CNCC
COMPAGNIE NATIONALE DES COMMISSAIRES AUX COMPTES

ORDRE DES EXPERTS-COMPTABLES
Conseil Supérieur

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US

Paris, 1st July 2019

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Subject : IAASB Consultation on Proposed International Standard on Auditing 220

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB consultation on Proposed International Standard on Auditing 220 (Revised).

We are very concerned about the amendments done on the definition of the engagement team. We strongly recommend the IAASB to revert to the current definition of engagement team.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,

Jean Bouquot
President of CNCC

Charles-René Tandé
President of CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

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Questions

Overall Questions

We have a real concern with the definition of the engagement team (cf. paragraph 10 d), i.e. "Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. (…)"

We consider that the added words "including individuals engaged by the firm or a network firm" in the definition leads to confusion and inconsistencies with the provisions of ISA 600 regarding the Component auditor[1] and the Group engagement team[2]. This change in the definition could imply that the component auditor is part of the engagement team, since the term "including" does not limit exclusively to the individuals engaged by the firm and the network firm. That would have significant impacts in terms of independence obligations for the component auditor, as currently the component auditor may not be independent from the group, but has to be independent from the component. With the revised definition of engagement team, the component auditor would have to be independent from the group.

We also consider that it is unpracticable for the group auditor to impose to the component auditor the application of the same policies and procedures (including firm policies and tools) than the group auditor, especially when the component auditor is not a member of the group auditor's network.

We therefore consider that the wording should be revised to better reflect the fact that components auditors are not part of the engagement team. We strongly recommend the IAASB to

- come back to the current definition, i.e. "All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement (…)" and
- develop specific paragraphs in the application and other explanatory material to deal with offshoring (part of the engagement team) and component auditor (not part of the engagement team).

We also believe that the title of the proposed standard, i.e. quality management for an audit of financial statement, should be changed to "the role of the engagement partner".

Specific Questions

Question 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 consider that paragraphs 1 to 19 relate more to behaviors than to performance requirements. In that context, ethics becomes embedded in an ISA and we are wondering if this is the role of the ISAs. We consider that these matters may not pertain to ISA 220. They may already be embedded in ISQM1 requirements.

Moreover, although we support the reinforcement of the requirements about the engagement partner, we note that the ED quasi exclusively focuses on the requirements of the engagement partner and no other members of the engagement team.

Finally, we have the additional comments on the following paragraphs:

- Paragraph 12(b): the term "reinforcing" appears too infantilizing. Another term would be more appropriate;
- Paragraphs A78: we suggest removing the end of the sentence "but may do so".

[1] ISA 600 paragraph 9 (b) Component auditor – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.

[2] ISA 600 paragraph 9 (i) Group engagement team – Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.

Question 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?

The linkages between ED-220 and the ISQMs are complex and not easy to describe. For example, we consider that the link with ISQM1 should be done in paragraphs 14 to 19.

Question 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 do not have any critical comments on this material.

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

The engagement partner is responsible for the resources used, including technological resources. However, the engagement partner relies on the technological resources provided by the firm and, where appropriate, the network. This may create a gap between responsibility and authority when not all the technological resources are approved or available. It is stated in paragraph A58 that the engagement partner may apply professional judgement. We consider that this potential tension should be properly acknowledged in the standard.

What has been included in ED-220 about the use of different audit delivery models and technology is light. These are increasingly important aspects of delivering audits and will become even more widespread in the years to come. If these suites of standards are going to be fit for tomorrow then these aspects need to be more fully considered by the IAASB.

We also acknowledge the ongoing work of the technology working group and the audit evidence project that would complement what will have been done in the remit of this specific project.

Question 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 have the following comments concerning paragraph A79 that deals with significant judgments in relation to the audit engagement:

- The fifth bullet point "the engagement team's risk assessment process" is too wide and should be restricted;
- The ninth bullet point that deals with the group audit situations, we consider that the principle of delegation is not well treated.

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

We consider that ED-220, together with the overarching documentation requirements in ISA 230, includes sufficient requirements and guidance on documentation.

Question 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 do not think there is any overall issue linked to scalability in ED-220. In the case of a sole practitioner or a very small audit team, the requirements with regard to guidance on direction, supervision and review are not really relevant or partly only. As SMPs or very small audit teams will not easily navigate the standard, we consider it would be preferable if the requirements in question would be reworded in such a way that it is clear that they are conditional.