



AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO.	2.7
Meeting Date:	26 June 2019
Subject:	Comments received on Exposure Drafts – ISQM 1, ISQM 2 and ISA 220
Date Prepared:	21 June 2019
Document Type:	Exposure Draft
Proposed Title:	ISQM 1 <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i> ISA 220 <i>Quality Management for an Audit of Financial Statements</i>

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LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
ACAG	The Australasian Council of Auditors-General	5 June 2019
UNSW	Auditing and Assurance Research Network, School of Accounting, UNSW Business School	6 June 2019

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EXHIBIT 1: ACAG - Explanatory Memorandum – ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
1a	<p>Does ED – ISQM 1 substantively enhance firms’ management of engagement quality, and at the same time improve the scalability of the standard? In particular:</p> <p>Do you support the new quality management approach? If not, what specific attributes of this approach do you not support and why?</p>	<p>Yes, ACAG supports the new quality management approach, which ACAG considers will enhance the management of engagement quality in combination with proposed ED-ISQM 2 and ED- 220.</p>	<p>Nothing further to note.</p>	<p>Y</p>	<p>1(a)</p>
1b	<p>In your view, will the proposals generate benefits for engagement quality as intended, including supporting the appropriate exercise of professional scepticism at the engagement level? If not, what further actions should the IAASB take to improve the standard?</p>	<p>Yes, ACAG believes that the proposals generally generate benefits for engagement quality through:</p> <p>The emphasis on organisational culture and leadership commitment to quality;</p> <p>The root cause identification of deficiencies identified through monitoring activities and targeted remedial actions to address the root causes of identified deficiencies; and</p> <p>Increased accountability and transparency.</p> <p>If a firm or audit office establishes appropriate responses to meet the quality objective proposed at paragraph 36(b), considering the related application and other explanatory material at A94-97, this will assist in supporting the exercise of appropriate professional scepticism.</p>	<p>AUASB ATG notes that ISQM 1 overs ISRS 4410 Compilation engagements – this is the reason for wording in paragraph 36(b) – nothing further to add.</p>	<p>Y</p>	<p>1(b)</p>

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		ACAG notes paragraph 36(b) states “professional judgement and, when applicable to the type of engagement, professional scepticism”. Is it the IAASB’s intention that there are types of engagements when exercising professional scepticism is not applicable?			
1(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	Conceptually, the quality management framework designed to meet objectives, with responses tailored on a risk-based approach encourages scalability for firms of varying size, complexity and circumstances.	High level conceptual ACAG response is included in feedback – more detail in the AUASB submission.	Y	1 (c)
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?	<p>The definition of responses in paragraph 19(t) includes policies implied through actions and decisions. An implementation challenge will be capturing the responses that are implied through actions or decisions and other responses that are informal in nature and not readily documented. The responses that are expected to create challenges for capturing relate to firm culture and leadership, for example, responses required under paragraph 24(a)(ii). These responses will include communication through staff meetings and in day-to-day actions and behaviours. A further implementation challenge will arise in the annual assessment of the system of quality management regarding capturing, measuring and assessing these responses.</p> <p>Further guidance on how to measure and assess these implied responses demonstrated through actions, decisions and</p>	Nothing further to add.	Y	2

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		behaviours with examples of expected documentation would be useful.			
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?	<p>See responses to question 2, 6(c) and 11 regarding examples where additional guidance would be helpful.</p> <p>ED-ISQM 1 is notably longer than the extant ISQC 1. There is an opportunity to incorporate the content from Appendix 1 into the application material to avoid duplication.</p>	Nothing further to add	Y	3
4	Do you support the eight components and the structure of ED – ISQM 1?	AGAC supports the eight components and structure of ED-ISQM 1.	Broad agreement with eight components included in submission – more included in the AUASB submission.	Y	4
5	<p>Do you support the objective of the standard, which includes the objective of the system of quality management?</p> <p>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?</p>	<p>Yes, ACAG supports the objective of the standard, including the objective of the system of quality management. However, the objective does not explicitly link to the public interest role.</p> <p>Notwithstanding, ACAG believes the public interest role should be fulfilled through achievement of the objective of the standard and conducting quality audits in compliance with professional standards, in particular ethical standards; and issuing audit reports that are appropriate in the circumstances.</p> <p>ACAG notes that the public interest role will vary between private sector audit firms and public audit offices, as well as across engagement types. For Offices of Auditors-General, the public interest role and purpose is to support accountability and</p>	Broad agreement with principles – more included in the AUASB submission.	Y	5

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		transparency in the Government sector through independent reporting to Parliament.			
6(a)	<p>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:</p> <p>Do you agree that the firm’s risk assessment process should be applied to the other components of the system of quality management?</p>	Yes, ACAG supports the application of the risk assessment process across the components of the system of quality management. A risk-based approach to quality management should result in tailored responses that address the risks and circumstances of each firm.	No further comment	Y	6(a)
6(b)(i)	<p>Do you support the approach for establishing quality objectives? In particular:</p> <p>Are the required quality objectives appropriate</p>	ACAG supports the concept of establishing quality objectives.	Not consistent with views of other stakeholders. General view of stakeholders and AUASB is that the required objectives as currently drafted are too granular.	N	-
6(b)(ii)	Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?	Yes, paragraph 26 sets out the requirement to establish additional quality objectives beyond those required by the standard when necessary to achieve the objective of the standard.	Conceptually in agreement. AUASB response goes into more detail and consideration.	Y	6(b)(ii)

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
6(c)	Do you support the process for the identification and assessment of quality risks?	Yes, however increased guidance regarding the assessment of quality risks would be helpful. In particular, how to assess the significance of the effect on the achievement of a quality objective, i.e. the factors that would indicate that the ‘identified deficiencies are of a severity and pervasiveness that indicate that the system may not be providing reasonable assurance...’ (paragraph 56).	Not consistent with views of other stakeholders. General view of stakeholders and AUASB is that the RAP in its current form is not workable.	N	6(c)
6(d)(i)	Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular: 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	The approach should result in firms designing and implementing responses tailored to address assessed quality risks.	Conceptual agreement. AUASB submission goes into more detail.	Y	6(d)(i)
6(d)(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, paragraph 30 sets out the requirement to design and implement responses in addition to those required by the standard.	Conceptual agreement. AUASB submission goes into more detail.	Y	6(d)(ii)

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
7	Do the revisions to the standard appropriately address firm governance and the responsibilities of firm leadership? If not, what further enhancements are needed?	Yes, there is an appropriate level of focus on leadership and governance.	Conceptual agreement. AUASB submission goes into more detail.	Y	7
8(a)	With respect to matters regarding relevant ethical requirements: 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	ACAG supports the assignment of operational responsibilities within proposed paragraph 24(a)(iii). ACAG would support the assignment of responsibility for relevant ethical requirements, noting that relevant ethical requirements in the public sector include ethical requirements outside of those defined in auditing standards and the Code of Ethics for Professional Accountants (the Code), such as codes of conduct and gift policies.	Conceptual agreement.	Y	8(a)
8(b)	Does the standard appropriately address the responsibilities of the firm regarding the independence of other firms or persons within the network.	Network requirements are not relevant to ACAG, no comment.	N/A	N/A	N/A
9	Has ED – ISQM 1 been appropriately modernised to address the use of technology by firms in the system of quality management?	In a general sense, ED-ISQM 1 has been modernised through referencing the use of technology in the system of quality management. Within the risk assessment process and development of tailored responses, the audit firm will be able	Conceptual agreement. AUASB submission goes into more detail.	Y	9

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		to incorporate specific responses related to technology as necessary depending on assessed risks.			
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?	Yes. From a public sector perspective, ACAG offices will need to consider which external parties it is appropriate to communicate with and in what format. Public sector audit offices are not currently required to produce transparency reports as is the case for large firms in the private sector.	No further comments	Y	10
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?	<p>Yes, ACAG supports the proposal addressing the scope of engagements that should be subject to an engagement quality review, subject to the standard providing clarity around the term significant public interest entity.</p> <p>The introduction of the concept of a significant public interest entity without guidance on how this term relates to the established definition of public interest entities (PIEs) may result in inconsistent identification of financial statement audits that should be subject to an engagement quality review. It is not clear from the application material if an entity of significant public interest could include an entity not captured by the PIE definition within the IESBA Code or if it is “significant PIEs” i.e. only entities that meet the definition of a PIE that attract a significant level of public interest.</p>	General support for inclusion of SPIE not consistent with views of other stakeholders and AUASB. Issue with lack of clarity is consistent.	Y	11

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Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
12(a)	<p>In your view, will the proposals for monitoring and remediation improve the robustness of firms’ monitoring and remediation? In particular:</p> <p>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?</p>	<p>Yes, ACAG believes that the proposals will improve the robustness of firms’ monitoring and remediation, particularly through the introduction of the investigation of root causes of deficiencies. The identification of root causes should improve the design and evaluation of the remedial actions as well as the evaluation of the system of quality management as a whole. The application guidance provides useful examples of innovative monitoring techniques.</p>	Nothing further to add	Y	12(a)
12(b)	<p>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?</p>	Yes.	Nothing further to add	Y	12(b)
12(c)	<p>Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?</p>	Yes.	Not consistent with views of other stakeholders and AUASB.	N	-

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
12(d)(i)	<p>Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:</p> <p>Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?</p>	Yes.	Nothing further to add	Y	12(d)(i)
12(d)(ii)	Is the manner in which ED – ISQM 1 addresses positive findings, including addressing the root cause of positive findings, appropriate?	ACAG agrees with the IAASB view outlined in the Explanatory Memorandum that performing a root cause analysis of positive findings should not be a requirement. The application material is useful in providing guidance on when performing a root cause analysis on positive findings may provide benefits to a firm or assist in determining the root cause of deficiencies through use of comparison. The use of root cause analysis on positive findings should be a matter of professional judgement.	Nothing further to add	Y	12(d)(ii)
12(d)(iii)	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	No challenges identified.			

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	objectives of the system have been achieved?				
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?	Network requirements are not relevant to ACAG, no comment.	N/A	N/A	-
14	Do you support the proposals addressing service providers?	Yes. In the public sector, the use of service providers is common including engaging audit firms to perform engagements on behalf of the audit office, purchase of audit methodology and IT infrastructure providers. The required responses under paragraph 64(a) – (c) will generally be addressed through procurement processes and evaluation of tender responses.	Not consistent with views of other stakeholders and AUASB. Need definition	N	-
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?	ACAG is not a national standard setter or regulator, no comment.	N/A	N/A	-
AUASB Australian Specific Questions					
16	Do you consider the definition of engagement teams has been consistently applied across the	ACAG believes the definition of engagement team has been consistently applied across ED-220 and ED-ISQM 1, however the term is not defined in ED-ISQM 2.	Refer to Agenda Item 2.4	Refer to Agenda Item 2.4	Refer to Agenda Item 2.4

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	suite of Quality Management Standards?	ACAG acknowledges the explanatory guidance in ED-220 (paragraphs A16 to A19) defines the engagement team to include individuals from service delivery firms or network firms and excludes the engagement quality reviewer. However, this is not made clear in ED-ISQM 1. ACAG recommends that ED-ISQM 1 include the same explanatory paragraphs or reference to specific paragraphs in ED- 220 when discussing the engagement team to ensure consistent application.			
17(a)	<p>In relation to engagement quality reviews:</p> <p>Do you agree with the definition of Engagement Quality Reviews/Reviewer and do you consider the term to be clear and capable of application in a consistent way across engagements?</p>	Yes.	Nothing further to add	-	-
17(b)	Do you agree that engagement quality reviews should also be performed for audits of financial statements of entities that the firm determines are significant public interest entities?	Yes, subject to more clarity being provided in the standard on the intended scope of significant public sector entities.	See Q11 above	-	-
17(c)	Is the term “significant public interest entity” clear and capable of application in a consistent	<p>Refer to comments made in response to question 11 (item 17).</p> <p>Matters for further consideration in relation to ED – ISQM 1</p>	See Q 11 above	-	-

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	way across engagements in Australia?				
18	Do you consider the requirements of ED – ISQM 1 are drafted appropriately to result in a principles-based standard? If no, what elements within the requirements are not principles- based?	ACAG notes that the quality objectives and responses required under the proposed standard are more prescriptive in nature than the existing suite of quality management standards (extant ISQC 1 and ISA 220) and questions whether this was the intent of the IAASB. The requirement to set prescribed objectives and responses as well as additional objectives and responses could be construed by regulators, and others using the standard to assess compliance, as a checklist that needs to be met. The extent of quality objectives, risk assessments and responses will result in increased documentation as to why prescribed objectives and responses are not applicable.	Nothing further to add	Y	Question 1(a) and Question 4
19	Do you consider that components of the System of Quality Management (SOQM) should be weighted / proportionate within the standard, that is, to have greater or lesser focus to assist in meeting the overall objective of audit quality? How would you demonstrate proportionality of the components of SOQM?	No, each component contributes to the overall objective of audit quality and the proportionality will depend on the nature and circumstances of the entity. As part of the development of objectives and responses, each firm should focus on components that have a higher assessed quality risk. To implement the risk-based approach the weighting and proportionality will be responsive to the assessed risks. If weighting or proportionality of the components was prescribed within the standard, it may impact the firm’s ability to tailor the SOQM to meet the overall objective of audit quality.	Note: stakeholders support the standard not having a weighting and proportionality to each requirement as this would be counter-intuitive to a risk based approach to ISQM 1. Not an IAASB question so not considered as part of response to IAASB.	N	-
20	Are the introductory paragraphs and appendix necessary and do you find them helpful; or do you find the introductory paragraphs and appendix to be duplicative	As noted in response to question 3, there is an opportunity to incorporate content from the appendix into application material to avoid duplication.	Nothing further to add	Y	3

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	and the content addressed elsewhere within the requirements and application material?				
21	Are the requirements and application material contained within paragraphs 10(c), 29 and A57 sufficiently clear? Is it clear what items may fall into this category and how you will demonstrate compliance?	<p>As noted in the response to question 6(c), additional guidance regarding the risk assessment process would be helpful.</p> <p>In relation to paragraph 10(c), it is not clear if a firm can tailor the nature and extent of a response required under the standard to address the firm’s assessed quality risks, particularly if the risk is assessed as low.</p> <p>There is a lack of clarity around what is a significant effect on the achievement of an objective. The risk assessment process will be a complex process given the number of prescribed quality objectives required by the standards.</p>	Nothing further to add	Y	Question 2; Question 6(b)(ii) Question 15
22	Do you support the documentation requirements in paragraph 67, particularly those related to the monitoring and remediation process? Do you consider that the documentation requirements in relation to the monitoring and remediation process are proportionate relative to the remainder of the documentation requirements for other elements of the system of quality management? If yes, provide your reasons; if no,	Yes. The documentation related to the monitoring and remediation process are considered to be reasonable and in line with ACAG practice. While the documentation requirements do not prescribe required documentation for other specific components of the system of quality management, evidence of the responses will be required to be captured as part of the annual assessment.	Note: stakeholders at the roundtable support ACAGs view. Not an IAASB question so based on response from stakeholders, not considered as part of response to IAASB.	N	-

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	provide your reasons and suggestions.				
23	Do you consider that the term service provider is clearly articulated in paragraph 64 and is capable of application in a consistent way across engagements? Do you agree with the examples of resources provided by a service provider as contained in paragraph A205 of the proposed standard?	It would be useful to include a definition for the term service provider, as the term is not clearly articulated in paragraph 64. The examples of resources provided by a service provider in A205 are helpful for application. In the ACAG context, service providers will also include audits firms contracted to perform engagements on behalf of audit offices. <i>Considerations related to Australian Principles and Practices and Laws and Regulation</i>	Nothing further to add	Y	14
24	Are there any modifications to the extant ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Historical Financial Information, Other Assurance Engagements and Related Services Engagements which are still relevant to ED – ISQM 1?	Yes, the Aus paragraphs within the extant ASQC 1 will remain relevant to ED-ISQM 1. Of particular interest to ACAG are the paragraphs that refer to “public sector equivalents”, Aus A1.1, and Aus A68.1 that specifically relate to assurance engagements conducted in the public sector by Auditors General pursuant to legislation.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	
25	Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?	No, as the AUASB has not considered Australian modifications to reflect Australian laws and regulations.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	

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26	Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?	As noted in extant ASQC 1 paragraph Aus A1.1 and acknowledged in A89 of ED-ISQM 1, Auditors- General conduct audits and engagements pursuant to legislation that may impact the application of requirements related to acceptance and continuance of client relationships and specific engagements.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	
27	Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?	Overall, ACAG does not believe there are principles or practices that may or do prevent or impede the application of, or conflict with the proposed standard.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	
28(i)	<p>What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:</p> <p>Where those costs are likely to occur;</p>	<p>Additional costs are expected in relation to new requirements such as the introduction of the root cause analysis. For firms who do not have existing methodology or processes in place to undertake root cause analysis, this will be time intensive as well as conducting the analysis itself.</p> <p>There will be significant initial costs in developing the quality management framework in line with the proposed standard, including identification of quality objectives, identification and assessment of quality risks and development of responses in addition to those required under the standard.</p>	Consistent with other feedback	Y	1

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28(ii)	The estimated extent of costs, in percentage terms (relative to audit fees)	The extent of costs cannot be estimated across ACAG. It should not be significant in relation to audit fees.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	
28(iii)	Whether expected costs outweigh the benefits to the users of audit services?	The proposed quality management framework is expected to provide benefits to audit quality. A strong and robust quality management framework is a fundamental cornerstone of Offices of Auditors-General within ACAG and is critical to uphold the confidence of our primary users, Parliament. The benefits are expected to outweigh the costs.	Consistent with other feedback	Y	1 and 5
29	Are there any other significant public interest matters that stakeholders wish to raise?	ACAG is not aware of any other significant public interest matters.	Not part of AUASB submission to IAASB. Will be considered in due course.	N/A	

EXHIBIT 2: ACAG - Exposure Draft - Proposed International Standard on Auditing 220 (Revised)

Qn #.	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
1	<p>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?</p>	<p>Yes, ACAG supports the focus on the sufficient and appropriate involvement of the engagement partner. Although extant ISA 220 infers the engagement partner as being responsible for the overall quality of the audit, it was not explicitly stated.</p> <p>ACAG notes that paragraph 29 requires the engagement partner to ‘review audit documentation at appropriate points in time...’ Whilst the guidance paragraphs A77 – A80 provides examples of what matters the engagement partner should review, it does not elaborate on ‘appropriate points in time’. ACAG suggests the IAASB incorporate wording from ISQM 2 paragraph A26 that calls out ‘planning, risk assessment, performance, completion, reporting’ as ‘appropriate points in time’.</p> <p>Although this refers to the engagement quality reviewer’s involvement, ACAG believes this is also relevant for the engagement partner’s role.</p> <p>In relation to the question on other senior members of the engagement team, ED-220 does not specifically make reference to this but refers to ‘other members’. Notwithstanding this, ACAG believes that this is sufficient given that the focus is on the engagement partner having ultimate responsibility for the audit</p>	<p>Not consistent with the comments raised by the AUASB.</p>	<p>N</p>	<p>N/A</p>
2	<p>Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and</p>	<p>ACAG believes the linkages between ED-220 and ISQMs can be made more explicit to enhance clarity and understandability, with linkages to specific paragraph references.</p>	<p>Points raised regarding paragraph 4(b) are consistent with matters raised by the AUASB in another question.</p>	<p>Y</p>	<p>5</p>

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	<p>procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?</p>	<p>ACAG supports the requirements to follow the firm’s policies and procedures and the requirement in paragraph 4(b) that the engagement team and engagement partner must consider the firm’s policies and procedures in the context of the nature and circumstances of the audit engagement. ACAG believes the onus should continue to be placed on the firm to ensure that it has an appropriate system of quality management in place as required in ISQM 1, to allow the engagement partner to fulfil their responsibilities in accordance with professional standards.</p>			
3	<p>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)</p>	<p>Yes, ACAG supports the material in ED-220 on professional scepticism.</p>	<p>Nothing further to add</p>	<p>Y</p>	<p>3</p>
4	<p>Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?</p>	<p>ACAG does not believe ED-220 provides sufficient guidance to deal with the modern auditing environment, given the current and increasing use of different audit delivery models and techniques.</p> <p>ACAG acknowledges the guidance in paragraphs A56 – A58 on the use of technological resources on engagements. This is high level and does not help the engagement partner ensure the quality of audit evidence generated through existing or upcoming technological resources.</p> <p>ACAG recommends the IAASB provide additional practical guidance for engagement partners in the form of what they should consider / be mindful of, when:</p>	<p>Key points in response align with discussion at AUASB Meeting 12-13 June 2019.</p> <p>Have carried forward comments about the standard not appropriately being response to future technology or changes to the auditing environment.</p>	<p>Y</p>	<p>4</p>

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Qn #.	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		<ul style="list-style-type: none"> • assessing the work/conclusion of specialists that use technological resources on the engagement (in cases where the engagement partner does not have the skills to do so) • evaluating or analysing the output of technological resources. 			
5	Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)	<p>Yes, ACAG supports these revised requirements.</p> <p>As stated in our response to question 1, ACAG reiterates our recommendation to elaborate on ‘appropriate points in time during the audit engagement’ per paragraph 29 by adopting similar wording used for engagement quality reviewers in ISQM 2 paragraph A26.</p> <p>ACAG believes this would help with the application of the ‘stand back provision’ in paragraph 37 ie for this to be performed at each critical point in the audit, rather than at the end of the audit when procedures have been finalised as highlighted by paragraph A101.</p> <p>ACAG questions the intent of the second bullet point of paragraph A101 for the engagement partner to ‘consult with firm personnel assigned operational responsibility for the relevant aspect of the firm’s system of quality management’. ACAG recommends the IAASB clarify what the expected outcome should be once consultation has occurred.</p>	Not consistent with the comments raised by the AUASB.	N	N/A
6	Does ED-220, together with the overarching documentation requirements in ISA 230, include sufficient requirements and guidance on documentation?	ACAG believes that the documentation requirements are sufficient.	Nothing further to add	Y	6

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Qn #.	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
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, ACAG believes ED-220 is appropriately scalable to engagements of different sizes and complexity.	Nothing further to add	Y	7
AUASB Australian Specific Questions					
8	Do you consider the definition of engagement team has been consistently applied across the suite of Quality Management Standards?	<p>ACAG believes the definition of engagement team has been consistently applied across ED-220 and ED-ISQM1, however the term is not defined in ED-ISQM 2.</p> <p>ACAG acknowledges the explanatory guidance in ED-220 (paragraphs A16 to A19) defines the engagement team to include individuals from service delivery firms or network firms and excludes the engagement quality reviewer. However, this is not made clear in ED-ISQM 1. ACAG recommends that ED-ISQM 1 include the same explanatory paragraphs or reference to specific paragraphs in ED-220 when discussing the engagement team to ensure consistent application.</p>	Points regarding the difference in the definition of engagement team have been raised.	Y	2
9	Do you support the AUASB’s view that situations where somebody other than the engagement partner signs the audit report, or there are multiple partners on an engagement, should be addressed as part of the revisions to ISA 220?	<p>ACAG does not support the need for additional guidance in ED-220 to address instances where there are multiple partners on an engagement.</p> <p>ACAG is of the view that requirements for the engagement partner to have overall responsibility for the audit engagement and its performance are sufficiently clear.</p>	Not consistent with the comments raised by the AUASB.	N	N/A

Qn #.	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
10	Do you consider that the expanded Engagement Team definition makes it difficult to meet the requirements of the standards, in particular when Service Delivery Centres are used?	<p>ACAG believes the expanded engagement team definition is appropriate, however acknowledges it would be beneficial to include additional guidance on the level and extent of oversight required by the engagement partner.</p> <p>Notwithstanding this, ACAG recommends the guidance be principles-based, incorporating the level and extent of quality management systems in place at the Service Delivery Centre, when determining the level and extent of oversight by the engagement partner.</p>	Issues with what an EP is expected to do for an SDC are consistent with AUASB comments, however ACAG are satisfied with guidance whilst AUASB would like more done.	Y	5
11	Do you consider that the proposed changes to ISA 220 will result in improved audit quality in Australia? If no, please describe the provisions of the proposed standard which impede the improvement of audit quality.	ACAG is supportive of the changes to ISA 220 and believes it will result in improved quality in Australia. Concerns over inconsistency and ambiguity have been raised in the response to the IAASB’s questions, which, if not addressed, may reduce the efficacy of the quality improvements.	Not consistent with the comments raised by the AUASB.	N	N/A
12	Does the drafting of the standard to emphasise the engagement partner’s responsibility for managing and achieving quality at the engagement level make it difficult to practically achieve?	ACAG is supportive of the emphasis on the engagement partner’s responsibility for managing and achieving quality at the engagement level. ACAG believes these requirements already represent better practice in the profession. The explicit articulation of this responsibility reinforces what is happening in practice but also helps in consistent application, especially where the firm utilise service delivery centres and for network firms.	Not consistent with the comments raised by the AUASB.	N	N/A
13	Do you support the IAASB’s decision to remove from the introduction in the extant	ACAG is supportive of the change and considers paragraph 4 sufficient in emphasising the firm and engagement partner’s responsibility in relation to quality management.	Not consistent with the comments raised by the AUASB.	N	N/A

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	standard the paragraph that engagement teams are entitled to rely on the firm’s system of quality control?				
14	Do you consider that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate given the objectives and nature of the two distinct roles?	ACAG considers that the responsibilities of an engagement partner in ED-220 and an engagement quality reviewer in ED-ISQM 2 are appropriate and proportionate. ACAG does raise the need for more guidance, especially in ED-ISQM 2, to address conflicts and resolution of differences of opinion between the engagement partner and engagement quality reviewer.	Not consistent with the comments raised by the AUASB.	N	N/A
15	Are there any modifications to the extant ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information, which are still relevant to the ED-220?	<p>ACAG recommends the AASB review the Aus insertions to address Australian specific requirements for continuing relevancy to ED-220. For example, Aus 7.2 and Aus 7.3 in extant ASA 220 are very relevant to the public sector because the existing Australian modification is to bring the “public service equivalent” concept up from the footnotes in the ISQM 1 into the definitions for engagement partners and engagement firms.</p> <p>If AUASB intends to continue to use <i>ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements</i>, for which an international equivalent does not exist (i.e. it is an Australian only standard), as a vehicle to simplify references between AUASB standards and <i>APES110 Code of Ethics for Professional Accountants</i>, then these modifications would need to be brought into the new ASA 220.</p>	Not part of AUASB submission to IAASB. Will be considered in due course.		

Qn #.	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
16	Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?	ACAG has not identified any matters for comment.	N/A	N/A	N/A
17	Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?	ACAG has not identified any matters for comment.	N/A	N/A	N/A
18	Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?	ACAG has not identified any matters for comment.	N/A	N/A	N/A
19	What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the requirements of this proposed standard? If significant costs are	ACAG does not believe there are additional significant costs in complying with the requirements. As stated earlier, ACAG believes that engagement partners demonstrating best practice in the profession are already complying with many of the requirements in accordance with their firm’s system of quality management.	Not part of AUASB submission to IAASB. Will be considered in due course.		

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	expected, the AUASB would like to understand: a. Where those costs are likely to occur; b. The estimated extent of costs, in percentage terms (relative to audit fees); and c. Whether expected costs outweigh the benefits to the users of audit services?				
20	Are there any other significant public interest matters that stakeholders wish to raise?	ACAG has not identified any further matters for raising.	N/A	N/A	N/A

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EXHIBIT 3: UNSW - Exposure Draft - Proposed International Standard on Auditing 220 (Revised)

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
1	<p>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?</p>	<p>While not commenting on the appropriateness of the assignment of responsibility for managing quality at the engagement level, or whether the proposed standard appropriately reflects the role of other senior members of the engagement team, we express support for the leadership responsibilities expressed in paragraphs 11, 12 and 13, but note below a number of opportunities for improvement (we note that paragraph 12c is missing from the proposed standard).</p> <p>We support the requirement to encourage an open and robust communication within the engagement team (paragraph 12d), but note that research highlights that auditors are often reluctant to ‘speak up’, and actions of the engagement partner can influence the likelihood of engagement team members doing so. To illustrate, Nelson and Proell (2018) show that while speaking up is rewarded in ex-post performance evaluations, it is sometimes met with irritation at the time the issue is raised. Speaking up, however, is more likely when the engagement partner is team oriented (i.e., emphasizes a group identity and team accomplishment) (Nelson, Proell and Randel 2016), emphasizes intrinsic versus extrinsic goals (Kadous, Proell, Rich and Zhou 2019) and when engagement team members anticipate receiving feedback on the resolution of the issue raised (Griffith, Kadous and Proell 2019). We therefore recommend that the explanatory material in paragraphs A25 and A26 be expanded to recognize the importance of the engagement partner’s actions in actively motivating members of the engagement team to speak up (notwithstanding the possibility that such actions may also be recognized at the firm level at a later date).</p>	<p>ATG considers that the points regarding professional scepticism have been raised under question 3.</p>	N	N/A

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		<p>We also support the requirement for engagement partners to emphasize the importance of exercising professional skepticism (paragraph 12e) in that our own research (Harding and Trotman 2017) and that of others (e.g., Carpenter and Reimers 2013) highlight that this may be effective in elevating professional skepticism among engagement team members. We note, however, that this emphasis most likely needs to be more nuanced, focussing on the encouragement of the appropriate mindset and attitude underlying the effective exercise of professional skepticism (see Nolder and Kadous 2018). In this regard, we suggest that paragraph 12e be revised to highlight the importance of emphasizing the adoption of the appropriate mindset and attitude underlying the effective exercise of professional skepticism (rather than an omnibus encouragement to be skeptical), with additional elaboration in the application and other explanatory material.</p>			
3	<p>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)</p>	<p>We believe that paragraph 7, as presently drafted, is unclear as to the required target of the engagement partner and other members of the engagement team’s professional skepticism. Current references in paragraph 7 to the exercise of professional skepticism in meeting <i>objectives</i> and <i>requirements</i> of the proposed standard suggest that professional skepticism is viewed by the IAASB, not only as a critically important outcome of an effective system of quality management, but also as a lens through which the firm’s system of quality management is implemented and operated at the engagement level.</p> <p>Professional skepticism is defined as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a</p>	<p>Key points in response align with discussion at AUASB Meeting 12-13 June 2019.</p> <p>ATG has included in the submission the unclear intention of para 7 and that the standard should focus on the EP’s role to establish an environment to allow ET to exercise professional scepticism and set the tone from the top.</p>	Y	3

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		<p>critical assessment of audit evidence”. As an outcome of an effective system of quality management, the targeting of professional skepticism at the likelihood of material misstatement due to error and/or fraud clearly contributes to achieving the goal of an audit and, therefore, helps the auditor meet the objectives of the proposed standard as noted in paragraph 9. The proposed standard includes a number of provisions (A27-A29) that when effectively incorporated into a system of quality management will help members of the engagement team exercise an appropriate level of professional skepticism targeted at the likelihood of material misstatement. We provide some comment on these provisions below.</p> <p>What we feel is unclear, however, is the extent to which the proposed standard requires the engagement partner and other members of the engagement team to exercise professional skepticism in meeting the <i>requirements</i> of the proposed standard. That is, to exercise professional skepticism in implementing and adopting a system of quality management at the engagement level. For example, is it the intention of the IAASB that the engagement partner exercises professional skepticism when determining that other members of the engagement team have been made aware of relevant ethical requirements (paragraph 15), when satisfying themselves that the firms policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed (paragraph 20), when taking responsibility for appropriately using the resources assigned or made available to the engagement team (paragraph 26)? In this regard, we note that the explanatory memorandum accompanying proposed standard on quality management ISQM 1 noted that “the IAASB considered whether the concept of professional skepticism is relevant to professional judgments made about</p>			

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		<p>the system, and agreed that professional skepticism is a concept that is relevant to judgments made in performing engagements” (ISQM Explanatory Memorandum paragraph 24).</p> <p>If it is the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard (i.e., to exercise professional skepticism when implementing and operating a system of quality management at the engagement level), then we feel that this must be made clearer in paragraph 7. Moreover, we would recommend, given that the target of professional skepticism in such a situation is often focussed on the firm and auditor processes, rather than management representations, that additional explanatory material be provided beyond that which is currently in the proposed standard. In this regard, our research (Harding and Trotman 2017) shows that directing auditors to focus on the fallibility of their judgment processes may be effective in elevating professional skepticism directed toward the likelihood of material misstatement. We note, however, that our study was limited to encouraging auditors to question themselves, rather than, as would be necessary when exercising professional skepticism in the application of many of the proposed standard’s requirements, to question their colleagues and their firm. If it is not the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard, then we would suggest that paragraph 7 be amended to remove the potential for this (mis)interpretation, possibly limiting the exercise of professional skepticism to meeting the objective but not the requirements, of the standard.</p>			

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		<p>To the extent that it is the IAASB’s intention that professional skepticism should be exercised in the implementation and adoption of a system of quality management, we would recommend that the IAASB adopt a cautious approach. Implicit in the definition of professional skepticism is a recognition and alertness to the possibility of deliberate deception. While we would concur with a view that audit quality may benefit from engagement partners, and the engagement team members more broadly, maintaining a questioning mind when considering the way in which a firm’s system of quality management is applied in response to unique engagement circumstances (e.g., to reflect on the way direction may impact the objectivity of engagement team judgments), we feel that to require the engagement team to be skeptical and reflect on deliberate misrepresentation when considering the way in which a firm’s system of quality management is applied is not only unnecessary, but potentially dysfunctional for the conduct of the audit. Our research (Harding, Azim, Jidin and Muir 2016) highlights the challenges to the conduct of the audit in an adversarial type setting often generated by a lack of trust (or distrust) associated with the exercise of professional skepticism. To require auditors to doubt the representations of their colleagues (in the same way as they doubt the representations of their clients) would challenge the conduct of the audit to such an extent that would most likely lead to a reduction in audit quality through a lack of cooperation among the engagement team. We therefore express reservation toward any potential requirement for auditors to exercise professional skepticism in implementing and adopting a system of quality management (i.e., exercising professional skepticism in meeting the requirements of the standard). In addition we would not support a hybrid form of professional skepticism for</p>			

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		<p>this purpose. The IESBA code sets out the five fundamental principles establishing a standard of behavior of professional accountants and we believe that these are appropriate principles by which the engagement team can implement a firm’s system of quality management at the engagement level. We encourage the IAASB to consider revising the proposed standard so as to set the IESBA principles as the lens through which the firm’s system of quality management is viewed with reference to implementation at the engagement level.</p> <p>With reference to the system of quality management facilitating the exercise of professional skepticism at the engagement level (i.e., as an important outcome of a system of quality management), on the basis of our own research and that of others, we are generally supportive of the material presented in paragraphs A27 to A29. However we feel that there are opportunities for improvement. We also refer to our response to Question 1 as it relates to leadership responsibilities facilitating the exercise of professional skepticism.</p> <p>There are numerous impediments to the exercise of professional skepticism, many of which were identified by respondents to the Invitation to Comment ‘Enhancing Audit Quality in the Public Interest’. Academic reviews (e.g., Hurtt, Brown-Libard and Earley 2013; Brazel and Schaefer 2015) also summarize academic research on impediments to professional skepticism. While many of these impediments are relevant to quality management at the firm level, some relate to engagement specific circumstances or the actions of the engagement partner, and therefore are relevant to this proposed standard. It is pleasing to see an explicit recognition of the need for the engagement partner to address these impediments at the engagement level. We do, however, wonder why some</p>			

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		<p>impediments are listed, while others are not listed. Research highlights a number of other impediments to the exercise of professional skepticism. For example, the means by which auditors communicate with the client (i.e., face to face or via computer) (Bennett and Hatfield 2018), the attitude of client personnel (i.e., friendly or intimidating) when responding to engagement team enquiries (e.g., Bennett and Hatfield 2013; Eutsler, Norris and Trompeter 2018), and even the attractiveness of the client’s physical office environment (Khan and Harding 2019) can threaten the exercise of an appropriate level of professional skepticism at the engagement level. We recommend, therefore, that paragraph A27 be expanded to recognize a broader suite of engagement level impediments to the exercise of professional skepticism.</p> <p>In addition, and further to our comment above on the responsiveness of the proposed standard to future developments in audit quality, research will continue to identify impediments to the exercise of professional skepticism. An ever-changing audit environment will render some current impediments moot, while giving rise to new impediments. We encourage the IAASB to reflect on whether specific impediments can be noted in guidance material outside of the standard, rather than as part of the standard, so as to avoid the examples provided becoming dated and to facilitate the responsiveness of the standard to new environments, technologies and research.</p> <p>We are also supportive of the recognition of potential actions the engagement partner may take to deal with impediments to the exercise of professional skepticism at the engagement level (i.e., paragraph A29). As is the case for impediments to professional skepticism, academic research has identified</p>			

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		<p>means by which impediments may be addressed (see for example reviews by Hurtt, Brown-Libard and Earley 2013; Brazel and Schaefer 2015). While we have no objection to the actions listed in paragraph A29, there are numerous other actions, often involving the alternate action to that which gives rise to impediments (e.g., encouraging auditors to engage with management face to face rather than through electronic communication), that are not listed. To illustrate, our own research (Harding and Trotman 2017) (see also Bell, Peecher and Solomon 2005 and Grenier 2017) suggests that one possible action that the engagement partner may take to deal with impediments to the exercise of professional skepticism is to focus engagement team members' doubt, not only on management representations, but also on their own fallible judgment processes. Consistent with our recommendation relating to paragraph A27, we similarly recommend that a broader suite of actions that may address impediments to the exercise of professional skepticism be listed in paragraph A29.</p> <p>Having said this, we again question whether specific examples should be in the standard, or whether paragraph A27, in which the need for engagement partners to deal with impediments to the exercise of professional skepticism, should stand alone, with the examples currently in paragraphs A27 and A29 included in guidance material that can be more effectively updated, without having to re-open the standard.</p>			
4	Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?	We note that the proposed standard, as presently drafted, focusses on meeting a minimum quality threshold. While we acknowledge that the objective of the standard, as implied in paragraph 9, is to meet a quality threshold, research (Peecher, Solomon and Trotman 2013), based on a review of the psychology and economic research, suggests that there may be	<p>Key points in response align with discussion at AUASB Meeting 12-13 June 2019.</p> <p>Have carried forward comments about the standard</p>	Y	4

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		<p>merit in focussing quality management not only on the achievement of a minimum threshold, but encouraging (and recognizing and communicating) quality responses that exceed the minimum threshold. With this in mind, we would suggest that the public interest is served not only by the consistent performance of quality audit engagements, but also by a commitment to continuous improvement. In addition, while not directly addressing the proposed standard’s approach to a modern auditing environment (see Question 4 of the invitation to comment), a commitment to continuous improvement more effectively accommodates potential quality improvements that may arise from technological and other advancements.</p> <p>In addition, we note a number of instances where the focus on threats to, and to a lesser extent, facilitators of, audit quality are reflected in the provision of specific examples (e.g., paragraphs A27, A29, A33, A43, A62, A72, A82). We are concerned that the inclusion of these examples limits the responsiveness of the standard to quality innovations arising from, for example, a better understanding of audit quality, advances in technology, changes in the audit environment, practitioner experience and research findings. In particular, there is a considerable amount of research currently being undertaken with a view to helping auditors exercise an appropriate level of professional skepticism, and this research will likely reveal new and innovative ways in which the requirements of the standard may be implemented to fulfil auditor responsibilities as they relate to the exercise of professional skepticism. As presently drafted, it will not be possible for the proposed standard to be responsive to these likely developments. We raise for the IAASB’s consideration the option of guidance, associated with, but issued separate from the standard, as a means of providing the examples illustrating exemplars of actions fulfilling the requirements of the standard. With such an approach, the exemplars may be updated over time to reflect</p>	<p>not appropriately being response to future technology or changes to the auditing environment.</p>		

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		<p>advancements in achieving audit quality without having to re-open the standard.</p>			
5	<p>Do you support the revised requirements and guidance on direction, supervision and review? (See paragraphs 27–31 and A68–A80 of ED-220)</p>	<p>On the whole, we support the requirements as they relate to the direction and supervision of the members of the engagement team and the review of the work performed. With reference to review, our own research and that of others (see Trotman, Bauer and Humphreys 2015 for a review of this extensive literature) generally provides support for the quality enhancing characteristics of the review process. We note, however, that different forms of review (e.g., with or without discussion: Ismail and Trotman 1995; electronic vs face-to-face: Agoglia, Brazel, Hatfield and Jackson 2010) as well as characteristics of the environment (e.g., audit risk: Phillips 1999), reviewer (e.g., known/unknown preferences: Peecher 1996; Rich, Solomon and Trotman 1997), preparers (e.g., hierarchical level: Tan and Trotman 2003) and the relationship between the preparer and reviewer (e.g., reviewer’s prior impression of the quality of the preparer’s work: Tan and Jamal 2001) have all been shown to influence the effectiveness of the review process. While paragraphs A81, A82 and A83 note a number of factors that the engagement partner should consider when determining the nature timing and extent of direction, supervision and review, we feel that the importance of review, and the unique circumstances impacting on the effectiveness of review, but not necessarily direction and supervision, warrant the expansion of paragraph A82 to explicitly recognize that the engagement partner, in tailoring the nature, timing and extent of review, should consider potential variation in the nature of the review, as well as characteristics of, and relationship between, the reviewer and preparer.</p> <p>Paragraph 27c (and paragraph A68) note that work is to be reviewed by more experienced engagement team members. Our own research (Harding and Trotman 1999) following on from Ramsay (1994) highlights that more junior members of the engagement team are more effective at identifying</p>	<p>Not consistent with views of other stakeholders and AUASB deliberations.</p>	N	N/A

Qn #	Question	Respondent Comment	ATG Commentary	Considered in AUASB submission?	Question number
		<p>mechanical workpaper errors (e.g., workpaper cross referencing issues) than their more senior engagement team colleagues. This suggests that there may sometimes be benefits in having a peer, as well as a more experienced colleague, review the work performed. We recommend that thought be given to amending paragraph A68 to recognize that the provisions of paragraph 27 do not preclude a review by a member of the engagement team of equal (or even less experience), but rather that a peer review of itself is insufficient as a means of meeting the requirements of the standard.</p> <p>We also feel that the application material for paragraph A72, particularly the second last dot point, could be expanded to recognize direction as to how to achieve the objectives of the work, in addition to the objectives themselves. Our own research on fraud brainstorming (Chen, Khalifa and Trotman 2015; Chen, Khalifa, Morgan and Trotman 2018), together with the work of others (e.g., Trotman, Simnett and Khalifa 2009), highlight the merit in the engagement partner not only communicating objectives of the task, but also communicating effective means by which to achieve those objectives.</p> <p>Finally, we note that caution needs to be exercised in directing junior staff in that we (Kim and Harding 2017) have found, consistent with other research (e.g., Wilks 2002; Peecher, Piercey, Rich and Tubbs 2010), that direction can bias the judgments of junior auditors in the direction of their superior’s preferences. While we (Kim and Harding 2017) find that this is, in part, a reflection of engagement team members responding to the information value inherent in the direction provided by a more knowledgeable engagement team member (and, therefore, quality enhancing), research that we have also undertaken (Harding and Kim 2019) points to the possibility that, in circumstances where the engagement team is small and/or the superior providing direction has responsibility for evaluating the performance of engagement team members, engagement team members may be focussed as much on</p>			

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		quality inhibiting impression management as they are on benefiting from the advice of a knowledgeable superior. We recommend that paragraph A72 (in particular the final two dot points) be expanded to acknowledge that the engagement team member response to direction may, to the extent that it is motivated by impression management, be a threat to audit quality.			

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