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Professor Arnold Schilder
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
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Our ref

SRA/288

1 July 2019

Dear Professor Schilder

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

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB ('the Board'). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments, which provide our views on key aspects of the proposed standard, are set out below. The Appendix to this letter provides our responses to the specific questions posed in the ED.

We are supportive of the overall direction of the changes proposed in the ED and the objectives of the IAASB regarding this project. We believe that, in general, these proposals, together with those set out in proposed ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*, and in proposed ISQM 2, *Engagement Quality Reviews*, represent considerable enhancements to the equivalent requirements set out in extant ISA 220 and also in ISQC 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. We recognise the significant effort and detailed considerations that the IAASB has made in developing the proposed revised standard.

In particular we welcome the significantly clearer delineation of responsibilities for quality management between those of the firm and those that specifically relate to the Engagement Partner at the engagement level, as well as how these interrelate, taking into account the specific nature and circumstances of the audit engagement, such that the Engagement Partner is responsible for matters that are directly within his/her control.

We also support the increased emphasis on the sufficient and appropriate involvement of the Engagement Partner, throughout the audit, as we consider that this is a fundamental driver of audit quality.

Notwithstanding the above, we note the following concerns regarding certain amendments as well as suggestions for further consideration and clarification.

“Standback” Requirement

In connection with the increased focus on proactive management of audit quality by the Engagement Partner, throughout the engagement, we recognise the IAASB’s intentions in proposing the new requirement at paragraph 37, for the Engagement Partner to “standback” to determine whether he/she *“has taken overall responsibility for managing and achieving quality on the audit engagement”*.

In order to better achieve the IAASB’s aim to drive increased involvement of the Engagement Partner on a timely basis, we suggest to place this requirement upfront in the standard, e.g. as part of the objective of the standard, and to make it more prominent throughout the standard, e.g. to link the requirement for sufficient and appropriate involvement of the Engagement Partner at paragraph 11 more clearly to the other requirements throughout the standard. We believe that the determination as to whether Engagement Partner has been sufficiently involved is also important as the audit progresses/at key milestones, e.g. the engagement circumstances may change and/or new information may come to light during the course of the audit, which may warrant re-evaluation of the planned approach to the nature and extent of review and may indicate that the Engagement Partner needs to be involved to a greater extent than originally planned.

If the standback in paragraph 37 is retained as drafted, i.e. as a requirement to be applied at the final stage of the audit (“prior to dating the auditor’s report”), we suggest that emphasis is placed on whether the audit documentation clearly reflects both the involvement of, and the exercise of professional skepticism by, the Engagement Partner throughout the audit.

Implications for Group Audits/Offshore Service Centres

We are supportive of the efforts to modernise the standard and, as part of this, to explicitly recognise broader engagement team structures, which may reach across borders and involve personnel from other member firms within a network, as well as from outside the firm/network altogether.

In connection with this, we highlight that the definition of “engagement team” together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of

the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed to ISA 220 will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

Responsibilities of Engagement Partner Regarding EQ Reviews

As we note in our comment letter on ED ISQM 2, the description of responsibilities of the Engagement Partner at ED ISA 220.33 includes language that appears relatively “soft” in that it refers to “cooperation” with the Engagement Quality (EQ) Reviewer and requirements to “discuss significant matters arising”.

It is important to clarify the extent to which the EQ Reviewer needs to actively identify significant matters versus the extent to which the Engagement Partner and team would bring these issues to his/her attention. We note that in the revised suite of standards, the balance has potentially shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer’s responsibility would ultimately stop.

Such lack of clarity may result in review procedures performed by the EQ Reviewer in order to identify significant matters becoming significantly more extensive in order to fulfil the revised requirements. As a result, this may create difficulties in practice since, in order to fulfil the requirements, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel process may even be necessary.

We suggest, therefore, that ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer’s attention to areas of significant judgement and to go beyond simply “cooperation” with the EQ Reviewer to take a more “active” role in this process. We do not believe that this would diminish the EQ Reviewer’s responsibility in any way, for example, this would not detract from

the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other areas involving significant judgements, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including industry expertise, would expect the engagement team to have identified. Instead, we believe that drawing the EQ Reviewer's attention to such matters would assist them in properly executing their role.

We also set out proposals in our comment letter on ED ISQM 2 regarding complementary clarifications that we suggest be made to ISQM 2 in relation to the nature of the role of the EQ Reviewer.

Please contact Sheri Anderson if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to Specific Questions Posed by IAASB

1. Do you support the focus on the sufficient and appropriate involvement of the Engagement Partner (see particularly paragraphs 11-13 and 37 of ED-220), as part of taking overall responsibility for managing quality on the engagement? Does the proposed ISA appropriately reflect the role of other senior members of the engagement team, including other partners?

We are supportive of the proposed changes as they place increased emphasis on the leadership responsibilities of the Engagement Partner in managing the audit, including their sufficient and appropriate involvement throughout the audit. We believe these changes are fundamental to drive proactive management of audit quality at the engagement level, effected by the Engagement Partner.

We also welcome the increased specificity regarding requirements concerning involvement throughout the engagement, including review at appropriate points in time of key areas of audit documentation; review of significant judgements, and more explicit recognition of the Engagement Partner's responsibilities in respect of difficult/contentious areas such as consultations and differences of opinion within the engagement team or with others within the firm.

“Standback” Requirement

In connection with the increased focus on proactive management of audit quality by the Engagement Partner, throughout the engagement, we recognise the IAASB's intentions in proposing the new requirement at paragraph 37, for the Engagement Partner to “standback” to determine whether he/she *“has taken overall responsibility for managing and achieving quality on the audit engagement”*, which includes *“determining that the Engagement Partner's involvement has been sufficient and appropriate throughout the engagement such that the Engagement Partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement”*, and that *“the nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies and procedures have been taken into account”*.

In order to better achieve the IAASB's aim to drive increased involvement of the Engagement Partner on a timely basis, we suggest to place this requirement upfront in the standard, e.g. as part of the objective of the standard, and to make it more prominent throughout the standard, e.g. to link the requirement for sufficient and appropriate involvement of the Engagement Partner at paragraph 11 more clearly to the other requirements throughout the standard. We believe that the determination as to whether Engagement Partner has been sufficiently involved is also important as the audit progresses/at key milestones, e.g. the engagement circumstances may change and/or new information may come to light during the course of the audit, which may

warrant re-evaluation of the planned approach to the nature and extent of review and may indicate that the Engagement Partner needs to be involved to a greater extent than originally planned.

If the standback in paragraph 37 is retained as drafted, i.e. as a requirement to be applied at the final stage of the audit (“prior to dating the auditor’s report”), we suggest that emphasis is placed on whether the audit documentation clearly reflects both the involvement of, and the exercise of professional skepticism by, the Engagement Partner throughout the audit.

Roles and Responsibilities of Other Senior Team Members

Whilst we believe ED ISA 220 (Revised) appropriately reflects the roles and responsibilities of other senior team members, including other partners involved, we also support the changes that place greater emphasis on the role and responsibilities of the Engagement Partner, since the Engagement Partner is ultimately responsible for managing and achieving audit quality at the audit engagement level. Other ISAs more specifically address the roles and responsibilities of other team members and therefore include more granular requirements in respect of planning and performing an audit engagement, which clearly distinguish between the responsibilities of the Engagement Partner, and those of the wider engagement team.

Notwithstanding the above, we do believe it is important to also highlight the responsibility of other team members to comply with ISA requirements and the policies and procedures established at the firm level. We are therefore supportive of the inclusion of requirements in the proposed standard that address this, for example, we believe that paragraph 4 is helpful in establishing an appropriate balance by setting out an overarching requirement for the team members to take an active role in complying with requirements, policies and procedures and in doing so, to also take into account the nature and circumstances of the particular audit engagement.

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?

We believe, in general, that ED ISA 220 (Revised) has appropriate linkages with the proposed ISQMs. In particular, we consider that there is significantly clearer delineation between responsibilities of the firm as opposed to those of the Engagement Partner at the engagement level, and how these interrelate, taking into account the specific nature and circumstances of the audit engagement.

We are supportive of the increased clarity as to the policies and procedures that are required to be established by the firm, such that the Engagement Partner is responsible

for matters that are directly within his/her control, and also clarification in requirements that although the Engagement Partner may “rely on” the firm’s system of quality control, he/she must “be satisfied” that certain policies and procedures established at the firm level have been followed, and must also make determinations as to whether the firm’s policies and procedures in respect of quality management are sufficient and appropriate for the particular audit engagement, taking into account its nature and circumstances. For example, this may involve consideration as to whether the firm has made available to the engagement team, on a timely basis, sufficient and appropriate resources to perform the engagement. We believe the application material, which sets out matters that the Engagement Partner may consider in this regard, to be helpful.

We welcome the recognition within the ED, for example, at paragraph A6, that in describing policies and procedures established by a firm, these may also include those established by a network, on the basis that a firm is responsible for taking the necessary action to enable engagement teams to implement or use network resources or services or the work of network resources or services. We consider this to be a very important aspect of the enhancements made to the suite of standards (including EDs ISQM 1 and 2) since many audit engagements increasingly involve cross-border elements.

Responsibilities of Engagement Partner Regarding EQ Reviews

As we note in our comment letter on ED ISQM 2, the proposed requirements in that standard may change the overall balance of responsibility, in terms of identifying significant matters, between the Engagement Partner and EQ Reviewer, i.e. the extent to which the EQ Reviewer needs to actively identify significant matters versus the extent to which the Engagement Partner and team would bring these matters to his/her attention. In connection with this, the description of responsibilities of the Engagement Partner at ISA 220.33 includes language that appears relatively “soft” in that it refers to “cooperation” with the EQ Reviewer and requirements to “discuss significant matters arising”. In considering the requirements in both standards together in relation to this area, the balance of responsibility appears to have shifted towards more responsibility for the EQ Reviewer to take steps to identify such matters, and it is also unclear, in relation to certain aspects, where the EQ Reviewer’s responsibility would ultimately stop.

Such lack of clarity may result in inconsistencies in practice as procedures performed by the EQ Reviewer in order to identify “significant matters” become more extensive in order to fulfil the revised requirements. As a result, some may interpret this to mean that significantly more involvement is needed from the EQ Reviewer throughout the audit, such that a fully parallel process may even be necessary.

We suggest that ISA 220 (Revised) place greater emphasis on the responsibility of the Engagement Partner to draw the EQ Reviewer’s attention to areas of significant

judgement and to go beyond simply “cooperation” with the EQ Reviewer to take a more “active” role in this process. We do not believe that this would diminish the EQ Reviewer’s responsibility in any way, for example, this would not detract from the responsibility of the EQ Reviewer to challenge the Engagement Partner as to whether there may be other areas involving significant judgements, in addition to the ones identified by the Engagement Partner and engagement team, that the EQ Reviewer, based on his/her knowledge and experience, including industry expertise, would expect the engagement team to have identified. Instead, we believe that drawing the EQ Reviewer’s attention to such matters would assist them in properly executing their role.

We also set out proposals in our comment letter on ED ISQM 2 regarding complementary clarifications that we suggest be made to ED ISQM 2 in relation to the nature of the role of the EQ Reviewer.

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)

We support the inclusion of new material on the appropriate exercise of professional skepticism in planning and performing an audit as we believe this is a significant enhancement to the extant standard.

As we noted in our response to the IAASB’s *Invitation to Comment*, we consider that professional skepticism is a fundamental mindset, which requires the exercise of significant professional judgement. As a concept “professional skepticism” is somewhat elusive, which can result in challenges both in application, and in demonstrating that it has been appropriately applied.

We welcome the enhanced material, which helps to clarify the meaning, in context, of “professional skepticism”, and which includes recognition of the interrelationship of professional skepticism and professional judgement and the description as to how professional skepticism supports the quality of professional judgements made.

We also find the related application material particularly helpful, as it provides more detail to support an auditor in exercising professional skepticism, in practice. In particular, this sets out examples of impediments to the exercise of professional skepticism, including common threats and biases, whether conscious or unconscious, and suggestions as to possible actions the Engagement Partner may take to address or otherwise mitigate these.

We support the placement of this material in ISA 220 (Revised), as most of these considerations in relation to exercise of professional skepticism would be made at the engagement level, taking into account the applicable facts and circumstances of the audit engagement, as well as the particular individuals assigned to the engagement,

their competence and capabilities in the context of the particular engagement, and how these interact collectively across the team.

We also believe that the material in ED ISQM 1 provides appropriate context for discussion on professional skepticism in ED ISA 220 (Revised). As we note in our comment letter on ED ISQM 1, we recognise that the aim of ISQM 1 is to help support the appropriate exercise of professional skepticism by creating an environment and culture that supports engagement teams in exercising appropriate professional skepticism. The material in ED ISA 220 (Revised) builds on this at the engagement level and we therefore suggest that the Board consider including clearer cross-referencing from ED ISA 220 (Revised) to ED ISQM 1, e.g. at paragraphs 11 and 12 of ED ISA 220 (Revised).

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

We welcome the enhancements in this area as we believe it is critical to address the evolving nature of audits, as they become increasingly more complex, and as they involve the use of more sophisticated audit techniques. Such techniques have undergone significant development in recent years, for example in the area of Data and Analytics (D&A).

We therefore welcome the recognition, in addressing resources, that these include not only human resources, but technological and intellectual resources. We support, in particular, the application material at paragraphs A56-58, which explains how such resources may be deployed on an audit engagement, including that they may assist with effective and efficient engagement management, as well as with enhancing the auditor's ability to exercise professional skepticism, and in ways that may enhance audit quality.

Engagement Team Structure/ Cross-Border Engagements

We are supportive of the efforts to modernise the standard and, as part of this, to explicitly recognise broader engagement team structures, which may reach across borders and involve personnel from other member firms within a network, as well as from outside the firm/network altogether.

In connection with this, we highlight that the definition of "engagement team" together with the increased emphasis on leadership responsibilities of the Engagement Partner, including increased supervision and review, as well as monitoring the performance of the work of assignees and evaluating their conclusions, will likely have significant implications in respect of group audits.

Extant ISA 600, in explaining how the requirements in ISA 220, and other ISAs, are to be applied in a group audit situation, establishes clear requirements as to how the group Engagement Partner interacts/communicates with the component Engagement Partner and team, and how the group Engagement Partner fulfils his/her responsibilities for direction, supervision and review of the group audit as a whole, including involvement in the work of the component auditor.

The changes proposed in ED ISA 220 (Revised) will likely broaden the leadership responsibilities of the group Engagement Partner beyond those currently contemplated by the extant standards, since any individual performing procedures for group audit purposes may be considered to be part of the wider group engagement team. We suggest the IAASB continue to explore the interaction between these two standards and liaise with those involved in the project to revise/update ISA 600.

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

We support these revised requirements as we believe these are more specific than in the extant standard and we welcome the references to “*taking into account the nature and circumstances of the engagement*”, which we believe is very important. We also support the strengthened links with other ISAs, e.g. ISA 230, *Audit Documentation*, regarding significant matters/ judgements and we also believe the application material is particularly helpful here.

We welcome the explicit requirement at paragraph 29 that the Engagement Partner review of documentation should take place “at appropriate points in time during the audit engagement”. We believe that timely involvement of the Engagement Partner is a critical driver of audit quality and as such we believe it is appropriate to give specific emphasis here.

We note that firms may establish policies and procedures around timing and extent of involvement, and we therefore recommend cross-reference in the requirement itself, as well as in the application material, to the policies and procedures of the firm in this regard.

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

We believe that ED ISA 220 (Revised), together with the overarching documentation requirements in ISA 230, *Audit Documentation*, generally include sufficient and appropriate requirements and guidance regarding audit documentation.

In particular, we believe the application material is helpful in that it explains the purpose of audit documentation; describes that it is neither necessary nor practicable for the

auditor to document every matter considered, or professional judgement made in an audit, and furthermore, that compliance with certain requirements, e.g. those in relation to professional skepticism, is often demonstrated within documents included in the audit file itself, and separate/additional documentation is therefore not required. This is particularly important in respect of this ISA, since it addresses matters such as involvement of the Engagement Partner (which may be evidenced, for example, through meeting minutes, agendas, and sign-offs on workpapers).

In connection with this, it may be helpful to elevate the guidance included in paragraph A103, which addresses documentation of matters that may pose risks to achieving audit quality, the exercise of professional skepticism and the auditor's conclusion thereon, to a requirement, specifically a requirement to *consider* whether such matters have been appropriately documented, e.g. as part of the standback (please refer to our comments in Question 1). ISA 230 does not address these areas explicitly and, furthermore, we believe placement of such a requirement in this ISA, which addresses quality management at the engagement level, would be most appropriate.

We also recommend that paragraph 38 include an additional matter in respect of which documentation should be required, in relation to differences of opinion, in particular because these usually would relate to difficult and/or contentious matters, which are specific to the circumstances of an audit engagement, and which may have a bearing on audit quality.

We refer to our comments above regarding the potential implications of the proposed changes in respect of ISA 600, and we also suggest that the IAASB explore the interaction of the documentation requirements at paragraph 38, which relate to quality management on an audit engagement, with those at ISA 600.50, in terms of the extent to which consideration of such matters across a group engagement team more broadly should be addressed.

Additionally, we suggest the IAASB explore situations in which EQ reviews are performed at the component level, regarding the nature and extent of the responsibilities of the group Engagement Partner in this regard, as well as EQ reviews performed at the group level, which also address component-related matters, regarding the nature and extent of responsibilities of the component Engagement Partner.

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?

We believe ED ISA 220 (Revised) is appropriately scalable to engagements of different sizes and/or complexity, in particular because requirements are responsive to the "nature and circumstances of the engagement" and because they link to and/or build on the firm's policies and procedures, if applicable, which are themselves scalable.