



31 December 2007

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Mr Jim Sylph  
Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
USA

By Email

Dear Mr Sylph

**PROPOSED REDRAFTED ISA 220 QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS AND ISQC 1 QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF FINANCIAL STATEMENTS, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS**

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Proposed Redrafted ISA 220 and ISQC 1 published by IAASB in August 2007.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

It is right that the standards of quality control required of SMPs are the same as for larger firms, without exception. Only practitioners who are able to meet the required standards should conduct audits. Nevertheless, the means by which SMPs achieve the objectives of quality control may be significantly different to the means used by larger firms.

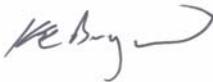
We are concerned at the extent of elevations in proposed redrafted ISA 220 and in ISQC1 which, combined with the absolute nature of ISQC 1 requirements may, for SMPs, render that standard at best onerous and at worst unworkable without additional guidance.

**We strongly believe there is a need for some flexibility in the absolute nature of requirements in proposed ISQC 1, especially for SMPs. This would be consistent with the approach taken with ISAs, more likely to achieve compliance with ISQC 1 and less likely to give rise to avoidance measures.**

**We believe that the clarification reformatting has, subject to the above, resulted in a more readable and user-friendly document than previous versions. Changes to the requirements will help ensure consistency of interpretation and improved audit quality, as explained below.**

Please contact me if you wish to discuss any of the points raised in this response.

Yours sincerely



Katharine E Bagshaw FCA  
Manager, Auditing Standards  
ICAEW Audit and Assurance Faculty  
T+ 44 (0)20 7920 8708  
F + 44 (0)20 7920 8708  
E [kbagshaw@icaew.com](mailto:kbagshaw@icaew.com)

## Objective

*Are the objectives to be achieved by the auditor, and by the firm, stated in the proposed redrafted ISA, appropriate?*

**Yes.** We believe that the objectives set out in each standard are appropriate outcome-oriented objectives.

## Requirements

*Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?*

### Not in the following cases:

#### *SMPs*

As a general point, we are concerned at the number of elevations in both proposed redrafted ISA 220 and ISQC1. These extensive elevations may prove onerous for SMPs and we are concerned that the absolute nature of ISQC 1 requirements may be unworkable in that context without additional guidance. We provide specific examples below.

#### *ISQC 1 paragraph 21*

This paragraph should be reworded as follows:

*The firm's policies and procedures addressing the assignment of management responsibilities shall be designed to prevent commercial considerations overriding the quality of work performed.*

The following addition to paragraph A2 would provide additional guidance to SMPs:

*In a small firm, policies and procedures designed to prevent commercial considerations overriding the quality of work performed may be established and carried out by one individual. For example, a sole practitioner may need to satisfy himself before commencing the audit that costs budgeted for performing the audit are appropriately covered by the amount of any advance agreement of fees. When circumstances arise that were not foreseen at the budget and fee agreement stage, that necessitate additional personnel or other resources to complete the audit, the practitioner may consider it appropriate to renegotiate fees with a client on the basis of changed circumstances.*

#### *ISQC 1 paragraph 20*

This paragraph refers to performance evaluation, compensation and promotion. HR systems are usually informal in SMPs and the requirement could be difficult to apply. The elevation of this to a requirement will be onerous for SMPs.

#### *ISQC 1 paragraphs 55 (c) and 64*

These paragraphs require that those inspecting engagements or supervising the investigation of complaints are not involved in performance of the audit. The paragraphs are elevations from extant guidance. They effectively require all sole practitioners to have external reviews and use external parties for the investigation of complaints. While some SMPs already benefit from external reviews, they are not

currently regarded as mandatory under ISAs. Few if any sole practitioners currently involve external parties in the investigation of complaints. This would be a major shift for some sole practitioners and would result in significant additional cost for little perceived benefit.

*ISA 220 paragraph 6 (c): Engagement quality control reviewer*

The addition of the words *none of whom is part of the engagement team* to the definition of engagement quality control reviewer will be difficult for SMPs and particularly sole practitioners. The new words should be removed.

*ISA 220 paragraph 6 (n): Relevant ethical requirements*

The following words should be added to this definition ... *together with national or other applicable requirements that are more restrictive.*

*ISA 220 paragraph 15 and ISQC 1 paragraph 39*

This paragraph can be read as requiring that each working paper should include evidence of review. Such review is unnecessary where a competent and experienced person such as the team manager performs audit procedures that do not involve significant judgement. The paragraph can also be read as being inconsistent with the application material in redrafted ISA 230 which states in paragraph A19 that:

*The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review.*

The application material in ISA 220 and ISQC 1 should be aligned with redrafted ISA 230 and make it clear that the engagement partner should use professional judgement when determining whether it is necessary to review specific working papers in areas that do not involve experienced preparers making significant judgements.

*ISA 220 paragraph 25*

This paragraph is ambiguous and could be read as changing the substance of paragraph 41 in extant ISA 220. The redrafted paragraph can be read as imposing a new requirement for engagement partners to determine whether any new procedures are required in the firm's system of quality control. Such a requirement would be inappropriate. The responsibility for the firm's system of quality control lies with the firm's chief executive officer or managing board of partners, or the person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners, as set out in paragraphs 19 and 23 of proposed redrafted ISQC 1, and not with engagement partners.

If it is the intention that paragraph 25 (b) should be read as referring to additional audit procedures *relating to the specific audit in question*, it should be worded more clearly as follows:

*(b) Any additional procedures are required in the performance of the audit.*

Furthermore, the redrafted requirement in paragraph 25 does not deal with consideration of any measures taken by the firm to rectify deficiencies. This issue is dealt with in extant paragraph 41. The material is useful and should be retained in the proposed redrafted standard in the application material.

*ISA 220 paragraph 27*

This new paragraph reflects the requirement in paragraph 49 of proposed redrafted ISQC 1. We do not have an issue with the substance of the requirement but its repetition is unnecessary. We also doubt the need for the engagement quality control reviewer, as opposed to, say, the engagement partner, to document the items required in 27 (a) and (b).

### **Application and other explanatory material**

#### *ISQC 1 Introduction*

As noted above, we are concerned at the level of elevations which would be less onerous, particularly for SMPs, if the requirements of ISQC 1 were not absolute. Paragraphs 4 to 9 prohibit any departure from requirements. Proposed revised and redrafted ISA 200 permits auditors to depart from relevant requirement in exceptional circumstances in order to achieve the aim of that requirement. In such circumstances auditors are required to perform alternative audit procedures. The explanatory memorandum issued with the Proposed ISQC 1 explains that there is no such exception for Proposed ISQC 1 because of the *generally principled nature of the requirements [which] are not expected to give rise to circumstances in which departure would be appropriate*. We strongly believe there is a need for some flexibility in the absolute nature of requirements in proposed ISQC 1, especially for SMPs. This would be consistent with the approach taken with ISAs, more likely to achieve compliance with ISQC 1 and less likely to give rise to avoidance measures.

We would particularly welcome further flexibility and/or additional guidance for SMPs, in the application material, including a statement to the effect that it is possible for sole practitioners to perform ISA compliant listed entity audits provided they obtain the additional help (in terms of engagement quality control review, etc.) as necessary from appropriate external parties.

#### *ISQC 1 paragraphs 17 and 18*

Paragraphs 17 and 18 are elevations of present tense statements in extant ISQC 1 and do not have associated guidance in the application material. Some guidance specific to SMPs and sole practitioners would be helpful, for example:

*In smaller practices with relatively simple organizational structures and limited segregation of duties, the requirement to document the system of quality control may be achieved by retaining documentary evidence that professional requirements have been complied with, in the day-to-day organisation of the practice and as part of the engagement performance, such as employee assessments, planning material related to training and CPD courses, independence confirmations obtained from employees and signed papers reviewed by the engagement partner.*

#### *ISQC 1 paragraph A28*

This paragraph should acknowledge that review responsibilities and supervision assume the existence of a team of personnel of different grades and seniority, which may not exist in SMPs.

#### *ISQC 1 paragraph A37*

Paragraph A37 includes no specific application guidance for SMPs. It would be useful to explain that for SMPs only performing audits of small entities it is possible that no engagement quality control reviews would be required.

#### *ISQC 1 paragraph A62*

This paragraph gives a high profile to the example of a three year inspection cycle but the last bullet in the paragraph makes it clear that the inspection cycle depends

on the risks associated with the firm and its engagements. The EU has decided on a maximum inspection cycle of six years for audits of non-public interest entities. The current wording of A62 may give the impression that a three year cycle is best practice. It should either be aligned with the EU requirements or the guidance reworded to give the term of three years less prominence by a different placement of the relevant bullet.

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