersome. These stakeholders noted that external resources that can be hired to perform monitoring activities are limited and costly. They acknowledge that this is not a new issue, but emphasized the need for guidance on how they may be able to meet the requirements, given such limitations.

(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?

In part. We support the changes made that allows more flexibility in applying the requirement (e.g., recognizing that differing cycles may be appropriate depending on the nature of the engagements). We also believe that inspection of completed engagements is not the only way to monitor quality. We support including in-process reviews as an alternate activity that could address quality risks.

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

Yes. We believe the framework for evaluating findings and identifying deficiencies as set out in paragraphs 47, 48, A172-A177 and A182-A184 is clear.

We support the definition of deficiencies. We note that the definition is consistent with that in proposed ISA 315 (Revised). The IAASB should ensure that any changes, made to the definition should be reflected in both ED-ISQM 1 and ISA 315 (Revised).

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

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

Generally, we support the procedures to investigate the root cause. However, we note that sometimes it is difficult to isolate one root cause. We believe the application material should acknowledge this.

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

We agree that the firm should only be required to investigate the root cause of identified deficiencies. We support including application material in paragraph A173 related to positive findings. Since the goal of monitoring is improvement, positive findings are useful to the firm as they indicate practices that are working well and therefore may be applied elsewhere in the firm.

However, we note that it can be difficult for a firm to determine what a positive finding is. Typically, a finding is something that did not work, rather than something that did work. We agree that if the firm finds something that is working well, the firm should consider implementing it elsewhere. But it is not clear how a firm would look for positive findings.

(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?

This will be a challenge for smaller firms. In a sole practitioner environment, there is only one individual who will have to assume all roles and responsibilities and have ultimate responsibility and accountability for the system of quality management.

This may also happen in the case of an SMP. If such individuals are to evaluate themselves, it will not likely be objective.

We suggest that the IAASB consider whether certain monitoring activities could be determined based on risk. For example, monitoring activities may not be needed on a frequent basis if:

- the firm performs only related services, or a limited number of review engagements; or
- the firm has a homogeneous, low risk client base.

If quality risk is low because of the nature and circumstances of the firm and its engagements, annual evaluation may not be necessary.

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?

We support the proposals addressing networks. We believe the proposals address the issue of firms placing undue reliance on network requirements or services.

14) Do you support the proposals addressing service providers?

Yes. We support the premise that a service provider is a resource that is being used in the system of quality management and, therefore, the firm needs to determine its appropriateness. However, we note that it may be difficult for the firm to meet the requirement in paragraph 64(a) for some services. For example, a service provider may not be willing or able to provide the information that a firm needs to be able to meet this requirement. In other cases, firms may have been using technological resources for a number of years (e.g., time tracking and billing systems). It may not be feasible to try to assess the reputation, competence and capabilities of the service provider, as such attributes may have changed since the technological resource was acquired.

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?

We have no information on which to base a response.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> • 19 practitioners from SMPs/Sole Practitioners • Some perform audits, reviews and compilations, while others are compilation-only
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We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector

June 28, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Botha,
U.S.A.

Dear Mr. Botha,

Re: IAASB Exposure Draft of Proposed ISQM 2, Engagement Quality Reviews

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB's Exposure Draft of Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* (ED-ISQM 2).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB's Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB's ED. In our response, "Canadian stakeholders" refers to those who provided us with input. Also, "we" refers to the AASB.

Our comments are set out under the following main headings:

- A. Overall Comments;
- B. Request for Comments; and
- C. Other Comments on Specific Paragraphs.

Editorial comments on ED-ISQM 2 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@asbcanada.ca.

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

A. Overall Comments

Separate standard

Canadian stakeholders expressed mixed views on ED-ISQM 2. Some Canadian stakeholders raised concerns that a separate standard gives the impression that the EQR is a more important response to a quality risk than other responses, while it is only one of many possible responses. Other Canadian stakeholders supported a separate standard, noting that for firms that have engagements that meet the criteria for having an EQR, there is no significant difference from the extant standard (except for the location of the requirements). For these engagements, ED-ISQM 2 is seen as a matter of geography (i.e., where the requirements are located). However, if a firm determines that an EQR is not a required response to a quality risk, then the requirements of the standard will not apply. Therefore, having a separate standard improves scalability of the standards, as firms would not need to refer to ED-ISQM 2 when an EQR is not required.

Objective of ED-ISQM 2

In ED-ISQM 1 and the ISAs, the objective typically expands on the scope of the standard as set out in the first paragraph(s) of the standard. We understand the objective of ED-ISQM 2 was rewritten in response to comments raised in September and December 2018, when IAASB members did not agree with setting out two objectives in the standard – one for the firm and one for the EQR. However, as currently written, the objective does not cover all aspects of the standard (i.e., does not address the appointment and eligibility of the EQ reviewer).

The objective of a standard is typically focused on the desired outcome of applying the requirements. As such, we recommend the objective be worded as follows:

The objective of the firm is to establish policies or procedures in relation to:
(a) The appointment and eligibility of the engagement quality reviewer; and
(b) Performance and documentation of the engagement quality review,

that result in an objective evaluation of the significant judgments made by an engagement team and the conclusions reached thereon.

Length of the standards

As noted in our response to ED-ISQM 1, Canadian stakeholders expressed concern about the overall length of the combined package of standards. Although ED-ISQM 2 is not overly long, and would only apply when an EQR is necessary, it is still part of the quality management standards. We noted several paragraphs that provide no new guidance. For example, paragraphs A22, A29, A30 and A33 repeat requirements from ED-ISA 220, without adding specific information relevant to ED-ISQM 2. We believe these paragraphs can be removed or simplified to state that ISA 220 contains requirements and application material dealing with the specific topics. AASB staff will provide suggested wording to IAASB staff.

B. Request for Comments

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

As noted in our overall comments above, we heard mixed views from our Canadian stakeholders regarding a separate standard dealing with EQR. However, most agreed with including requirements in ED-ISQM 1 that establish which engagements require an EQR.

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

Yes. We believe it is clear that ED-ISQM 1 establishes the requirements for determining which engagements are subject to an EQR, while ED-ISQM 2 deals with the eligibility and appointment of a reviewer and the performance and documentation of the EQR.

- 3) ***Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?***

We have no information on which to base a response.

- 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, of ED-ISQM 2?***

We note that ED-ISQM 2 refers to “appointment and eligibility” throughout the standard. We think the IAASB should consider reversing the terms, as a firm will first need to determine whether an individual is eligible, then appoint that individual as EQR.

Currently there is confusion in practice whether the EQR needs to be a partner or can be someone who is not a partner, for example a principal or senior manager. ED-ISQM 2 establishes criteria for the competence and capabilities of the EQR, and the definition of EQR is clear that the person does not need to be a partner. However, Canadian stakeholders noted that ED-ISQM 2 could provide more clarity by giving examples of which individuals in the firm might meet the criteria.

We note that the definition of engagement quality reviewer in paragraph 11(b) refers to an “other individual in the firm”. The IAASB may consider adding application material to the definition of engagement quality reviewer to provide examples of who the other individual might be as follows:

Engagement quality reviewer – A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

AM – The other individual in the firm might be a principal or senior manager, as long as that individual is eligible to be appointed as the engagement quality reviewer. Firms may use different titles to describe these individuals.

(a) *What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?*

Canadian stakeholders expressed some concern with the cooling-off period proposed in ED-ISQM 2. Canadian stakeholders agree that a cooling-off period is appropriate for audits of listed companies. However, in some cases in smaller firms or engagements other than audits of listed entities, continuity of knowledge can contribute to the overall quality of an engagement. Requiring a cooling-off period may result in the loss of knowledge of the client or of specialized technical areas and could have a detrimental effect on engagement quality. Paragraph 28 of the EM indicates that the firm may determine that no cooling-off period is necessary for certain types of engagements. However, this is not clear in the standard. ED-ISQM 2, paragraph 16 indicates that the firm shall establish limitations on the eligibility to be appointed as EQR. This suggests that there must always be a cooling-off period.

Further, paragraph A5 states that “an individual who has served as the engagement partner is not likely to be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because it is not likely that the threats to the individual’s objectivity with regard to the engagement and the engagement team can be reduced to an acceptable level.” Although this paragraph is application material, the wording “is not likely” sounds very much like a requirement.

We suggest the following revisions to address the above concerns:

16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that, where appropriate, include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner.
- A5. An individual who has served as the engagement partner ~~is not likely to~~ may not be able to perform the role of the engagement quality reviewer immediately after ceasing to be the engagement partner because ~~it is not~~

~~likely that~~ the threats to the individual's objectivity with regard to the engagement and the engagement team ~~can~~ may not be able to be reduced to an acceptable level. ... Accordingly, this ISQM requires the firm to establish policies or procedures that limit, where appropriate, the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement, and applicable provisions of law or regulation or relevant ethical requirements. In the case of an audit of financial statements of a listed entity, it is unlikely that an engagement partner would be able to act as the engagement quality reviewer until two subsequent audits have been conducted. For engagements other than audits of listed entities, the firm may determine that no cooling-off period is necessary, or the firm's policies or procedures may specify a different cooling-off period.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Canadian stakeholders did not express strong views on this question.

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)?

ED-ISQM 2 paragraph 22 sets out a number of procedures that the EQR is required to perform. Further, paragraph 23 requires the EQR to notify the engagement partner of any concerns related to significant judgments. However, ED-ISA 220 paragraph 33(c) only deals with discussing significant matters arising during the engagement with the EQR. The remaining requirements in paragraph 33 address ensuring an EQR has been appointed, cooperating with the EQR and not dating the auditor's report until the completion of the review. There is no requirement for the engagement partner to respond to issues raised by the EQR. We believe ED-ISA 220 should require the partner to respond to issues raised by the EQR to establish a stronger linkage to the requirement in ED-ISQM 2. We do not believe any changes are necessary to ED-ISQM 2.

- 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?***

We agree with the requirement in paragraph 22 for the EQR to evaluate the engagement team's exercise of professional skepticism.

We noted that the EQR will need to apply professional skepticism in reviewing and assessing areas involving significant judgments made by the engagement team and in reviewing selected engagement documentation. Therefore, we believe that ED-ISQM 2 should further address the exercise of professional skepticism by the EQR. For example, applying professional skepticism during the engagement quality review may involve:

- Appropriately responding to inconsistent responses by the engagement team to questions about significant judgments.
- Applying an unbiased view of responses from the engagement team.
- Being aware of unconscious biases that may affect the exercise of professional judgment.

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

Yes. We agree with the documentation requirements.

- 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?***

We believe that ED-ISQM 2 can be scaled to engagements of different sizes and complexity. It is clear that the EQR is not meant to be a detailed review of the engagement, but rather is a review of significant judgments. We believe that for less complex engagements, there will likely be fewer significant matters or significant judgments made by the engagement team that the EQR would need to review compared to a large or complex engagement.

C. Other Comments on Specific Paragraphs

Paragraph 5 repeats paragraph 7 of ED-ISQM 1, although the wording is slightly different. We believe that having two paragraphs that are similar, but not identical, could cause confusion amongst readers. We suggest revising paragraph 5 as follows:

5. The public interest is served by the consistent performance of quality engagements. Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and, when applicable to the ~~nature and circumstances~~ type of the engagement, exercising professional skepticism.

Through the exposure period, the AASB held various consultation sessions as follows:

Location of consultation session	Date(s)	In Attendance
Video roundtable consultations – open to all stakeholders	May 14, 16, 22 and 23	<ul style="list-style-type: none"> • 19 practitioners from SMPs/Sole Practitioners • Some perform audits, reviews and compilations, while others are compilation-only
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We received five written responses as follows:

- Two SMPs
- One provincial institute
- One large firm
- One public sector

June 28, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
U.S.A.

Dear Mr. Botha,

Re. IAASB Exposure Draft for Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB’s Exposure Draft for Proposed International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements* (ED-220).

In developing our response, we considered comments provided by our stakeholders. AASB staff held various consultation sessions with Canadian stakeholders and considered response letters received on the AASB’s Exposure Draft (ED) on this topic. The [Appendix](#) provides a summary of the consultation sessions and the written responses to the AASB’s ED. In our response, “Canadian stakeholders” refers to those who provided us with input. Also, “we” refers to the AASB.

Our comments are set out under the following main headings:

- A. Overall Comments;
- B. Request for Comments; and
- C. Other Comments on Specific Paragraphs.

Editorial comments on ED-220 have been provided directly to the IAASB staff.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@asbcanada.ca.

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

A. Overall Comments

Overall, we and Canadian stakeholders agree that the proposed changes are an improvement over the extant ISA. The changes bring clarity to issues, such as understanding that the engagement partner can assign tasks to other engagement team members and emphasizing that the engagement partner is responsible for the overall quality of the engagement.

B. Request for Comments

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?*

In part.

We support the revisions emphasizing that the engagement partner is to be sufficiently and appropriately involved throughout the engagement to provide leadership to achieve a high-quality audit. We are supportive of the engagement partner having to take overall responsibility for the engagement.

Canadian stakeholders support the requirement in paragraph 13 allowing the engagement partner to assign procedures, tasks or other actions to members of the engagement team.

We believe ED-220 appropriately reflects the role of other senior members of the engagement team. Paragraph 12 of ED-220 explicitly references supervisory roles, which we believe is adequate in reflecting the role of other senior members of the engagement team, which could include a partner, manager or senior staff member. Canadian stakeholders raised concerns that having a separate standard for an engagement quality reviewer (EQR) may have the unintended consequence of appearing to elevate the role of the EQR above that of the engagement partner because the engagement partner's role and responsibilities are not reflected in a separate standard. We recommend that non-authoritative guidance address this possible misperception.

We believe that the use of the terms “effective”, “emphasizing” and “encouraging” in paragraph 12 are difficult to document and demonstrate. We believe this requirement can only be met by taking a checklist approach. We recommend including application material to assist practitioners in meeting this requirement.

We are supportive of the overall concept of the stand back requirement in paragraph 37 but have proposed a change in wording in Section C of this letter. We believe this suggested wording clarifies the requirement.

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?

No.

ED-ISQM 2 paragraph 22 sets out a number of procedures that the EQR is required to perform. Further, paragraph 23 requires the EQR to notify the engagement partner of any concerns related to significant judgments. However, ED-ISA 220 paragraph 33(c) only deals with discussing significant matters arising during the engagement with the EQR. The remaining requirements in paragraph 33 address ensuring an EQR has been appointed, cooperating with the EQR and not dating the auditor's report until the completion of the review. There is no requirement for the engagement partner to respond to issues raised by the EQR. We believe ED-ISA 220 should require the partner to respond to issues raised by the EQR to establish a stronger linkage to the requirement in ED-ISQM 2. We do not believe any changes are necessary to ED-ISQM 2.

Canadian stakeholders are supportive of paragraphs A7 and A8 that indicate the engagement partner may rely on firm level responses to quality risks that are not performed at the engagement level. For example, if the engagement team is relying upon employees in a service delivery center to perform certain audit procedures, the engagement team will be relying on firm level procedures to assess the competence and capabilities of these engagement team members.

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)

In part.

We support the inclusion of paragraph 7 to emphasize at the outset, the importance of the application of professional skepticism by the auditor. However, we believe that the paragraph is duplicative and repetitive. We recommend either deleting the third sentence and onward as it is redundant or moving it to paragraph A27-A29. Canadian stakeholders believe the stand back requirement also strengthens professional skepticism.

We do not support the fourth bullet in paragraph A27. ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, requires the auditor to obtain a sufficient understanding of the entity and its environment. We do not believe this bullet is appropriate as it relates to another ISA, unlike the remaining bullets.

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

In part.

Canadian stakeholders agree with the revisions to the standard to reflect the modern-day auditing environment, including recognizing that engagement team members can be in different geographic areas and the use of technological tools for audit evidence. However, as technology continues to evolve, ED-220 may become outdated.

To recognize the modern-day auditing environment, the definition of engagement team has been revised in ED-220. We do not support the changes that were made to broaden the definition to include any individual who performs an audit procedure on the engagement. We understand that the IAASB has broadened the definition to encompass evolving team structures, for example, individuals who perform audit procedures from a service delivery center. However, we believe broadening the definition of engagement team could lead to unintended consequences. Paragraphs 11 and 12 require the engagement partner to take responsibility for creating an environment that emphasizes the firm's culture and expected behavior of the engagement team members. We foresee practical challenges with implementing this requirement if, for example, some engagement team members are located offsite at a service delivery center, potentially in another country. Paragraph A22 provides guidance that this requirement may be achieved through the engagement partner's conduct and action (e.g., leading by example). This will not be possible if all engagement team members are not in the same location. We recognize that in a group audit, engagement team members are located in different geographic regions, but they work together as an engagement team. In a service delivery center, an individual typically does not work with other members of the engagement team. Rather, the individual performs procedures and provides the results to the engagement team to be used as audit evidence. We recommend keeping the definition of engagement team consistent with the extant standard.

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. Canadian stakeholders support paragraph A57, which recognizes that the engagement partner may rely on the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output from technological tools.

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

In part.

Canadian stakeholders raised concerns about the difficulty in documenting that the engagement partner has performed the stand back requirement. Questions were raised as to what constitutes sufficient audit documentation for this requirement. Paragraph A102 provides a list of items indicating how the engagement partner can document the engagement partner's involvement in the audit engagement. As the objective of ED-220 is to issue an auditor's report that is appropriate in the circumstances, it seems appropriate that evidence of the overall stand back requirement be the signing of the audit report. We recommend adding application material to address this.

We support the requirement in paragraph 29 that emphasizes that the engagement partner should be reviewing audit documentation at appropriate points in time throughout the engagement.

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.

Canadian stakeholders believe the requirements in the standard are scalable to engagements of differing sizes. We support paragraph A14 that provides guidance for smaller firms on how many of the responses may be most effectively dealt with by the engagement partner at the engagement level. We support application material in paragraph A15 indicating that some of the requirements in the standard may not be applicable if the engagement is carried out entirely by the engagement partner, as it would be in a sole proprietorship.

ED-220 contains the section "Considerations Specific to Smaller Firms" whereas ED-ISQM 1 and ED-ISQM 2 do not. We suggest consistency amongst the three standards as small practitioners will be looking for this "signposting" and will locate it in ED-220, while not in the ISQM standards. We suggest the IAASB consider adopting the same approach as ISA 315 (Revised) to highlight paragraphs that relate to scalability.

C. Other Comments on Specific Paragraphs

We are proposing the following changes to paragraph 37 (the stand back requirement):

Taking Overall Responsibility for Managing and Achieving Quality

37. Paragraph 11 requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement. Prior to dating the auditor's report, the engagement partner shall determine whether the requirement in paragraph 11 has been met ~~that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.~~ In doing so, the engagement partner shall determine that: (Ref: para. A99-A101)
- a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
 - b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures, have been taken into account in complying with the requirements of this ISA.

Through the exposure period, the AASB held various consultation sessions as follows:

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