



**The Japanese Institute of
Certified Public Accountants**

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July 1, 2019
Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017 USA

Dear Mr. Botha,

Re: JICPA Response to the Proposed International Standard on Auditing 220, *Quality Management for an Audit of Financial Statements*

The Japanese Institute of Certified Public Accountants (JICPA) is grateful for the opportunity to comment on the Proposed ISA 220, *Quality Management for an Audit of Financial Statements* (ED-220).

The attached are our comments on “Request for Comments”, and other matters that we consider to be addressed.

We hope that our views will be of assistance to the IAASB.

Sincerely yours,

Sayaka Sumida

Executive Board Member - Auditing Standards
The Japanese Institute of Certified Public Accountants

Request for Comments

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

(Our Comment)

We support the focus on the sufficient and appropriate involvement of the engagement partner. However, we have the following comments on the relevant requirements:

- Paragraph 12 addresses creating the environment for the engagement, which is one of the key aspects of the engagement partner’s responsibilities. Therefore, in paragraph 37 (Standback), we suggest adding a requirement that the engagement partner shall confirm fulfillment of their responsibilities in accordance with paragraph 12 prior to the date of the auditor’s report.
- We suggest deleting the first sentence of paragraph 13, which is unnecessary. Except in the case of the sole practitioner, we believe that it is extremely rare that the engagement partner does not assign procedures, tasks or actions to other members of the engagement team. In addition, it has already been mentioned in paragraph 11 that the engagement partner takes overall responsibility for managing and achieving quality on the 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?**

(Our Comment)

We support the proposal.

- 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)**

(Our Comment)

We agree that the guidance of ED-220 paragraphs A27 through A29 is beneficial. However, we have the following comments:

- Paragraphs A27 (impediments to the exercise of professional skepticism) and A28 (unconscious or conscious auditor biases) relate to the entire audit process, not only to quality management at the engagement level. Accordingly, we suggest that the description of paragraphs A27 and A28 be moved to ISA 200.

- In ED-220, paragraph A29 refers to possible actions that the engagement partner may take to deal with impediments to the exercise of professional skepticism as part of quality management at the engagement level. However, the last bullet of paragraph A29 (“communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought”) is considered to be relevant to the engagement partner’s actions in accordance with ISA 240 and ISA 260, rather than ED-220. Therefore, we suggest that the last bullet in paragraph A29 be deleted.

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

(Our Comment)

We believe that ED-220 deals adequately with the modern auditing environment. However, we have the following comments regarding the definitions of “engagement team”:

- Paragraph 10(d)

The engagement team is defined as “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” but it is not clear which cases are covered by “who perform audit procedures.” In the modern auditing environment, the boundaries between audit procedures and other works are becoming obscure, and it is assumed that there will be more cases in which it is difficult to make such decisions in the future. For example, when data input is outsourced using external data centers, steps that are outsourced may include, for example, data entry work, preparation of a data analysis spreadsheet based on the input data, highlighting variable items that exceed a certain threshold on the spreadsheet, and preparation of supporting documents for highlighted variable items. Of these steps, judgment as to which part corresponds to audit procedures may vary. Therefore, we suggest that some guidance be provided.

- Third sentence of paragraph A17

We suggest the following amendments as a firm may use service centers jointly established with another network or established by another network.

"A17. Engagement teams may include individuals from service delivery centers who perform audit procedures. For example, the firm may determine that specific tasks that are repetitive or specialized in nature can be performed by a group of appropriately skilled personnel and the engagement team may therefore include such individuals. Service delivery centers may be established at the firm level, at the network level, or by another firm or group of firms ~~from within the same network~~. For example, a centralized function may be used to facilitate external confirmation procedures."

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

(Our Comment)

We support the revised requirements and guidance.

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

(Our Comment)

We believe ED-220 includes sufficient requirements and guidance on audit documentation.

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?

(Our Comment)

Unless we read the appendix to Explanatory Memorandum, we believe that it is unclear where guidance for smaller firms is included in ED-220. In order to ensure the scalability of application, we suggest that guidance for smaller firms be included in certain sections of the application material or in the appendix of ED-220. In this regard, in the ISA 315 revision project, the exposure draft published in July 2018 proposed deleting the "Considerations Specific to Smaller Entities" section that is included in the extant ISA 315, and moving matters previously included in these sections that aid in ensuring scalability into the relevant application material. However, our understanding is that IAASB is reconsidering the proposal in response to comments received on the exposure draft. We believe that the ISA 220 revision project needs to be aligned with the discussions of the ISA 315 revision project.

Other Comments on Individual Paragraphs of ED-220

- Paragraph 9

From the proposed objectives, it is unclear which of the following is the final outcome to be achieved by the auditor in accordance with ED-220: "to manage quality at the engagement level" or "to obtain reasonable assurance that quality has been achieved such that...". Accordingly, we suggest the following amendments:

"9. The objective of the auditor is, ~~through to~~ managing quality at the engagement level, to obtain reasonable assurance that quality has been achieved such that:

- (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances."

- Paragraph 10(c)

The definition of "engagement quality reviewer" in ED-220 (paragraph 10(c)) differs from the definitions in ED-ISQM 1 (paragraph 19(e)) and ED-ISQM 2 (paragraph 11(b)); they should be aligned.

- Paragraph 12

(d) and (e) should be amended to (c) and (d) respectively.

- Paragraph 26

The following typo should be corrected.

"26. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team ~~a~~appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A58)"

- Paragraph 32(a)

We believe it is necessary to clarify the scope of matters for which consultation is required.

Paragraph 37(c) of ED-ISQM 1 requires the firm to establish policies or procedures addressing consultation on difficult or contentious matters. However, paragraph 32(a)(i) of ED-220 states that "matters where the firm's policies or procedures require consultation, including on difficult or contentious matters," and therefore, the scope of matters for which consultation is required by the firm's policies or procedures appears to be broader than the requirements of ED-ISQM 1.

We believe that the word “including” in paragraph 32(a)(i) of ED-220 is not necessary as “difficult or contentious matters” are already included in “the matters on which consultation is required” in accordance with paragraph 37(c) of ED-ISQM 1.

Paragraph 32(a)(ii) of ED-220 refers to matters other than those where the firm’s policies or procedures require consultation. However, it should be clarified that they are those where the engagement partner determines that consultation is necessary, in accordance with the significance to the audit engagement.

Thus, we suggest the following amendments in paragraph 32(a) of ED-220:

"32. The engagement partner shall: (Ref: Para. A84–A87)

- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Matters where the firm's policies or procedures require consultation, ~~including on difficult or contentious matters;~~ and
 - (ii) Other matters that in the engagement partner's professional judgment, require consultation due to their significance to the audit;"

- Paragraph A10

Because the descriptions are difficult to understand due to their length, we suggest the following concise description.

"A10. The relative balance of the engagement partner's efforts ~~to comply with the requirements of this ISA (i.e., between implementing the firm's responses and designing and implementing engagement-specific responses beyond those set forth in the firm's policies or procedures)~~ may vary. For example, ~~the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program).~~ ~~Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level.~~ Alternatively In other circumstances, the engagement partner's actions in complying with the engagement performance requirements of this ISA may need to be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs due to the specific nature and circumstances of the engagement). "

- Paragraph A11

We suggest that the example of the last sentence be changed. Circumstances in which an engagement team member identifies that an audit program provided by the firm does not deal with new or revised regulation are not useful examples because they indicate that there are rudimentary deficiencies in the firm's response. In such cases, it is natural that there is communication between the engagement team and the firm.

- Paragraphs A20 and A21

These describe the difference of the definitions between those in ED-220 and the IESBA Code, but we suggest that these paragraphs be deleted because they do not provide useful guidance.

- Paragraph A22

In order to clarify the linkage with the last sentence of paragraph 12, we suggest the following amendments to the second sentence of paragraph A22:

"A22. The engagement partner's responsibility for managing and achieving quality is supported by a firm culture that promotes the conduct of quality audit engagements. In addressing the requirements in paragraphs 11 and 12, the engagement partner may communicate directly the expected behavior of engagement team members, and reinforce this communication through personal conduct and actions (e.g., leading by example). A commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement."

- Paragraphs A70, A72, A73, A75 and A76

We suggest simplifying the descriptions because they are redundant.

- Paragraph A82

We suggest that each bullet be simplified. In particular, the content of "for example" in each bullet should be deleted.

- Paragraph A84

The second bullet (significant risks) should be deleted. Consultation should be required on difficult or contentious matters. The second bullet raises concerns about misunderstandings that consultation is required for each significant risk. Regarding the cases of significant risks where consultation is necessary, we believe that the first bullet (issues that are complex or unfamiliar) and the third bullet (significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual) would cover those cases.

- Paragraph A87

We suggest that this paragraph be deleted because it does not provide useful guidance.

- Paragraph A88

In order to clarify the difference between responsibilities of the engagement partner and those of the engagement quality reviewer, we suggest adding a statement similar to paragraph 7 of ED-ISQM 2. For our suggestion to amend paragraph 7 of ED-ISQM 2, please refer to our comment on question 5 of ED-ISQM 2.

"A88. Proposed ISQM 1 requires that the firm establish policies or procedures that require an engagement quality review for certain types of engagements. Proposed ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. National requirements that deal with the appointment and eligibility of an engagement quality reviewer and the responsibilities of the engagement quality reviewer are at least as demanding as proposed ISQM 2 when they address all of the requirements in proposed ISQM 2. The engagement partner takes overall responsibility for managing and achieving quality on the audit engagement. Therefore, the performance of an engagement quality review does not reduce the responsibilities of the engagement partner for managing and achieving quality on the audit engagement."