

May 26, 2021

Mr. Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
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submitted electronically through the IAASB website

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Re.: Exposure Draft: Proposed Amendments to the IAASB's International Standards "Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards"

Dear Tom,

We would like to thank you for the opportunity to provide the IAASB with our comments on the Exposure Draft: Proposed Amendments to the IAASB's International Standards "Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards", hereinafter referred to as "the draft".

The Appendix to the comment letter provides our responses to specific requests for comments (that is, the questions posed to respondents in the Explanatory Memorandum) and our response to the request for comments regarding consequential amendments to emphasize the quality management approach as set forth in paragraph 11 of the Explanatory Memorandum. In the body of this comment letter, we provide some additional observations and an explanation of the principles upon which our more detailed comments in the appendix are based.

We would be remiss in not welcoming the IAASB proposing conforming and consequential amendments to the IAASB's other standards as a result of the new and revised quality management standards, because it is important that all of the IAASB's standards articulate with the quality management standards related to them by not containing inconsistencies in references, wording or

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concepts. We therefore welcome the IAASB's effort to ensure that its other standards remain consistent with the new quality management standards. We agree with the changes proposed with the exception of those with which we expressly disagree in this letter and the appendix to this letter.

In particular, we agree with the main thrust of the exposure draft to seek to limit the changes to conforming and consequential amendments, because decisions on whether other standards need to be substantively aligned with the quality management standards beyond conforming and consequential amendments should be done when those other standards are considered for revision as a whole. The due process for these other standards prior to issuance was very different for each of these standards, as well as being very different from that of the ISAs, because the stakeholder groups are in part very different. Dealing with such substantive changes in one project or setting up a project to deal only with certain changes without considering the standard as a whole would not adequately take into account the different due process that might be required for the different standards and the interplay between requirements within the standards, which could cause the standards to overemphasize certain issues compared to others.

In this vein, the Board needs to be cognizant of the fact that when these other standards were originally written, many issues, such as engagement quality control reviews and parts of extant ISA 220 were intentionally not transferred to those other standards because those issues were either considered to be less relevant for those engagements or would not be applicable for virtually all engagements covered by those standards, which is a clarity principle when writing standards using the clarity format. Introducing such issues now would be more than just including conforming and consequential amendments. Seeking to introduce these issues would represent changes that require a separate project with a separate due process.

For these reasons, we would be concerned about the IAASB accepting proposed changes to the other IAASB standards from respondents to the draft as part of a project for conforming and consequential amendments based on changes in ISA 220 or introducing changes to the other IAASB standards that are not needed for consistency due to changes to ISQM 1 and 2, even if the wording in the extant standards was taken in whole or in part from extant ISA 220, because it will be difficult to draw the line on which changes to ISA 220 ought to be adopted in the other standards. Such an approach bears the danger that quality management at engagement level within these standards is expanded in disproportion to the rest of each of the other standards.

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Our greatest concern is what appears to be the lack of due diligence by the IAASB and its stakeholders on the impact of the change in the definition of engagement team on engagements performed in accordance with ISAE 3000 (Revised) – in particular where those engagements encompass information from supply chains outside of corporate groups. This issue is becoming crucial because of changes in national legislation in the EU and the draft EU directive on corporate social responsibility reporting. We urge the IAASB to undertake a thorough investigation of this issue together with IESBA prior to incorporating the new definition into ISAE 3000 (Revised).

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Executive Director

Wolfgang Böhm
Technical Director, Assurance Standards
Director, International Affairs

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Appendix to the Comment Letter

Responses to Specific Requests for Comments

- 1) Do respondents believe the proposed conforming and consequential amendments are sufficient to resolve actual or perceived inconsistencies between the IAASB's Other Standards and Framework, and the changes made by the IAASB in developing and approving the new and revised QM standards?**

As posed, the question is a leading question, because it presumes that the only issue is whether the proposed amendments are sufficient, but does not address whether the proposed amendments are appropriate or might exceed the IAASB's objective of limiting its amendments to those that are conforming and consequential.

We agree the proposed conforming and consequential amendments are sufficient and, with the exception of the matters below, appropriate. The matters we address below (including our response to the request for comments regarding consequential amendments to emphasize the quality management approach) indicate that the IAASB appears to have exceeded its objective of proposing only conforming and consequential amendments.

Definition of Engagement Team

Our main issue relates to the incorporation of the new definition of engagement team from ISQM 1 into ISAE 3000 (Revised) and its impact on that standard and ISAE 3410. Both the IAASB and respondents (including us) to the Exposure Draft of ISQM 1 were far too focused upon the impact of the change in definition in engagement team in ISA 220 on group audits and other issues in relation to ISQM 1. It was far too late that we recognized the potential impact of the change in definition on certain kinds of engagements subject to ISAE 3000 (Revised). However, we did inform the member on the IAASB from Germany of this matter, who did address this issue with the Task Force and the Board prior to the issuance of ISQM 1 and did include this issue in the reasons for his abstention when voting on ISQM 1.

In considering this issue, we also considered the potential impact of the change in definition of engagement team on ISRE 2400 and 2410, ISAE 3402, ISAE 3420, ISRS 4400 and ISRS 4410. Based on our rather cursory consideration of the issue, we have come to the preliminary conclusion that the impact on ISRE

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2400 and 2410, ISAE 3402, and ISAE 3420 will not be any different than the impact on ISAs 220 (which has been issued) and 600 (which is being developed on the basis of ISA 220 as issued). We therefore do not take issue with the impact on ISREs 2400 and 2410 and ISAEs 3402 and 3420. We also believe that the change in definition does not pose any difficulties for ISRS 4400, since anyone performing procedures on an engagement that revolves around performing agreed-upon procedures would have been covered under the previous definition. While ISRS 4400 does not address the performance of procedures on a compilation engagement, since ISRS 4400 does not involve performing procedures to gather evidence, and compilations would only occur within an entity, or a group as defined by ISA 600, we believe that the impact of the change in definition would likely be less than that on ISAs 200 and 600.

However, we believe that the situation for some engagements under ISAE 3000 (Revised) and ISAE 3410 is very different. We note that the requirements in each of the ISAs 500 (on using the work of management's expert) 610 (using the work of internal audit), and 620 (using the work of an auditor's expert) were distilled into a paragraph each in ISAE 3000 (Revised). When ISAE 3000 (Revised) was written, consideration was also given to the nature and extent of requirements in ISA 600 that might be relevant to all assurance engagements covered by ISAE 3000 (Revised). In contrast to the treatment given to the requirements in ISAs 500, 610, and 620, only one sentence was included in ISAE 3000 (Revised) on using the work of another practitioner. This issue was deliberated at some length by the IAASB and was not an oversight.

The main reason for this very conservative treatment in ISAE 3000 (Revised) of using the work of other practitioners is the fact that ISA 600 is predicated on group management being in a position to control – or at least exercise significant influence on – the management of components and is therefore in a position to ensure that group management will be in position to obtain the information needed to prepare the group financial statements and to direct component management to have component auditors cooperate with the group auditor. This underlying assumption breaks down for certain kinds of integrated reports, sustainability reports, and green house gas statements (in particular, for scope 2 and some scope 3 emissions), in which the information included in the reports may be from outside the group from the upstream or downstream supply chains. The likelihood that practitioners are able to gain access to, and direct, supervise and review the work of, other practitioners outside of the boundary of the group in most cases is rather low.

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We note that the requirements for corporate social responsibility reports increasingly cover at least upstream supply chains. These developments mean that increasingly such reports included information from outside the corporate group, but comfort about the veracity of that information varies depending upon a number of factors. Where individual entities have considerable market power over their suppliers, those entities may be able to force the use of a model similar to that in ISA 600. However, in many cases the suppliers may have greater market power than an individual entity. In those cases, a “one-to-many” report by the supplier like ISAE 3402 might be a better option because the supplier with greater market power is unlikely to have a practitioner assure custom-made reports for each consumer entity. Another option worth considering for these circumstances is divided responsibility. In any case, simply extending the definition of engagement team so that the practitioner is required to direct, supervise and review another practitioner’s work on information included in the report of the entity in these circumstances is not a viable option.

In the short run, this issue will be substantially exacerbated by laws in the process of being developed within some EU member states that make entities over a certain size responsible for the compliance of suppliers outside of the EU with national social responsibility requirements, and by the current draft of the EU directive that will make assurance (using ISAE 3000, for example) on corporate social responsibility reports mandatory for entities over a certain size as part of the statutory financial statement audit. It is unclear to us at this stage of analysis what the implications are of the engagement team definition to the application of independence requirements for statutory financial statements as set forth by EU law for PIEs (including the “blacklist”) to practitioners assuring information in the upstream supply chain for the purposes of the statutory financial statement audit, but not otherwise involved in assuring information within a group. It is not unthinkable that the extension of these independence requirements to all firms in the supply chain may accelerate a movement towards audit-only (or at least, assurance-only) firms internationally, which we believe is not the intention of the change in the definition of engagement team.

Overall, based on these potential issues, we have come to the conclusion that the new definition of engagement team in ISQM 1 and its incorporation into ISAE 3000 (Revised) has not been subjected to adequate due diligence by the IAASB and its stakeholders (including ourselves). We therefore urgently request that the IAASB undertake a thorough examination of the potential issues we have raised together with IESBA before incorporating the change in the definition of engagement team into ISAE 3000 (Revised).

Reference to Engagement Quality Reviews and Report Date

An additional issue we have identified relates to the proposed requirements in ISRE 2400 paragraph 92A and in ISA 3402 paragraph 53 (n) (ii). Both of these relate to the reference to dating the report when an engagement quality review has been performed. It should be recognized that when some of the other IAASB standards were written, providing guidance on engagement quality control reviews was not considered necessary, even though the application of these standards is predicated upon the firm applying ISQC 1. It would be inappropriate – in fact, disproportionate – to then seek to address engagement quality reviews in those standards by means of conforming and consequential amendments even though these standards have no other references to engagement quality reviews (with the possible exception of the general reference to the existence of ISQM 2). The two standards mentioned are different than the others because the others do include more extensive references to engagement quality reviews. We also note that ISQM 2 already requires firm policies and procedures to have engagement partners not date reports until the completion of the engagement quality review. For these reasons, we suggest that these references be deleted.

2) Do respondents support the proposed effective date?

Predicated upon the IAASB dealing with the issue of the potential impact of the change in definition of "engagement team" for ISAE 3000 (Revised) and ISAE 3410 as noted in our response to Question 1 above, we support the proposed effective date.

Response to the Request for Comments Regarding Consequential Amendments to Emphasize the Quality Management Approach

We refer to paragraph 10 in the Explanatory Memorandum with the explanation that the changes listed in that paragraph are not strictly necessary to remove inconsistencies to ISQM 1. We note that the list is incomplete: the listed changes should also encompass the proposed changes to ISRE 2400 in paragraph 25 (d)(iA) (in relation to sufficient appropriate resources) and (ii) (in relation to sufficient time).

We regard the proposed changes being sensible in practice. However, as noted in the body of our comment letter, as a matter of principle the proposed changes

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to the other IAASB standards should be limited to conforming and consequential amendments. The heading prior to paragraph 10 refers to the changes noted in paragraph 10 as “consequential amendments”. We would like to point out that the changes proposed reflect neither category 1 nor category 2 type changes as described in the Explanatory Memorandum, and therefore the proposed changes noted in paragraph 10 do not qualify as conforming or consequential amendments. We regard proposing changes beyond conforming or consequential amendments as setting a dangerous precedent that may “open the floodgates”, which may result in commentator or regulatory pressure on the IAASB into making substantive changes beyond those noted in paragraph 10 for these standards and for future projects involving conforming or consequential amendments, and thereby undermine appropriate due process for substantive changes to standards as noted in the body of our comment letter. Therefore, as a matter of principle, we are not in favour of the proposed changes listed in paragraph 10 (and those additional ones we have identified).